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EXTERNAL PRESSURES, DOMESTIC CHOICES: A COMPARATIVE ANALYSIS OF TRADE LIBERALIZATION IN SPAIN AND TURKEY

DISSertation

Presented in Partial Fulfillment of the Requirements for

the Degree Doctor of Philosophy in

the Graduate School of The Ohio State University

By

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1999

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ABSTRACT

In this dissertation, the objective has been to explain the variance in trade policy and trade-related institutional outcomes across countries and over time. First, the study of ten episodes during which trade policy came to the Spanish and Turkish governments' agenda between late 1950s and mid-1980s has resulted in the conclusion that external pressures emanating from expansion of international trade and international actors are not the major determinants of the variation in the degree of trade liberalization.

Secondly, the effects of selected domestic institutional variables on trade policy outcomes have been examined by employing two different approaches. Applying the deductive method of rational choice institutionalism, it has been found that the regime type and the number of institutional veto players do not have a decisive impact on the degree of trade liberalization. The convergence of the trade policy preferences of the government and the institutional veto players around trade liberalization facilitates the introduction of more liberal trade policies in different institutional settings. However, the approach adopted in this step of my institutionalist analysis has not been able to capture the real dynamics of trade policy making. Therefore, in investigating the impact of societal actors on trade liberalization, the more inductive logic of historical
institutionalism has been utilized. The findings have revealed that the presence of at least one pro-liberalization societal actor who has access to decision making and whose support is sought by the government creates a favorable environment for the achievement of a considerable degree of trade liberalization.

In the second stage of this dissertation, the assumption that governments operate in a fixed institutional context is relaxed to allow for the possibility of trade-related institutional change. Evidence has provided significant support for the hypotheses that governments favoring a redefinition of trade policy objectives are more likely to centralize actual trade policy making, redistribute trade policy making powers among the institutions of the state, change the make-up of these institutions, and redistribute political power and wealth among societal actors through modifications within existing institutions and/or establishment of new institutions.
Dedicated to my parents
ACKNOWLEDGMENTS

I owe special thanks to special people without whose support and encouragement I could not have finished this dissertation. First of all, I would like to thank my adviser, Prof. Brian M. Pollins, for his guidance. I also acknowledge the other two members of my committee, Prof. Richard Gunther and Prof. David Rowe.

I wish to express my gratitude to the Ohio State University, Office of International Studies and Mershon Center for funding my field research in Turkey.

Many grateful thanks are due to my parents, Abdullah and Zerrin Sosay, for their patience and understanding. Even at my most desperate moments, they never lost their belief in me.

Last, but certainly not the least, I thank all my friends, especially, Chris Grabarkiewicz, Veysi Tamer Kondu, Asli Kumbasar, Fügen Sargin, and Güven Sargin who did not leave me alone on this long and winding road. Their friendship and reassurance kept me going.
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CHAPTER 1

INTRODUCTION

Today, the economies of many countries, including those in the post-communist and developing areas of the world, are more open than they used to be. The introduction of more outward-oriented, if not purely liberal, trade policies and accompanying institutional changes by national governments has significantly contributed to the attainment of higher degrees of openness worldwide. Given this common trend towards trade liberalization, there are strong reasons to think that international pressures are at work. Thus, within the tradition of “the second image reversed” theorizing, this study first focuses on the impact of pressures generated by expansion of world trade and by international actors on domestic political outcomes within the trade policy domain.

Decreasing costs of international economic transactions and increasing visibility and influence of international economic institutions have been the two major characteristics of the international political economy during the post-Second World War period. In ways that will be discussed in further detail below, both have imposed pressures on national governments towards trade liberalization. Yet, domestic political responses to such pressures have varied across countries and over time. In other words,
when trade policy gained salience in governments’ agenda at specific points or periods over the last five decades, their trade policy and related institutional responses have not been uniform. Since I seek to explain when and how governments choose to introduce trade liberalization in a world economy where external pressures are pushing for the opening up of national economies to international competition I advocate an approach that goes beyond a search for a correlation between such pressures generated by expansion of world trade and involvement of international actors in domestic trade policy making and political outcomes in the trade policy domain. I contend that a systematic analysis of domestic political factors is required for a more accurate explanation of the variance in trade policy and institutional outcomes. To this end, I propose two sets of hypotheses involving the expected effects of a number of domestic political variables on changes in trade policies and trade-related institutions. Subsequently, observations from ten selected episodes during which trade policy came to the government’s agenda in two middle size economies, namely, Spain and Turkey, between late 1950s and mid-1980s are used to determine whether the proposed hypotheses hold against empirical evidence.

In the first part of this study, where my main objective is to account for the variation in the degree of trade liberalization introduced by national governments when trade policy came to their political agenda, I argue that the liberalizing effects of expansion of world trade and international actors on trade policy outcomes are mediated by domestic political institutions. In analyzing the impact of these institutions on the degree of trade liberalization, I apply two different approaches to the study of institutions. First, based on a set of deductively derived hypotheses, I investigate whether
the differences in the regime type, the number of institutional veto players, and the
distance between the trade policy preferences of the executive and these veto players are
factors behind the variation in the degree of trade liberalization. I contend that specified
international factors will lead to a higher degree of trade liberalization in democracies
than in authoritarian regimes. I also hypothesize that external pressures will lead to a
higher degree of trade liberalization as the number of veto players decreases and the
congruence between the trade policy preferences of the government and these veto
players increases.

Subsequently, acknowledging the limitations of a highly deductive approach in
addressing the question of how institutions influence the trade policy making process and
thus, outcomes, I employ a more contextually sensitive approach to examine the impact
of institutional mechanisms of access to decision making available to societal actors on
the extent governments liberalize trade policy. In this respect, my anticipation is that
external pressures will lead to a higher degree of trade liberalization when there are pro­
liberization societal actors who have access to trade policy decision making and whose
political support is sought by the government.

The second part of this project is based on the argument that under the influence
of international pressures, it is not only trade policies, but also connected domestic
political institutions that may be reconsidered. I hold that it is when governments see
trade policy change more than a short term remedy and redefine trade policy objectives,
or ends of policy, that they will be able to recognize the constraints imposed by the
existing institutional structure on the formulation of more effective responses to external
pressures and hence, initiate institutional change. However, the type of institutional shuffling they will attempt to carry out in a given political system is likely to be a function of their calculations of political costs involved. Given the high costs of altering the fundamental or macro-level institutions in a polity, I anticipate that governments advocating a reformulation of trade policy objectives and view the status quo institutional structure as an impediment to the realization of these objectives are more likely to introduce micro-level institutional modifications consisting of changes within the existing institutions and formation of new institutions. The modifications that are hypothesized to be attempted include the centralization of actual decision making, redistribution of trade policy decision making powers among the institutions of the state, recomposition of these institutions, and redistribution of power and wealth among societal actors so as to create an institutional environment more favorable to the introduction and implementation of policies deemed necessary by the government. In brief, this is a two-step study that aspires to explain changes in trade policy and related institutions as responses to external pressures.

Although the salience of the relationship between changes in the world economy and domestic politics has long been acknowledged by scholars of different persuasions, we are still not close to a satisfactory explanation of the variance among national political responses to changes in international economic conditions. This is not to say that we are devoid of any explanations. On the contrary, as it will be reviewed below, a significant number of scholars have attempted to solve this puzzle. Nevertheless, there still remains a lot to be done in order to provide a more accurate explanation of the
interaction between world economy and domestic politics. To this end, focused analyses of specific areas of world economy and domestic political economy can help travel the distance. Therefore, by concentrating on the impact of expansion of world trade and international actors on domestic political outcomes including changes in foreign trade policy and related political institutions, this study can contribute to the more general research agenda around international-domestic linkages.

The timeliness and current urgency of my dissertation stems from its relevance not only to the process of theory-building, but also to the ongoing debates regarding the selection of the most efficacious national responses to changes in international markets. It has been approximately two decades since Katzenstein's (1976) call for an end to the division between the study of international politics and domestic politics and Gourevitch's (1978) publication of "The Second Image Reversed: The International Sources of Domestic Politics". While their point about the two-way interaction between international relations and domestic politics is well taken by the scholars of both fields, many questions about this interaction still remain insufficiently studied. Among these questions are how and why different domestic political responses to international phenomena are generated. As it is going to be discussed below, the existing literature, which addresses this puzzle, is a far cry away from being satisfactory. By systematically analyzing the effects of selected domestic political institutions on this relationship, this study has the potential to contribute to theory-building in this area which is of

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1 For a recent discussion of the attempts to integrate international and comparative politics, see Caporaso (1997).
significance to scholars of both international and comparative politics. Furthermore, the second part of this project that takes institutions as dependent variables can further our understanding of institutional transformation and hence, contribute to the literature on institutional change.

On the empirical side, inferences drawn from the observations of this study have implications for those shaping domestic political economy. Presently, in almost every country, politicians are seeking ways in which they can balance out the opportunities and constraints imposed upon them by external and internal factors. However, being at the early stages of theorizing, even the most knowing scholars in the field are unable to formulate clearly-defined policy and institutional prescriptions readily available to politicians. Therefore, laborious studies of the relationship between external pressures and domestic political outcomes are indispensable for better management of domestic political economy.

As the review presented in this chapter will reveal, existing literature remains quite inadequate in addressing the questions I pose. There is a gap both in the theoretical and empirical sides of the story which I aim to tell. In this chapter, after a critical assessment of the literature relevant to this project, I introduce the basic components and the structure of the analytical framework developed in this project.
I. A Review of Literature

A. Expansion of World Trade and Domestic Political Economy

The literature which I critically assess and build upon in order to decipher the relationship between expansion of world trade and domestic politics can be examined under two categories for the purposes of this study\(^2\). Even though the two major approaches in the first category, namely, the structuralist and trade-theoretic perspectives, are based on contending theoretical inspirations, both the Marxist structuralist and neoclassical trade-theoretic approaches constitute attempts to create a theory of open-economy politics or to develop open-polity analyses of the impact of international economic changes on politics and policies within countries. Secondly, both schools focus on economic interests as determinants of political outcomes. Acknowledging the theoretical and empirical limitations of the arguments deriving from structuralism and neoclassical economics, another category of scholars who can be generally considered as "institutionalists" seek to examine how and why domestic political institutions mediate in the relationship between the world economy and domestic political outcomes. In addition to its effort to explain policy outcomes using institutions as mediating factors, the institutionalist literature can also shed some light on the question of institutional change, that is, the second variable to be explicated in this project.

\(^2\) There are various theoretical explanations of trade policy which are not discussed in this section because they do not explicitly make the connection between international economy and domestic political outcomes. Endogenous tariff theory is the most significant example. For an excellent review of this literature, see Nelson (1988).
1. Structuralist Perspective

Although the structuralist perspective has many variants in the modern world, they all agree that the structure of the capitalist world economy shapes domestic politics. In other words, states are constrained by the global capitalist system in which they are not free to choose their own courses of action or policies. As long as states are integrated into the global economy, they are open and vulnerable to all changes occurring out of their borders. The major limitation of this perspective is that its economic determinism does not allow the generation of any explanations for diverse domestic political responses of countries similarly situated in the international system to systemic phenomenon such as the expansion of world trade. Consequently, variance which I aim to analyze cannot be adequately addressed by structuralist arguments.

2. Trade-Theoretic Perspectives

The three dominant trade-theoretic perspectives, the foundations of which lie in neoclassical economics provide a second set of open-polity analyses. All three are built on the assumption of “economic pluralism”, which sees political outcomes as a function of economic interests. Like the structuralists, those who advocate these interest-based approaches do not take the mediating effects of domestic political institutions into account. I consider these three in turn.

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3 Two of the most salient variants of the structuralist perspective are the Modern World System Theory (Wallerstein 1974, 1979, Chase-Dunn 1989) and the Dependency School (Dos Santos 1979; Frank 1969). For a comprehensive review of the structuralist arguments, see Brewer (1990).
a. **Stolper-Samuelson Theorem**

The first set of trade-theoretic arguments is offered by the Stolper-Samuelson Theorem (Stolper and Samuelson 1941) within the context of the Heckscher-Ohlin trade theory. According to the Heckscher-Ohlin theory, a country will tend to export goods intensive in the factors it has in abundance and to import goods intensive in factors it has scarce. Extending on this, Stolper and Samuelson concentrate on who gains and who loses from different trade policies. They show that protection benefits and liberalization of trade harms owners of factors in which, relative to the rest of the world, that country is poorly endowed, as well as producers who use that scarce resource intensively. On the other hand, protection harms and liberalization benefits those factors that a given country holds abundantly, and the producers who use those factors intensively. Hence, factors which benefit from either protection or liberalization are likely to support that policy. That is to say, owners of the same factors of production are believed to act alike. In one of the most influential applications of the Stolper-Samuelson Theorem, Rogowski (1989) analyzes the impact of changing exposure to trade on domestic political alignments and finds that such transformations in the world economy animate class interests through their influence on the prices of factors of production, that is, labor, land, and capital. Consequently, domestic political alignments and cleavages form along the lines expected by the Stolper-Samuelson Theorem.

b. **Ricardo-Viner Approach**

Many studies based on the Stolper-Samuelson Theorem rely on the classical version of the factor endowments model which utilizes only three factors of production:
land, labor, and capital. While this parsimonious model may be fruitful for economies where the division of labor remains at a relatively rudimentary stage, it cannot capture the subgroups which emerge within each factor in more complex economies. For instance, it may be necessary to consider skilled and professional labor apart from unskilled labor in order to explain their response to expansion of global trade. Therefore, Leamer (1984) has come up with a multifactor model which originally employs eleven productive factors: capital, professional labor, semiskilled labor, unskilled labor, tropical land, temperate land, dry land, forested land, coal, minerals, and oil. Again, the expectation is that owners of more abundant factors will favor open trade, owners of scarcer factors will favor protection, and owners of average factors will be indifferent to trade.

"At its extreme, a factor endowments model with many narrowly defined factors begins to resemble the specific-factors model," (Midford 1994, 562) that is, the Ricardo-Viner Approach. Unlike the Stolper-Samuelson Theorem, this perspective holds that many factors are specific in their use and characterized by low mobility. Therefore, it is often likely to observe sectoral instead of factorial effects of exogenous changes on domestic political economy. Depending on the level of factor mobility and asset specificity, economic sectors which are defined by output rather than by broadly defined factor endowment are expected to act on their sectoral interests. In other words, their response to expansion of world trade is expected to be shaped by sector-specific considerations because those with similar assets are affected analogously by relative price changes. When a sector or industry is adversely influenced by expansion of world
trade, the results may be recession and unemployment for that sector or industry, but not necessarily for others. As Frieden (1991) demonstrates in his study of the impact of the recession and debt crisis of the 1980s on politics in Latin America, in many cases, changes in international markets animate specific sectors or industries rather than classes or factors of production in the domestic economy.

To summarize, the Ricardo-Viner Approach implies (1) that pressure for or against liberalization will vary with asset specificity, that is, "the degree to which the return on an asset depends on its use in a particular circumstance." (Frieden 1991, 20) (2) that sectors will divide between those relatively competitive on world markets and those relatively uncompetitive, and (3) that political cleavages will be sectoral rather than factorial (Frieden and Rogowski 1996). In brief, the propositions offered by the specific-factors model produce different empirical expectations than the Stolper-Samuelson Theorem.

In their efforts to refine models deriving from the Stolper-Samuelson Theorem and the Ricardo-Viner Approach, Grossman (1983) and Brawley (1997) resort to some modifications in the assumptions of these two perspectives about the degree of factor mobility. As he maintains the full mobility assumption about labor, Grossman contends that capital can shift across sectors with each unit of capital having a different adjustment cost. His model based on "partially mobile capital," implies that when there is a change in global trade, capital and labor can be reallocated to the point where the marginal returns to the units of capital within each sector are equalized. His main proposition is that the more sector-specific a unit of capital is, the more likely it is to remain where it
was originally located and thus, the more likely that the predictions of the Ricardo-Viner Approach will hold. Building upon Grossman’s work, Brawley’s “partially-mobile-factors” model categorizes both capital and labor as “sector-specific” or “non-sector-specific.” He asserts that:

[t]he non-sector-specific component of the abundant factor, plus the factors specific to the abundant-factor-intensive sector, should gather together to propose liberalization (which the capital and labor specific to the import-competing sector opposes). The non-sector-specific element of the scarce factor of production has an ambiguous position, since trade might increase employment, but would also likely to drive its earnings down. This approach suggests that the balance between the different elements of capital and labor is critical for how politicians might use trade policy to cobble together dominant coalitions (1997, 641).

c. Economies of Scale Perspective

Finally, those who advocate the third major trade-theoretic approach, the Economies of Scale Perspective (EOS), emphasize that the active agents in politics are more often firms than sectors because it is the firms, not the industries, that develop international ties, anticipate costs of protection, and formulate trade policy preferences. Since it is based on the peculiarities of firms and sectors characterized by increasing returns to scale, it is referred to as the “Economies of Scale Perspective.” The expectation is that in sectors characterized by economies of scale, such as, chemicals and office machines, but not shoes or foodstuffs, support for liberalization is more likely to vary with (1) firm size and (2) existing international contact and experience. In these sectors, an expansion of international trade is predicted to precipitate conflict between large and small, and between internationally experienced and inexperienced firms. In
each case, the former will pursue liberalization while the latter is likelier to be protectionist.

Milner's (1988) comparative study of trade policy formulation in the United States and France in the 1920s and 1970s is the best known example of firm level analyses. She differentiates two key variables, namely, "export dependence" and "multinationality" linking domestic firms and international economy. While the former refers to the net balance of exports to imports as well as to the relative significance of these exports vis-à-vis domestic production, the latter indicates the importance of a firm's production capacity and profits in foreign markets relative to those in its home market. Firms with high "export dependence" and "multinationality" are expected to favor trade liberalization whereas those with low "export dependence" and "multinationality" are more likely to be protectionist. One of her major findings is that despite protectionist pressures during the 1970s (similar to those in the 1920s), there has not been a significant protectionist resurgence due to increasing international economic interdependence, more specifically, a rise in the number of firms with high "export dependence" and "multinationality."

3. Limitations of Interest-Based Open Polity Approaches

Although both structuralist and trade-theoretic variants of open polity analyses provide a rather parsimonious approach to examining the relationship between international economy and domestic politics, they remain inadequate in explicating national trade policy and institutional responses to external pressures. First of all, structuralist perspective lacks the analytical tools which can be used to explain the
differences among these responses as it overemphasizes the economic structure and underestimates the role actors play in shaping domestic political outcomes. Secondly, the research program that flows from trade-theoretic perspectives has serious gaps in its attempt to account for the variance in these outcomes.

In interest-based open polity approaches, the causal chain runs from the international economy to the society that is composed of various actors with different interests. One of the major flaws in this line of research is the premise that these economic interests which, in turn, determine the preferences of societal actors, are directly translated into political outcomes. In other words, the impact of internationally generated changes on the constellation of domestic economic preferences are assumed to be quickly and faithfully reflected in domestic policy and institutional changes. However, empirically, this is rarely, if ever, the case. There are factors missing from this story. "The three economic models specify individuals' preferences over trade policies, but none of these models says how its distributional implications find expression in the political arena or predicts the resulting character and composition of trade policy coalitions" (Alt, et al. 1996, 695). A more complete story has to take into account the costs of collective political action and domestic political institutions which interact with factor mobility on which trade-theoretic perspectives are built. Because "scholars who ignore institutions and collective action costs will confuse interests with outcomes while those who neglect the economic variables will not understand the underlying stakes of the actors involved" (Alt and Gilligan 1994, 167) how all three interact should be studied

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4 See Olson (1965).
in order to generate an accurate explanation of trade policy outcomes. Hence, in this study, without losing sight of the underlying economic interests and collective action problems, I bring in domestic political institutions into my analysis of the dynamics of the relationship between expansion of world trade and trade policy outcomes.

B. International Actors and Domestic Political Economy

While expansion of world trade affects domestic political economy through the operation of markets, the impact of international actors, such as the International Monetary Fund (IMF), the World Bank, the OECD, and the EU, is channeled through indirect and/or direct relations with national governments. Provision of international funding and dissemination of policy-relevant knowledge are the two main instruments through which international agencies can influence domestic political outcomes. Governments of national economies in trouble and in need of international funding may be indirectly compelled to liberalize their economies along the lines advocated by international actors even when they do not impose direct pressures on these governments. The anticipation that a priori liberalization will facilitate the inflow of international funding and the expectation that economic ideas and ideologies solicited by international agencies constitute a better alternative to those that have thus far guided national economic policies and hence, can help improve domestic economic conditions may motivate governments to initiate changes in policy and institutions. More directly, the signing of agreements involving conditions that must be met by these governments, e.g. IMF conditionality, exerts pressures on them towards liberalization. Thus far, the literature on the influence of international actors on domestic political outcomes have
mostly concentrated on economic policies, particularly stabilization and structural adjustment measures, as a package. This literature can be analyzed under two headings, namely, the structuralist perspective and inductive, comparative analyses.

1. Structuralist Perspective

Structuralists emphasize the power of international forces, including international agents, such as the IMF, the World Bank, and private commercial banks, in determining the options of governments in developing countries and changing their preferred policy positions toward those solicited by these international actors. This is achieved through two types of relationships between international actors and domestic political actors and hence, domestic political economy. As the first focuses on the economic, political, and ideological “linkage” between domestic groups and international actors, the second, that is, “leverage” involves international actors’ direct use of power, with a promise of reward or a threat of punishment for carrying out (or not) a desired policy (Stallings, 1992).

The concept of linkage is particularly emphasized in the historical-structural version of dependency analysis. According to Cardoso and Faletto (1979), the relations of dependence are made possible through a network of interests binding certain groups in the Third World to their counterparts in industrialized countries and international institutions. Such groups in the Third World tend to identify with the interests and outlook of international actors and to support coalitions and policies reflecting them. However, the analytical tools offered by the structuralist perspective remain inadequate.

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5 On the structuralist perspective, see Cardoso and Faletto (1979), Evans (1979), Frank (1969), Hayter (1971), and Payer (1974).
in explaining how such coalitions come to exercise power over economic policy and why political outcomes generated in different Third World countries vary.

Secondly, leverage as a form of influence by international actors is argued to be most effective when resources are scarce, international creditors are unified, and the incentives they create are credible. The most important examples in the economic policy making sphere are the conditionality bargains and negotiations between international economic institutions and national governments. Owing to their structural power derived from their control over a scarce resource, that is, international funds, these institutions can shape governments' economic policy and institutional choices. Again, the variance in national responses to such influence remains a question unexplained by structuralists. Even Stallings (1992), who argues that structuralist approaches to external influence have been too quickly abandoned, acknowledges the limits to the range of policy behavior that can be explicated without reference to domestic political configurations.

2. Inductive, Comparative Analyses

The second line of research examining the impact of international actors on domestic political outcomes flourished especially after the debt crisis of the 1980s when governments in search of international funding signed various agreements with the IMF and the World Bank. Rather than focusing on distinct policies, such as trade policy and monetary policy, inductive, comparative studies aim to address clusters of policies including balance of payments management and stabilization and structural adjustment.

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measures. Inductive, comparative studies converge around two most salient ways in which such pressures affect these outcomes. First of all, international agreements with conditionality requirements are held to play an important role in economic reform, i.e. liberalization, in restricted systems. Secondly, international institutions, such as the IMF and the World Bank, are argued to contribute to liberalization efforts through the diffusion of a new set of ideas promising to improve countries' economic performance. These ideas provide national governments that are disillusioned about the effectiveness of their status quo policies with a focal point for determining what has to be done to overcome serious economic problems.

Justifying their inductive approach by underlining the lack of an overarching conceptual scheme or theory, most of these studies bring in the impact of other international and domestic economic variables, e.g. the terms of trade, the nature of economic crisis, the scale and development level of the economy, along with the pressures engendered by international actors as well as the effects of domestic institutional and non-institutional political factors in an attempt to "put in place building blocks and to offer some significant insights for future theory building" (Nelson 1990, 17). Domestic political factors included in explanations provided by inductive, comparative analyses are diverse. The calculations of political leaders, the degree of political competition, the balance of interest group demands (Lukauskas 1997), the degree to which technical staff are insulated from legislative, interbureaucratic and interest group pressures (Haggard and Moon 1988), regime type (Sheahan 1980;

7 For instance, see Fry (1988) and Pastor (1989).
Kaufman 1986), and electoral cycles (Ames 1987; Haggard and Kaufman 1989) are only some of the domestic political variables distinguished by inductive, comparative analysts.

3. Limitations of Existing Literature on the Impact of International Actors on Domestic Political Economy

Just as it is the case in accounting for different domestic political responses to expansion of world trade, the structuralist perspective is also ill-equipped to explain the variance in such responses to pressures from international actors across countries and over time. On the other hand, with their primary focus on the variation in the stabilization and structural adjustment policies introduced and implemented by governments of countries in economic crisis, inductive, comparative studies provide diverse multivariate explanations. This is actually where their major strength as well as weakness lies. In search of accuracy, they present comprehensive and interesting stories. Yet, such accuracy comes at the expense of rigor. Their cases or observations are often outnumbered by the international and domestic variables brought into the analysis.

Other limitations of inductive, comparative studies on the influence of international actors on domestic political outcomes are related to the fact that these studies mostly concentrate on the impact of two international economic organizations, namely, the IMF and the World Bank, on the stabilization and structural adjustment policies of developing countries during the 1980s. As such, first, analyses of this kind do not provide much insight into the impact of international actors over time. Secondly, there remains a gap in literature concerning how pressures from more exclusive international organizations, such as the OECD, affect domestic political outcomes.
Finally, by treating economic policies as a package, inductive, comparative analyses tend to brush over the differences in the politics of each policy domain. For instance, changes in monetary policy may influence different groups in the polity than changes in trade policy. Thus, we need more studies with a specific policy focus.

C. The Relevance of Domestic Political Institutions

The salience of domestic political institutions in shaping political outcomes have been recognized by a number of scholars. Institutions are regarded as being both exogenous, that is, political economic actors face a set of established institutions, and endogenous, in that these actors may be motivated to change the existing institutions. In this study, I am interested in both aspects of the institutionalist story.

1. New Institutionalism

In recent years, there has been a resurgence of scholarly interest in institutions in various fields of social sciences, including political science, economics, and sociology. In political science, the so called “New Institutionalism” has been especially influential among scholars of political economy, such as North, Bates, Hall, and Katzenstein. According to Hall’s widely accepted definition, the concept of institutions refers to “the formal rules, compliance procedures, and standard operating practices that structure the relationship between individuals in various units of the polity and economy.” (1986, 19) In this sense, institutions have a more formal status than cultural norms; yet, this status does not necessarily derive from legal, as opposed to conventional standing. Regime

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8 For an overview of major institutionalist trends, see Powell and DiMaggio (1991), March and Olsen (1989).
9 For a differentiation of “old” and “new” institutionalism, see Thelen and Steinmo (1992).
10 For instance, see North (1990), Bates (1989), Hall (1986), and Katzenstein (1978, 1985).
type, the structure and organization of economic actors like trade unions, the rules of electoral competition, the structure of party systems, and relations among various branches of government are among the features of the institutional context that are included in this definition.

Going beyond the claim that "institutions matter too," what has to be clarified is how they matter. The two variants of the "New Institutionalism", namely, rational choice institutionalism and historical institutionalism\(^\text{11}\), differ in the way which they tackle this question. According to rational choice scholars, such as Shepsle, Levi, North, and Bates, institutions are significant as features of a strategic context, imposing constraints and presenting opportunities for self-interested behavior and thus, define the strategies that actors adopt in the pursuit of their interests. Although historical institutionalists, such as Berger, Hall, Katzenstein, and Skocpol, do not have any trouble with the idea that actors involved act strategically to achieve their objectives in a given institutional structure, they argue that institutions play a much greater role in shaping politics than that suggested by a rational choice model. They contend that not only the strategies chosen by actors involved, but also their goals and preferences are shaped by the institutional context. Nevertheless, all variants of the new institutionalist models, unlike the approaches based on the assumption of "economic pluralism," see political outcomes as more than the sum of countervailing pressures from societal groups with different economic interests.

\(^{11}\) For a more elaborate discussion of these two variants, see Thelen and Steinmo (1992).
Finally, historical institutionalists bring ideas which are not paid much attention by rational choice institutionalists into their analyses. Those who approach the world from the standpoint of historical institutionalism explore the role of several variables, often encapsulated as interests, ideas, and institutions, in the determination of outcomes. Within this framework, institutions are critical mediating variables while interests and ideas are the ultimate motors of political action. As Hall underscores, “it is ideas, in the form of economic theories and the policies developed from them, that enable national leaders to chart a course through turbulent economic times, and ideas about what is efficient, expedient and just that motivate the movement from one line of policy to another” (1989, 361). Just as they do between interests and domestic political outcomes, institutions mediate between ideas and such outcomes in various ways. For example, institutions govern the entry of ideas into the policy making process, affect the access of policy makers to these ideas as well as the policy impact of ideas by influencing their administrative and political viability. To conclude, by tracing the interaction of institutions, ideas, and interests, historical institutionalists can provide a richer account of domestic political outcomes than their rational choice counterparts who need to depend on a more narrow definition of the reality.

2. Institutions and Political Outcomes

Closely related to the specific topic under examination in this study, Katzenstein asserts that “the domestic structure of the nation-state is a critical intervening variable

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12 See Hall (1989, 1992), Weir (1992), and Yee (1996) for more on how institutions affect the relationship between ideas and political outcomes.
without which the interrelation between international interdependence and political strategies can not be understood" (1978, 3). In his analysis of six advanced industrial states, he contends that differences in domestic structures and international context in which they are situated have dictated the adoption of different strategies of foreign economic policy including instruments, such as quotas, invisible tariff barriers, direct subsidies to import-competing industries, tax concessions for exporters, and different forms of foreign exchange controls. Katzenstein is not alone in emphasizing the effects of domestic political institutions on the interaction between international pressures and domestic political responses to these pressures. Other scholars have observed the various ways in which domestic political institutions play a mediating role in this relationship.

Initially, domestic institutions may block or distort price signals emanating from the international economy. As Evangelista (1996) and Shirk (1996), in their studies of the Soviet Union and China, respectively, find that government policies and institutions can act as a “wall” between international and domestic economies, muting the impact of changes in international relative prices on national economies. Evangelista maintains that “even if they could not fully protect the Soviet economy from the vagaries of the world market, Soviet economic and political institutions continued to the end (and even beyond) to distort the influence of the international economic changes on Soviet domestic actors” (1996, 175).

Even when international price signals are not blocked effectively, preexisting institutions may have still two other types of effects on the processes linking world economy to domestic politics. One of them is negating or modifying the influence of the
world economy by freezing coalitions and policies into place (Milner and Keohane 1996). Namely, Rosenbluth's (1996) analysis of Japan's nearly forty years of protectionist policies, reveals that it was the country's political institutions, particularly, electoral system, that maintained the strong hold of the producer groups, including both competitive and noncompetitive firms, over policy outcomes for many years. Although the configuration of interests supporting the governing Liberal Democratic Party had been changing for some time before its fall in 1993, policies, contrary to the expectation, did not change in tandem. This shows the significance of political institutions in structuring and channeling the incentives for policy makers.

Furthermore, the country studies presented in Keohane and Milner's (1996) edited volume provide evidence to the ability of domestic institutions to channel responses to changes in international economy. For instance, China's choice of economic liberalization without political reform contrasts with the Soviet case. South Korea's slow move to liberalize capital markets significantly diverges from earlier, rapid movements by Chile, Indonesia, and Mexico. Even similar economies like those in West Europe have maintained different spending patterns when confronted with similar international economic pressures (Garrett 1996). In brief, preexisting institutions are able to shape countries' choices about their responses to the world economy to a considerable extent.

What are the major domestic political institutions that have been differentiated as having critical effects on the national political responses to external pressures? A review
of the literature demonstrates that formal political institutions, such as regime type\(^{13}\), electoral system, party system, government type, number of veto players, and bureaucratic autonomy in addition to the organization of socioeconomic interests, are found to be the most relevant institutional variables\(^{14}\). According to Garrett and Lange (1996), specific institutions have different effects which are unlikely to be independent of each other. In order to explain how such interactive processes operate, they hold that it is essential first to isolate the independent impact of each institution. To give an example, under international economic pressures, democracies are expected to liberalize earlier and easier than authoritarian regimes which are believed to be able to resist change for a longer time. Still another popular argument is that the magnitude of policy change is negatively correlated with the "number of veto players," that is, the number of institutional actors whose assent is necessary for a policy change (Tsebelis 1995). Consequently, the sharing of power between the presidency and congress is expected to create a status quo bias.

While the field is not devoid of propositions and studies about the effects of domestic political institutions on the relationship between international pressures and domestic politics, our comprehension of this question is not as advanced as deemed necessary. A simple "grand theory" of political institutions does not exist and it is very unlikely that there will ever be one. Acknowledging this constraint, middle-range theories are what the scholarly enterprise should aim at. A major step in this direction

\(^{13}\) This refers to the distinction both between presidential and parliamentary systems and between authoritarian and democratic regimes.

involves systematic analyses of a series of relatively small but nonetheless significant relationships. In an effort to explain national political responses to external pressures emanating from the expansion of world trade and international actors, I will first take existing domestic political institutions as exogenous factors that shape incentive structures available to actors in the chosen policy domain. By individually examining the influence of every selected institution, this project can move us forward in the process of theory-building.

3. Institutional Change

In its attempt to explain the impact of external pressures on domestic policy outcomes, this study presumes that the institutional environment in which political actors operate is fixed. However, institutions can be also regarded as endogenous variables which these actors are motivated to change in ways that favor their preferred policies. That is to say, if domestic political institutions affect policy outcomes, then actors will have preferences over institutions as they do over policies. At this instance, institutions become variables that need to be explained and our focus shifts from policy to institutional change.

a. Theoretical Underpinnings

Literature on the dynamics of political - both policy and institutional - change provides helpful insights into the questions addressed in this study. With respect to institutions, the widespread assumption is that they are static. The emphasis is primarily on their stickiness and continuity. One of the scholars who has gone beyond this

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15 For arguments along these lines, see Garrett and Lange (1996) and Milner (1998).
assumption is North (1990). In his opinion, institutional equilibrium as opposed to change characterizes a situation where the relative costs and benefits of restructuring agreements among the contracting parties do not make it worthwhile to do so. In other words, under institutional equilibrium, none of the players finds it advantageous to devote their resources into altering the game given their bargaining strength and the set of contractual bargains that make up total economic exchange. Meanwhile, when there is a change in relative prices, such as the exogenous easing of international trade, that reduce the costs and/or increase the benefits of restructuring a contract or an agreement, then the parties may be willing to use their resources for a renegotiation of the contract or the agreement. At a high level of abstraction, this summarizes the process of policy as well as institutional change.

Regarding the question of whether change is incremental or discontinuous, one perspective holds that it is incremental because of the "imbeddeness of informal constraints in societies" (North 1990, 6). This evolutionary view contends that it is small specific alterations in agreements or contracts which add up to fundamental institutional change. In each step, parties recontract to capture some of the potential gains resulting from changes in relative prices. Such recontracting may involve marginal adjustments to the rules, procedures, and practices that constitute the institutional framework. What is called "incremental change" may also mean a restructuring of political institutions in order to resolve a gridlock crisis (Skocpol 1979).

Discontinuous change, on the other hand, can either be evolutionary or revolutionary. Wars, revolutions, and natural disasters are able to lead to radical change
in the formal rules that govern institutions. Even such revolutionary change does not
mean a total break from the past since there are informal constraints embodied in
customs, traditions, and codes of conduct which cannot be easily altered by policies. That
is to say, discontinuous changes, even when they are regarded as "revolutionary" are not
completely discontinuous. This is a characteristic which is also shared by discontinuous
evolutionary changes. Thus far, perhaps the most explicit and widely accepted model of
institutional change in the literature is one of discontinuous evolution. Building upon the
demographic theory developed by Gould and Eldredge (1977), Krasner (1984), in his
model of "punctuated equilibrium," expects short bursts of institutional change followed
by long periods of stasis. In other words, these long periods of stability are periodically
"punctured" by crises that give way to change succeeded by a new equilibrium.
According to Krasner, crises which are usually engendered by changes in the external
environment may cause the breakdown of old institutions which in turn leads to political
conflict over the shape of new institutional arrangements.

b. Changes in International Economy and Institutional Transformation

As it enhances the sensitivity of national economies to shocks and trends in the
international economy, the expansion of world trade renders domestic politics highly
fluid and institutions more malleable. Thus far, the scholarly treatment of domestic
political institutions as national responses to changes in the international economy has
remained quite rudimentary. Even those who acknowledge the possibility of endogenous
institutional change often underestimate the strength of incentives for institutional
change and emphasize the incremental nature of such transformation. Namely, Hall underscores that

[institutional] structures are not particularly open to dramatic change except in the critical conjunctures of a nation’s history, often associated with war and prolonged recession, that call into question existing societal arrangements. Nevertheless, incremental structural change is a familiar feature of politics... (1986, 266)

In their theoretical assessment of endogenous institutional change, Garrett and Lange (1996) also underline the significance of barriers to institutional reforms. In particular, they distinguish rather strict conditions for any institutional change to take place. These parameters are that the government should be risk acceptant, the conjunctural conditions should be favorable, and there needs to be a long time until the government will be held accountable for their actions by the voters. The natural implication of these conditions is that governments run by self-interested politicians will be usually resistant to endogenous institutional change. This brings us back to the generally held belief that institutions are sticky.

Empirically, even though the impact of international economic changes on institutional transformation at the national level is still an understudied question, there are some scholarly attempts to tackle this question. Namely, there are those who focus on regime change as a response to external shocks. For instance, O'Donnell (1979), Frieden (1991), Haggard and Kaufman (1992) have examined the relationship between crises emanating from the world economy and replacement of one type of regime with another.
Furthermore, institutional changes within the framework of an existing regime have been analyzed by scholars, such as Katzenstein (1978), Rogowski (1987), and Garrett (1993). In his study of the interaction between international interdependence and foreign economic policy, Katzenstein differentiates between the creation of new institutions and a major shift of power between existing institutions as instruments which policy makers can command in the pursuit of their objectives. He finds that in the United States, the shift of power in the making of commercial policy “from the legislative to the executive branch of government partly insulated policy makers from protectionist groups and thus facilitated the steering of a liberal course in the international political economy” (1978, 303). Similarly, the shift of authority from Parliamentary to Cabinet, to Prime Ministerial government in Britain, he argues, made 10 Downing Street the central decision point and significantly reduced the influence of business organizations on foreign economic policy. Moreover, in the 1960s, institutional innovations, such as the Neddies and the Industrial Reorganization Corporation were undertaken in Britain in order to benefit exports.

In his comparative analysis of structural change in Sweden and Britain, Garrett (1993) investigates the impact of changes in international economic conditions in the 1930s and the 1980s on domestic politics. In both cases, altering the structure of labor movement was used as a strategy to increase the political support for and the economic viability of governments’ preferred policy agenda. As the Swedish Social Democrats chose to strengthen the trade union movement in the 1930s, the British Conservatives of the 1980s perceived the emasculation of the trade unions as a way to enhance the
viability of market-oriented economic policies. In sum, the Great Depression in the early 1930s and the stagflation following the 1970s OPEC shocks created the political space in which the Swedish and British governments could engineer structural change that would increase the political and economic efficacy of their preferred policies. Yet, again, Garrett emphasizes that “only governments that do not have to concentrate myopically on the exigencies of winning the next election have the political space to undertake structural changes” (1993, 521). Given that this condition is not very often satisfied in democracies, Garrett’s conclusion implies that such changes are not easy to come by.

In still another study that addresses the relationship between international trade and domestic political institutions, Rogowski proposes that “the more an economically advanced state relies on external trade, the more it will be drawn to the use of PR (proportional representation), a parliamentary system, and large districts, with (presumably) all that that combination entails” (1987, 206). The crux of his argument is that this combination of institutions is more conducive to openness and effective competition in world markets. The results of Rogowski’s statistical analysis based on data from 24 OECD countries supports his hypotheses.

Despite several scholarly efforts seeking to untangle the relationship between trade policy and institutional transformation in a changing world economy, there is still a lot that needs to be learned. Therefore, in connection with my propositions about the mediating effects of domestic political institutions on the impact of pressures generated by the expansion of international trade and by international actors on foreign trade policy
II. A Framework for Comparative Analysis

In an international economy characterized by increasing pressures on national economies everywhere, what accounts for the variance in the degree of trade liberalization and trade-related institutional change introduced by governments each time trade policy gained salience in their political agenda? In this project, I address this key puzzle by dissecting it into three more specific questions. First, the impact of external pressures emanating from expansion of world trade and involvement of international actors in domestic trade policy decision making on the degree of trade liberalization is examined. Second, the effects of domestic institutional variables on the extent to which governments liberalized trade policy are analyzed by employing two different approaches to the study of institutions. Finally, an attempt to explain the variation in the institutional modifications accompanying trade policy change is made. In this section, I will first demonstrate the trends in the post-Second World War pressures generated by the expansion of world trade and the involvement of international actors. Subsequently, I will discuss the foundation and the structure of the framework to be developed in this study.
A. External Pressures

1. Post-War Expansion of International Trade

Economic interdependence among the actors comprising the international system is a critical factor that breaks apart the artificial boundaries between domestic and international political economy. In trying to explain domestic political and economic outcomes, it is no longer sufficient to concentrate on variables that characterize the domestic structure because what is happening at the systemic level has a considerable impact on what is happening within countries. Thus, a "second image reversed" approach in which the international system becomes an explanatory variable is required in order to effectively address questions posed by comparative political economists. Among others, the systemic variable which this study focuses on is the expansion of international trade.

Since prices are the basic signal by which economic information is transmitted and since they have a meaning only in relation to each other relative price changes in international markets are regarded as main indicators of change in international economic trends, including the expansion of international trade. Movements in relative prices can be treated as systemic factors owing to the fact that they are exogenous to the policies of any one country and able to resist manipulation by a single government. Unless a government enjoys global domination, it is unable to control global transformations that reduce the costs and/or enhance the rewards of international economic transactions (Frieden and Rogowski 1996). Consequently, in this study, I treat
the main explanatory variable, namely, the expansion of international trade as a systemic, i.e. exogenous, phenomenon\textsuperscript{16}.

There are various factors that lead to a change in costs and rewards of international exchange. Improvements in infrastructure, including the opening of canals and building of railroads, harbors as well as airports are one of these factors. In addition, advances in communication and transportation technologies also reduce transaction costs. For example, better and faster trucks, ships, airplanes along with new means of communication significantly ease exchange of goods and services across national boundaries. Creation of international institutions based on a shared ideology, such as the formation of the post-World War II trade and monetary institutions based on "embedded liberalism", is still another factor that influences the overall expense associated with cross-border transactions. Although this is not an exhaustive list, it highlights some of the most important elements that have facilitated the expansion of world trade after the end of the Second World War.

The underlying shifts in post-war transaction costs can be observed by analyzing the changes in international flows of goods, services, and capital, all of which have been important in increasing international economic interdependence. However, because what I am trying to explain in this study is trade-related I concentrate on changes in the observable flows of goods and services\textsuperscript{17}.

\textsuperscript{16} See Rogowski (1989) for a similar treatment of expansion of world trade.

\textsuperscript{17} There is no debate that international capital flows have played a critical role in increasing international economic interdependence. One major difficulty involved in studies that focus on international capital flows is that data on big part of the action on the capital side is almost impossible to obtain. Especially, private entities, such as commercial banks, are very secretive about their international undertakings.
Following the reconstruction of Western European economies in 1947, the world experienced an expansion of international trade that has surpassed even that of the previous expansionary trade period between 1840 and 1913. As Table 1.1 indicates, the world trade volume indices have gone up to levels unprecedented in history in a considerably short period of time.\(^1\)

<table>
<thead>
<tr>
<th>Year</th>
<th>Volume Index(^a)</th>
<th>Annualized Real Growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>1840</td>
<td>5.4</td>
<td>2.30%</td>
</tr>
<tr>
<td>1870</td>
<td>23.8</td>
<td>5.53%</td>
</tr>
<tr>
<td>1896-1900</td>
<td>57</td>
<td>3.50%</td>
</tr>
<tr>
<td>1911-1913</td>
<td>96</td>
<td>4.34%</td>
</tr>
<tr>
<td>1953</td>
<td>142</td>
<td>6.63%</td>
</tr>
<tr>
<td>1958</td>
<td>187</td>
<td>5.66%</td>
</tr>
<tr>
<td>1963</td>
<td>269</td>
<td>7.40%</td>
</tr>
<tr>
<td>1968</td>
<td>407</td>
<td>8.63%</td>
</tr>
<tr>
<td>1970</td>
<td>490</td>
<td>9.72%</td>
</tr>
<tr>
<td>1975</td>
<td>613 (640)</td>
<td>4.58% (5.49%)</td>
</tr>
<tr>
<td>1980</td>
<td>817 (875)</td>
<td>5.92% (6.45%)</td>
</tr>
</tbody>
</table>

Table 1.1: World Trade

Source: See Rogowski 1989, 23 and 89. The indices and growth rates shown in the parentheses are obtained by deflating the values, in current U.S. dollars, for total world trade in 1975 and 1980 by price indices for U.S. imports. They may comport more closely with the earlier entries because values for 1975 and 1980 cover only “market economies.”

\(^{a}1913=100\)

\(^1\) Different economies of the world have not equally benefited from this expansion. See Table 1.2 in the Appendix to this chapter for differences in trade growth rates across economic groupings and regions.
More important than the increase in the volume of world trade has been the fact that in the post-war period, trade grew more rapidly than world output. That is to say, for most countries, trade started to claim an increasing share of national and domestic product. According to the indices illustrated in Figure 1.1, by 1985 total volume of world exports were more than four times greater than in 1960, while both world commodity output and GDP were somewhat under three times greater than in 1960. The ratios were 4.2, 2.8, and 2.8 respectively.

However, as Figure 1.2 shows, growth rates of both world output and trade have not been consistent over the years. When the three decades (1960-1970, 1970-1980, and 1980-1989) are compared, the decline in the average annual changes in world merchandise production and trade can be easily observed. This decline is usually explained by the increases in oil prices during the 1970s. As the OPEC decisions to increase prices was probably the most significant factor creating rampant price inflation because it affected almost every product and service, it was not the only one. Rise in labor costs, the collapse of the Bretton Woods monetary system, and the subsequent shift from fixed to floating exchange rates also contributed to the difficulties of the world economy. The deepening of the recession following the two oil crises during the late 1970s and into the early 1980s also led to an emphasis on the view that the changes were the result of more deep-seated and fundamental processes. The main argument of those who studied these processes was that economic activity proceeded in a series of long
Figure 1.1: Development of World Exports, Commodity Output, and Gross Domestic Product, 1955-1985  
Note: World output excludes services; world GDP includes services.

Figure 1.2: Volume of world trade and output, 1960-1989  
waves each of which lasted for about fifty years. In line with this line of thinking, Dicken asserts that

[d]uring the 1980s, the rates of growth were extremely variable, ranging from negative growth rates of 1982 through two years (1984 and 1988) when growth of world merchandise reached the levels of the 1960s once again. Overall, growth - albeit uneven growth - reappeared. However, the unevenness of such growth seemed to reflect the continuing difficulties of a world economy struggling to rediscover what had appeared to be a virtuous circle of growth (1992, 18).

Nevertheless, in regards to the relationship between the average annual changes in world output and trade, which is the variable of main concern in this study, the observation that trade grew more rapidly than output holds for all periods except for the years 1981 and 1982. This provides further evidence for the exogenous easing of trade in the post-1960 international system.

Measures of world output and GDP are generally imbued with problems due to the unreliability of data and differences in national accounting systems. Therefore, examining a subgroup of countries for which more accurate data can be obtained may strengthen the findings above. For instance, the arithmetic average of ratio of merchandise exports to GDP (in 1985 prices) for sixteen developed capitalist economies went up from 8.3% in 1950 to 18% in 1973, and about 23% in 198719.

Furthermore, data for the OECD countries, including those selected for in-depth study for this project, namely, Spain and Turkey, can be also used to show world wide trends. Percentages presented in Table 1.4 of the Appendix to this chapter demonstrate

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19 See Table 1.3 in the Appendix to this chapter for ratios of each country in the group.
that between 1960 and 1990, this group of countries realized about 80 to 90 percent of world trade\textsuperscript{20}. Thus, trends for these countries are relatively good indicators of global trends in general.

It is evident from Figure 1.3 that despite a general post-1970 decrease in the growth rates of OECD exports, imports and GDP, these countries never experienced a negative growth rate and at all times, exports and imports accomplished higher rates of growth than GDP. Between 1972 and 1991, the average rate of import growth into the OECD area was slightly over 5\%, compared to an average increase in real total domestic demand (both expressed in 1987 US dollars on the basis of 1987 GDP weights) of only 3\% (OECD 1992, Tables R10 and R8) That is to say, imports grew over these two decades at a rate about 65\% higher than growth in domestic demand. Moreover, the ratios of exports and imports to GDP showed an upward trend between 1960 and 1990 (Figure 1.4) While in 1960, exports and imports constituted 9.05\% and 9.23\% of the total OECD GDP respectively, these numbers went up to 18.55\% and 18.77\% in 1990 (expressed at the price levels and exchange rates of 1990) (OECD 1996). In brief, empirical evidence reveals that starting from the late 1940s and especially after the early 1970s, world trade has increased dramatically relative to previous levels and relative to domestic product.

\textsuperscript{20} See Table 1.4 in the Appendix to this chapter for exact ratios between 1960 and 1990.
Figure 1.3: Changes in GDP, Exports, and Imports for the OECD countries.

Figure 1.4: Ratios of Exports/GDP and Imports/GDP for the OECD countries (at the price levels and exchange rates of 1990)
2. International Actors

The most salient international actors that are likely to influence foreign trade policy outcomes in a given country include international (both global and regional) organizations, bilateral aid agencies, governments of other countries, and commercial banks of global reach. Being motivated by furthering their own national interests, governments of other countries as well as bilateral aid agencies have generally acted more on a political rather than an economic agenda. Namely, many bilateral aid agencies, such as the United States Agency for International Development (USAID), have been users of political conditionality trying to reward friends and punish enemies. The Japanese aid agencies, on the other hand, have not imposed their own conditions, but relied on the IMF and the World Bank conditions\(^1\). Similarly, private banks which attached few strings to their loans during the 1970s joined forces with the international financial institutions to reschedule loans in exchange for more orthodox economic policies in the 1980s\(^2\). Hence, it can be concluded that the international organizations have played the most critical role in trying to alter national governments’ economic policy and institutional choices.

The organizational pillars of the post-Second World War international economic system, namely, the GATT, the IMF, and the World Bank with global membership as well as organizations of more exclusive nature, such as the OECD (formerly OEEC) and the EU (formerly EEC and EC), have worked to influence the trade policy and

\(^1\) On U.S. foreign aid, see Wood (1986) and on the Japanese style of aid, see Orr (1990).
\(^2\) See Stallings (1987) for the banks’ style of lending.
institutional decisions of national governments so as to facilitate international trade.\textsuperscript{23} The preamble of the GATT commits contracting parties to enter into “reciprocal and mutually advantageous arrangements directed to the substantial reduction of tariffs and other barriers to trade and to the elimination of discriminatory treatment in international commerce.” Any country that seeks membership has to agree to this condition. Furthermore, the provisions of Article XV of the GATT, taken together, suggest considerable reliance on the IMF to ensure an open payments system that sustains liberal trade. Over the years, the IMF along with the World Bank have gone beyond this function. The IMF through high-conditionality (stand-by and extended fund facility) agreements and the World Bank through structural or sectoral adjustment loans have utilized their resources to make governments introduce changes in policy and institutions at the national level. For example, between 1980 and 1987, 78.4\% of the total number of loans granted by the World Bank (structural adjustment lending) included conditions regarding trade policy (World Bank 1988).

The OECD and the EU are the two regional organizations that are especially relevant for this study. First of all, unlike other regional arrangements, such as the NAFTA, the roots of these two organizations go back to the immediate post-war period. Secondly, they are the regional organizations to which the countries selected for this project, namely, Spain and Turkey, have been and still are the most tightly connected. The Organization for Economic Cooperation and Development (OECD), established as the Organization for European Economic Cooperation (OEEC) in 1948, has the

\textsuperscript{23} For example, see Trebilcock and Howse (1995) for more on these organizations.
progressive dismantling of protective barriers to trade as one of its main objectives and uses aid to achieve this goal (Scammel 1980). Similarly, according to the Article 110 of the Treaty of Rome founding the EEC, "member states aim to contribute, in the common interest, to the harmonious development of world trade, the progressive abolition of restrictions on international trade and the lowering of customs barriers." This provision affect not only member states, but also those wishing to obtain membership. In sum, both global and regional organizations dominant in the post-war international economic system have been a significant liberalizing force pushing governments to open up their national markets to international competition. The extent to which these international organizations could accomplish this is one of the questions to be addressed in this study.

Although I have emphasized international organizations as the international actors with the most considerable impact on the trade policies introduced by national governments, I will not rule out other international actors in my empirical analysis. That is, all relevant international actors will be included in my examination of selected episodes. Having clarified what is meant by “international actors” in this study, the next step is to differentiate the observable ways in which they are expected to influence domestic political outcomes.

First of all, their command over international funds is one of the major sources of the international actors’ ability to affect governments’ economic policy decisions. A government confronting major economic difficulties, most importantly, balance of payments problems, and thus, seeking international funding may choose to alter its trade policy approach before entering into negotiations with international creditors so as to
increase its chances of receiving such funding or to enter into such negotiations first and meet the conditions required by international creditors afterwards. If either has been the case when trade policy came to the Spanish and Turkish governments’ agenda, it is possible to talk about the influence of international actors on political outcomes in the trade policy domain.

Still another observable channel through which international actors can have an impact on governments’ trade policy choices involves dissemination of policy-relevant ideas and provision of policy advice to decision makers. The training of indigenous economists and technicians at foreign universities, exchange programs, and work experience in international institutions, such as the IMF, the World Bank, and the multinational corporations, are likely to affect the nature of policy debate within countries and consequently, influence policy outcomes. Furthermore, governments in search of policies that will improve their countries’ economic performance often resort to advice from multilateral institutions, e.g. the IMF, the World Bank, the OECD, as well as from foreign universities and think tanks. Consultations between governments and these international actors advocating freer flow of goods and services across national boundaries may result in a shift in the governments’ trade policy approach towards liberalization.

Thirdly, the prospect of trade concessions from important partners through international agreements can greatly enhance the attractiveness of a trade reform for national governments. For instance, Spain’s membership in the EC and Mexico’s free trade agreement with the U.S. and Canada were desired and considered as one of the
significant benefits of trade liberalization by the Spanish and Mexican governments, respectively. In sum, relatively indirect or direct involvement of international actors in the domestic trade policy making process in one or more of the ways identified above should make us recognize the pressures from international actors on trade liberalization.

B. Dependent Variables

Easing of international trade has both aggregate social welfare and distributional effects on national economies. Consequently, it is likely to influence policies and institutions in various issue areas. For instance, Garrett and Lange (1996) develop a theoretical framework for studying the impact of an exogenous increase in the portion of the economy that is exposed to international competition due to the internationalization of markets on the policies and institutions of the “Keynesian welfare state.” Their framework covers a range of issues from Keynesian demand management to capital controls, from industrial policy to public provision of welfare and other social services. Undoubtedly, the effects of expansion of world trade on policy and institutional change in these areas and others deserve scholarly attention. Yet, in this study, I primarily focus on the trade policy domain with a secondary emphasis on exchange rate policy as it is usually considered in connection with a country’s foreign trade policy approach. Because expansion of international trade has the most direct impact on the political economy of commercial policy it is where we should start deepening our understanding of national political responses to this systemic process. Moreover, the fact that the foreign trade policy domain is one in which pressures from international actors are most deeply felt.
further reinforces the critical nature of analyzing the impact of external pressures on trade policy decisions made by national governments.

In examining trade policy, I focus on liberalization. The conventional wisdom derived from the literature which contends that pressures generated by the expansion of world trade and by international actors will push governments towards the liberalization of international trade including dismantling structural impediments to trade can be put forth as a justification for my emphasis on trade liberalization. Furthermore, although the vast majority of economists has long seen free trade as superior to protection, trade liberalization has traditionally been a contentious issue among political actors. Since the end of the Second World War trade policy responses to international pressures have varied both across countries and over time. By analyzing trade policy along a continuum of liberalization, I can capture not only whether, but also how much governments liberalized trade policy under these pressures.

While the degree of change in trade policy constitutes one of the dependent variables to be explained in this study, change in trade-related institutions comprises the other. Trade policies are embedded in a set of related institutions which often generate powerful pressures for the maintenance of the status quo policies. Thus, when they consider changes in trade policy, governments are also compelled to take into account the constraining effects of existing institutions. If the benefits of introducing modifications in these institutions so as to enhance the viability and sustainability of changes in trade policy are perceived to be higher than its costs, then governments may attempt an institutional transformation. Hence, the question of under what conditions such
transformation is likely to accompany change in trade policy becomes a highly relevant one for this study of the politics of trade liberalization.

C. The Agent of Change: The Executive (Government)

Changes in international relative prices lead to policy and institutional change by altering the incentives embodied in the existing framework. Those who respond to those incentives are the agents of change. These individual entrepreneurs are responsible for policy and institutional innovation required under changing economic conditions. If one adopts the model of economic pluralism, socioeconomic actors can be distinguished as the primary motors of change and the politicians as reactive agents that simply respond to political demands generated by these actors. However, the assumptions of economic pluralism are rarely, if ever, fulfilled. Although, as rational strategic actors, politicians take into account the demands imposed upon them by societal actors, they are more than reactive agents that go with the flow. Thus, a framework that views politicians as proactive actors is necessary.

The proactive role played by those in power is also documented by empirical evidence. For instance, Harik (1992) finds that in the Middle Eastern and North African countries, the moves toward liberalization have not taken place under pressure from political groups or ideological conversion. Under changing international economic conditions, the regimes were losing credibility and legitimacy among the general public in proportion to their inability to deliver. Due to their overwhelming control over the national economy, political leaders were to be blamed for the declining economies. Hence, they were pressured to introduce policy and institutional changes towards
economic liberalization to "partition the blame and responsibility and in the hope that an injection of fresh economic actors and capital would help a declining economy to regain its fortunes." (Harik 1992, 16) Similarly, Waterbury (1993), in his comparative analysis of four developing countries, namely, Egypt, India, Mexico, and Turkey, observes that transformative change is initiated by the state apparatus itself and seldom can be seen as the result of domestic lobbying. This line of reasoning can be also extended to more developed economies. For example, Gamble's (1988) analysis of the Thatcher era in the Great Britain is illuminating in showing the politicians' capacity to introduce changes from above. In brief, both theoretical and empirical studies reveal that primary agents of policy and institutional change are the political entrepreneurs that occupy positions within the state apparatus.

Going beyond general conceptualizations, such as "politicians" and "the state", I contend that the executive (or the government), regardless of whether it comprises autocrats or elected representatives, plays the most critical role in initiating policy and institutional change, especially in foreign policy issues. First of all, in many cases, the executive has extraordinary agenda setting powers, that is, the ability to determine the list of topics and issues which are raised for consideration as well as the alternatives proposed to deal with these issues (Milner 1997, 102-103). As Tsebelis underlines, "in more than 50 percent of all countries, governments introduce more than 90 percent of the bills" (1995, 304).
D. Bringing in Institutions

For those focusing on global trends in international trade policy, the observation that presently, many countries, including those in the post-communist and developing areas of the world, are more open than they used to be is a clear indication of the omnipotence of external pressures towards trade liberalization and the inconsequentiality of domestic political institutions. However, this line of argument has limited explanatory value if one's scholarly interest is in when and how specific countries initiate trade liberalization. These questions cannot be adequately addressed without accounting for the impact of domestic political factors on trade policy outcomes. Therefore, in trying to explain liberalization of trade policy, I advocate an approach that views trade policy outcomes as a function of the interaction between the interest-based preferences of domestic political actors and institutions. Interests are the key to differentiating the actors' objectives; yet, the extent and the way they will accomplish these objectives are affected by the institutional structure in which these actors' operate. On the other hand, political outcomes cannot be explicated by concentrating on institutions alone. They do not have trade policy preferences, actors do. That is to say, institutions are not inherently liberal or protectionist. As I conceptualize them in this study, institutions are neutral channels through which interest-based preferences travel through the political process and are translated into trade policy outcomes.

Domestic political institutions are brought into my comparative analysis of trade liberalization as factors constraining the degree to which governments liberalize trade policy and as objects of change. First, in examining the effects of domestic political
institutions on the degree of trade liberalization, I will employ two different approaches. By doing this, I will be able to not only tackle the questions of whether and how institutions matter, but also contribute to theoretical and methodological debates regarding how to study institutions.

As introduced earlier in this chapter, there are two variants of "New Institutionalism", namely, rational choice institutionalism and historical institutionalism. The former is animated by a "theoretical project premised on deduction from a limited number of theoretical assumptions and the application of a set of concepts that are held to be universally applicable" (Thelen and Steinmo 1992, 12) and hence, offers a rather parsimonious approach to the study of institutions. In search of such parsimony and rigor, I will first rely on the deductive logic of rational choice institutionalism to study the impact of a select number of, what I call, "state-level" institutional variables on trade policy outcomes. These variables comprise the regime type, the number of institutional veto players, and the congruence or the distance between the trade policy preferences of the government and the institutional veto players, all three of which are differentiated as critical factors by those who treat institutional variables in an aggregated fashion. Since I will present a more detailed discussion of why the chosen institutional variables are relevant for the purposes of this study in the next chapter, here, I will include a brief introduction to each.

Regime type that is dichotomized into authoritarian and democratic systems in this project is considered to be a variable affecting the dynamics of political change. Differences in the incentives engendered by different regimes is likely to influence policy
outcomes and thus, the degree of trade liberalization. Yet, because there are non-negligible dissimilarities among similar types of regimes, regime type, by itself, should not be expected to adequately account for the variance in trade policy outcomes and other institutional variables should be incorporated into my analytical framework.

The number of institutional veto players is another institutional variable that is underscored as playing a role in trade liberalization. As the number of actors whose approval is required for a change in the status quo increases, the likelihood of introducing modifications in trade policy diminishes. Owing to its applicability to diverse political settings and ability to capture the essential differences between presidential and parliamentary systems, among party systems as well as government types (e.g. majority, minority, and coalition) the number of institutional veto players is a variable capable of generating conclusions generalizable across political systems and issue areas. Hence, it is a part of the framework to be presented in the second chapter.

Still another variable that is anticipated to have an impact on policy outcomes is the congruence or the distance between the trade policy preferences of the executive, i.e. the agenda setter, and the relevant actors in the policy domain, including the institutional veto players and societal groups. In all political systems, the executive is pressured to take into account the preferences of politically relevant actors in order to remain in office. It is likely that if the trade policy preferences of these actors diverge from those of the executive, the executive will be compelled to move away from its original position.

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24 For a discussion underlining the differences among authoritarian regimes, see Sørensen (1991). Weaver and Rockman (1993) provide a rather comprehensive analysis of the variations among democratic systems.
In brief, the distance between the preferences of the executive and the players in the policy domain should be considered as one of the critical factors that determine the extent of trade liberalization.

The second approach which I apply in investigating the effects of institutions on the degree of trade liberalization is based on the more inductive logic of historical institutionalism. This contextually more sensitive approach that builds upon the claim that institutions structure the interactions among the players, their interests and strategies as well as the distribution of power among them is used to study the impact of societal actors on the liberalization of trade policy. My main argument is that the ability of societal actors to affect outcomes is mediated by the institutional mechanisms of access to decision making available to them. In other words, the way the relations between the government and the societal actors are institutionalized needs to be investigated in order to determine the extent to which trade policy outcomes are produced as a response to societal demands.

In the second part of this study, I treat institutions as objects of change. I hold that institutions are neither perfectly static, nor perfectly malleable. When changes in international and domestic economic conditions involving changes in relative prices lead actors involved to perceive the benefits of recontracting as outweighing its costs, institutional change becomes likely. As institutional change comes about through strategic games played among contracting parties, governments are the major agents of institutional change. As North argues,

institutional innovation will come from rulers rather than constituents since the latter would always face the free rider problem. The ruler will,
on his side, continue to innovate institutional change to adjust to changing relative prices since he has no free rider problem (1981, 32).

Thus, in this project, I focus on the questions of when governments initiate institutional engineering and which institutional variables become their objects of change. My contention is that governments that favor a redefinition of trade policy objectives, not only as short term, but also as long term goals, are more likely to initiate institutional change which will involve modifications in micro-level institutional variables.

One word of caution is in order. Although institutional innovation often comes from those in power, this should not be interpreted as their having a completely freehand in initiating institutional change. As Krasner (1984) points out, if institutions simply respond to changes in the balance of power in a political system, they are epiphenomenal and hence, it is not institutions, but the forces around them that should be studied. Due to the relative underdevelopment of explicit theorizing about the reciprocal influence of institutions and politics, determining when institutions shape politics and when politics shape institutions is a difficult question that continues to debilitate the very basis of institutionalist analyses. In this study, I acknowledge this fundamental problem and make an attempt to get around it by emphasizing that the institutional changes which should be expected when a government favors a redefinition of trade policy objectives,

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25 According to Katzenstein (1978), the definition of trade policy objectives or the ends of policy relies largely on the ideological outlook and material interests on the ruling coalition combining elements of the dominant social classes with power brokers finding their expression in the country's institutional structure. A reformulation of these objectives is likely to affect the policy instruments or the means of policy, such as tariffs, quotas, exchange controls, export promotion schemes as well as the creation of new institutions and
involve modifications in micro-level institutional variables that are often more malleable than macro-level institutions. As strategic actors, governments are likely to shun efforts to change such institutions when they can achieve their objectives through less costly micro-level institutional changes that can be introduced with the minimal involvement of the other actors within the polity. Micro-level changes may consist of those in informal practices including the centralization of actual trade policy decision making in a small group of technocrats and replacement of personnel in the institutions of the state without altering the formal institutional structure. Also among institutional changes to be expected are those in lower level, issue-specific, in this case, trade-related institutions.

E. Research Design

This study employs what George calls (1979) the "method of structured, focused comparison." It is focused because it deals selectively with those aspects of the historical cases that lie within the foreign trade policy domain and structured because it relies on general questions to guide data collection and analyses of cases. The units of comparison are "episodes" selected from two middle size economies, namely, Spain and Turkey, between late-1950s and mid-1980s.

There are various reasons why the selected design is appropriate for the purposes of this study. First of all, its crossnational nature makes it possible to compare and contrast national political responses to the expansion of world trade at a systemic level. Secondly, focusing on "episodes," rather than cases, i.e. countries, as the basic units of comparison means dividing each case into sub-cases and thus, increasing the number of changes within existing institutions.
observations from which inferences can be drawn\textsuperscript{26}. Selection of episodes from two countries with contextual similarities and from the same country across time help control some of the variables which would otherwise have to be taken into account. Furthermore, choosing episodes from the same country allows “within-case” comparisons over time. These are all ways to overcome the limitations involved in satisfying the strict requirements of a controlled comparison method\textsuperscript{27}.

In addition to its underlined methodological advantages, concentrating on episodes provides additional analytical leverage for an explanation of the extent of trade liberalization as a response to international pressures. The effects of diverse domestic institutions on decision making in the trade policy domain are more readily observable during time periods when such changes put reconsideration of trade policy high on the executive’s agenda than when issues and policies related to foreign trade are kept on the back burner. This point will be made clearer below when a more detailed discussion involving the definition, selection, and classification of episodes is presented. Before moving onto these questions, an argument about the selection of cases, i.e. countries, should be made.

Episodes to be analyzed in this study are selected from two middle-size economies at the European periphery, namely, Spain and Turkey. Both countries are among the later industrializers. In the late 1950s, that is, at the outset of the time period considered here, Spain and Turkey, were still relying on agriculture as the basis of their

\textsuperscript{26} This technique of disaggregation is lucidly explicated by King, Keohane, and Verba (1994).
\textsuperscript{27} See George (1979) for a discussion of these requirements.
economic potential. Furthermore, during the 1950s, the economies of both countries were still highly protected against international competition. Thus, they can be regarded as representative of middle-size economies that have had very restrictive trade regimes for a considerable period of time and have had to respond to international pressures by reconsidering trade policy at various time points between the late 1950s and mid-1980s.

It should be once more emphasized that episodes, not countries, constitute the basic units of comparison of this study. As an episode can be defined as a period that starts with trade policy’s coming to the executive’s agenda and ends with certain identifiable trade policy outcomes, a more specific list of criteria used to distinguish episodes should be provided. Among all the policies that influence a country’s international trade, I concentrate on tariffs on imports, quantitative restrictions, export promotion schemes, exchange rate policy, including the value of currency and the exchange rate regime. An episode begins when policy makers start to reconsider existing practices in one or more of these distinct policy areas. Such reconsideration occurs

- when a government associates the problems of balance of payments deficits, import shortages, insufficient exports, and black markets and consequently, the decline of the country’s economic performance with trade policy.

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28 A more detailed discussion of policies relevant to the trade liberalization process will be provided in Chapter 2.
• when a government, in need of international funding, starts consultations with the providers of such funding, e.g. the IMF, the World Bank, the OECD, governments of major economies, and multinational corporations, whose policy advice and/or conditions for the provision of demanded funds involve changes in trade policy.

• when a government, with the hope of gaining economic, e.g. trade concessions, and political, e.g. consolidation of a new democracy, benefits seeks membership in an international organization, e.g. GATT/WTO, EU, NAFTA, the entry requirements of which include the meeting of certain standards in trade policy.

In an episode, changes in trade policy may be considered together with an overall stabilization program consisting of changes in exchange rate, monetary, fiscal, and incomes policies. Even when the reforms are not as comprehensive as to include all these policy areas, modifications in exchange rate policy, more specifically, devaluations, often accompany trade reform involving alterations in one or more of the following: tariffs, quantitative restrictions, and export promotion schemes. According to Rodrik, one of the explanations for introducing trade policy change within the context of a stabilization program is that “the political cost-benefit ratio of the trade reform declines dramatically when it is introduced in the context of stabilization policy” (1994, 79). In his opinion, this is due to the fact that unlike trade reform, stabilization holds the promise of generating benefits that will be shared by all. The distributional conflict over stabilization
is based not on who gains and who loses from stabilization, but rather who gains more and who gains less. Therefore, such conflict is on a lower order of magnitude than that in the case of trade reform. Having said that, it should be once more underlined that this study does not examine overall stabilization policies except for exchange rate policy which is the most common attribute of trade reforms. Nevertheless, briefly describing the context within which the executive may reconsider trade policy can help set the limits of an episode.

Finally, an episode terminates when the decision making process regarding tariffs, quantitative restrictions, export promotion schemes as well as exchange rate policy as the part of the same package is finalized. Policy outcomes produced may involve change in none, some, or all of these areas. Based on the specified criteria, ten episodes have been identified. They include: Spain 1, 1957-1960; Spain 2, 1972-1975; Spain 3, 1977-1980; Spain 4, 1982-1986; Turkey 1, 1958-1960; Turkey 2, 1970-1971; Turkey 3, 1978-1979; Turkey 4, 1979-1980; Turkey 5, 1980-1982; and Turkey 6, 1983-1986. As evidence that will be presented in subsequent chapters reveals, trade policy and institutional outcomes generated during these episodes vary. This project is an attempt to explain this variation by taking into account both international pressures and domestic political factors.

III. The Plan of the Dissertation

This chapter has involved a focused review of the literature which I build on and addressed the fundamental questions in regards to the framework to be presented in the

29 Details pertaining to the starting and end dates of episodes will be provided in Chapter 3.
next chapter. The framework constitutes an effort to develop analytical tools to be used in explaining the variance in the degree of trade liberalization and trade-related institutional change in a world economy characterized by expanding international trade and increasing involvement of international actors in domestic trade policy making. Two sets of hypotheses about trade policy and institutional change are introduced in Chapter 2. Chapter 3 includes a narrative of the episodes that comprise the basic units of comparison in my research design and an examination of the covariation or the lack thereof between international pressures and trade policy outcomes during these episodes. Chapters 4, 5, and 6 are where empirical evidence from ten episodes selected from Spain and Turkey between late 1950s and mid-1980s is utilized to study the proposed hypotheses regarding trade policy and trade-related institutional change. Inferences drawn from empirical observations and conclusions are presented in the final chapter of this dissertation.
<table>
<thead>
<tr>
<th>Economic grouping and region</th>
<th>Exports (f.o.b.)</th>
<th>Imports (c.i.f)</th>
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</thead>
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<tr>
<td>World</td>
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<td>20.3</td>
</tr>
<tr>
<td>Developed market economies</td>
<td></td>
<td></td>
</tr>
<tr>
<td>North America</td>
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</tr>
<tr>
<td>Europe</td>
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<td>17.0</td>
</tr>
<tr>
<td>Japan</td>
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<td>19.3</td>
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<tr>
<td></td>
<td>17.5</td>
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<tr>
<td>Eastern Europe and former USSR</td>
<td>8.7</td>
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<td>Developing market economies</td>
<td></td>
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</tr>
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<tr>
<td>North Africa</td>
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<tr>
<td>South and South-East</td>
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<tr>
<td>Latin America</td>
<td>5.0</td>
<td>20.8</td>
</tr>
</tbody>
</table>

Table 1.2: Annual Average Growth Rates of Exports and Imports, 1960-1990 (Current prices)

Source: *Handbook of International Trade and Development Statistics 1991* (United Nations publication, Sales No.E/F.92.II.0.6), Tables 1-5 and 1-6.

* 1980-1988
<table>
<thead>
<tr>
<th>Year</th>
<th>Imports</th>
<th>Exports</th>
</tr>
</thead>
<tbody>
<tr>
<td>1960</td>
<td>79.92 %</td>
<td>87.10 %</td>
</tr>
<tr>
<td>1965</td>
<td>82.73 %</td>
<td>89.17 %</td>
</tr>
<tr>
<td>1970</td>
<td>85.33 %</td>
<td>92.14 %</td>
</tr>
<tr>
<td>1975</td>
<td>79.17 %</td>
<td>82.75 %</td>
</tr>
<tr>
<td>1980</td>
<td>79.40 %</td>
<td>77.79 %</td>
</tr>
<tr>
<td>1985</td>
<td>81.25 %</td>
<td>82.85 %</td>
</tr>
<tr>
<td>1990</td>
<td>88.58 %</td>
<td>90.68 %</td>
</tr>
</tbody>
</table>

Table 1.4: Share of OECD in World Trade

CHAPTER 2

EXTERNAL PRESSURES, TRADE POLICY AND INSTITUTIONAL CHANGE

In an international economy characterized by increasing external pressures on national economies everywhere, what accounts for the variance in the degree of trade liberalization and trade-related institutional change accomplished by national governments each time trade policy gained salience in their political agenda? In search of plausible answers to this question, I first propose hypotheses about the impact of domestic political institutions on the degree of trade liberalization by applying two different approaches to the study of institutions. As I employ the method of rational choice institutionalism to develop hypotheses regarding the effects of selected, what I call, “state-level” institutional variables, namely, the regime type, the number of institutional veto players, and the distance between the trade policy preferences of the executive and the institutional veto players, on trade policy outcomes. I adopt the more inductive method of historical institutionalism to generate hypotheses about the role institutional mechanisms of access to decision making available to societal actors play in trade liberalization. Through such application of two different methods in the study of institutions, I can contribute not only to a better understanding of the effects of domestic
political institutions on policy outcomes, but also to the debate between the two variants of "New Institutionalism".

Secondly, I focus on developing hypotheses about trade-related institutional change. I propose that institutional changes are more likely to accompany changes in trade policy when a government favors a redefinition of trade policy objectives under pressures emanating from the international economy. These two sets of hypotheses which will be built in this chapter step by step constitute the basis of the analytical framework I seek to develop in this project.

Political outcomes are generated through strategic games played among politicians in different branches of the state apparatus as well as between politicians and politically pivotal societal groups in a certain institutional context that shapes the incentives available to the actors involved. Institutional variations are expected to influence both the decision making process and the political outcomes. Yet, a common set of assumptions about the interests of actors involved in every setting can be made. Staying in office is the main objective of all politicians, including those who head authoritarian regimes, as well as those who occupy positions in the executive and legislative bodies of democratic systems. In order to maintain office, these politicians seek to maximize support. On the other hand, socioeconomic actors try to maximize their income (e.g. wages, profits) and minimize the costs of products they consume as well as of the products they use as inputs into their production. Consequently, politicians and socioeconomic actors aim to put into place policies and institutions that will help further their interests. The way they try to achieve this varies based on the institutional
environment which sets the rules of the strategic game they have to play.

My analytical framework is based on the premise that due to the reasons revealed in the previous chapter, the executive is the agenda setter in the trade policy area. In other words, for any policy and institutional change to occur, it should be first perceived to be important enough for the executive to be put on the agenda. I am not interested in the factors (e.g. societal pressures) that lead to this outcome. I mainly concentrate on what happens after the an issue becomes a part of the executive’s agenda and how the executive interacts with the other politically relevant actors so as to generate responses to external pressures.

I. Explaining Change in Foreign Trade Policy:

The Impact of “State-Level” Institutional Variables

First, this project seeks to explain liberalization of foreign trade policy as a response to pressures engendered by expansion of world trade and by international actors. A country’s foreign trade policy consists of diverse measures that influence the inflows and outflows of goods and services across national boundaries. First of all, tariffs, that is, taxes or duties levied on imported products as they cross these boundaries, have been used to control international trade for centuries. They may take the form of specific or *ad valorem* duties. In the case of the former, the tariff is a fixed amount per unit of the product imported, while an *ad valorem* duty is a tariff that is a certain percentage of the unit value. In addition to tariffs, non-tariff barriers (NTBs), which can be defined as all public regulations and government practices that introduce unequal treatment for
domestic and foreign goods of the same or similar production (Olechowski 1987), are the other forms of restraint on trade. It is rather difficult to classify the wide variety of different NTBs that range from quotas to export promotion schemes. One approach is to classify them according to the government’s primary intention. There are NTBs with a trade-distorting intent, with only a secondary trade-restriction intent, and with no trade-restriction intent but with spillover effects on trade. For each type of NTB, a further distinction can be drawn between quantitatively operating measures and measures which operate through prices and costs (Grimwade 1996). Table 2.1 presents a rather comprehensive list of NTBs. This classification is relevant to the purposes of this project because tariffs as well as various non-tariff barriers usually go through different decision making processes and thus, require the involvement of different institutions. For instance, while tariffs necessitate legislature’s approval, there are protective measures which can be implemented by executive decisions. Finally, international agreements and treaties which must be ratified by legislative assemblies may also lead to significant changes in a country’s trade policies. The basic distinction between these international agreements and the rest of the measures discussed in this section is that international agreements require the ratification of all signatories that operate under different domestic constraints and thus, a full-fledged analysis of such agreements necessitate an examination of domestic political economy in all signing parties.

Among all the relevant policies, in this project, I will focus on the ones that have been most commonly used by governments. They are, namely, tariffs on imports, nontariff barriers including quantitative restrictions and export promotion in addition to
<table>
<thead>
<tr>
<th>Type 1 measures (trade-distorting intent for imports)</th>
<th>Type 2 measures (secondary trade restrictive intent)</th>
<th>Type 3 measures (spillover effects on trade)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>A. Quantitatively operating</strong></td>
<td><strong>A. Quantitatively operating</strong></td>
<td><strong>A. Quantitatively operating</strong></td>
</tr>
<tr>
<td>1. Global import quotas</td>
<td>1. Communications media restrictions</td>
<td>1. Government manufacturing and distribution monopolies covering products such as armaments</td>
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<tr>
<td>2. Bilateral import quotas</td>
<td>2. Quantitative advertising restrictions</td>
<td>2. Government structural and regional development policies</td>
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<td>3. Restrictive licensing</td>
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<td>3. Ad hoc government balance of payments measures</td>
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<td>4. Liberal licensing</td>
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<td>5. Voluntary export restraints</td>
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<td>6. Embargoes</td>
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<td>7. Government procurement</td>
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<td>8. State trading practices</td>
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<td>9. Domestic content regulations</td>
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<td><strong>B. Operating on prices/costs</strong></td>
<td><strong>B. Operating on prices/costs</strong></td>
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<tr>
<td>1. Variable import levies</td>
<td>1. Packaging and labeling regulations</td>
<td>4. Variations in national tax schemes</td>
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<td>2. Advance deposit requirements</td>
<td>2. Health and sanitary regulations</td>
<td>5. Variations in national social insurance systems</td>
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<tr>
<td>5. Subsidies to import competitors</td>
<td>5. User taxes and excises</td>
<td>8. Scale effects induced by government procurement</td>
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<td>8. Discriminatory internal freight costs</td>
<td>8. Customs valuation procedures</td>
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<td>10. Orderly market arrangements</td>
<td>10. Disclosure regulations</td>
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<td></td>
<td>11. Government-provided entrepreneurship, R&amp;D financing, and related aids for import-competing industries</td>
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<td>11. Port transfer costs</td>
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Table 2.1 Types of NTBs classified according to the normal intention of the measure

Source: Laird and Yeats 1990
exchange rate policy consisting of the value of currency and exchange rate regime. The extent of liberalization will be determined as a factor of the combination of policy outcomes in each of these specific areas. As it will be further discussed in the next chapter, the acts of trade policy liberalization include changes that lead to a country’s trade system toward neutrality defined as the situation which would prevail if there were no governmental interference in the trade regime (Michaely, et.al. 1991). Having mentioned this, let us now turn to an analysis of the impact of institutional variables, on policy outcomes.

A. “State-Level” Institutional Variables

1. Regime Type

Holding other institutional variables constant, how does the regime type make a difference in the formation process of domestic responses to external pressures? Before addressing this question, a simple typology of regimes should be provided as a basis for comparison.

a. Regime Types

The conventional approach is to categorize them as totalitarian, authoritarian, or democratic. According to Linz, each has distinctive ways in which it resolves problems common to all political systems, such as maintaining control and gaining legitimacy, recruiting elites, articulating and aggregating interests, making decisions, as well as relating to various institutional spheres like the armed forces, religious bodies, the intelligentsia, the economy, and so on (1970, 254).

In Kornhauser’s view (1959), totalitarian dictatorship involves total domination,
limited neither by received laws or codes nor by the boundaries of governmental functions since it obliterates the distinction between state and society. Totalitarianism is limited only by the need to keep large numbers of people in a state of constant activity controlled by the state. More specific definitions of totalitarian regimes underline various characteristics common to such political systems. These characteristics include an official ideology, a single mass party unquestioningly dedicated to the ideology, near complete control of mass media, complete political control of the armed forces, a system of terroristic police control which is not directed against demonstrable enemies only, as well as central control and direction of the economy (Friedrich and Brzezinski 1956, 9-10). In modern times, even the regimes which are considered to have come closest to satisfying these conditions, namely, the U.S.S.R. under Stalin, the People’s Republic of China in Mao’s late years, and communist Vietnam, could only approximate this totalitarian model. The empirical relevance of totalitarianism has further diminished over the years. Therefore, I will exclude it as an analytically useful category and base my framework on a dichotomy between authoritarian and democratic systems.

Linz, who is well-known for his work on authoritarian regimes, defines them as “political systems with limited, not responsible political pluralism: without elaborate and guiding ideology (but distinctive mentalities); without intensive nor extensive political mobilization (except some points in their development); and in which a leader (or occasionally a small group) exercises power within formally ill-defined limits but actually quite predictable ones.” (1970, 255) Pluralism is limited in the sense that political institutions often penetrate the life of the society and prevent the political
expression of certain group interests and even shape them by interventionist economic policies. The limitation may be legal or *de facto*, serious or less so, confined to strictly political groups or extended to interest groups as long as there remain groups not created by nor dependent on the state. With such a limited but autonomous pluralism, there is likely to be some competition for power, more or less formal, despite open declarations of monopoly. The authoritarian party is not a well-organized ideological organization that monopolizes all access to power.

Stabilized authoritarian regimes are not concerned about the mobilization of the public and often expect passive acceptance. In political and para-political organizations, membership participation which, in many cases, involve nothing more than paying dues and minimum advantages, is low. Hence, depolitization is a major characteristic of stabilized authoritarian regimes.

Moreover, authoritarian regimes are based more on distinctive mentalities than on ideologies which are “systems of thought more or less intellectually elaborated and organized, often in written form, by intellectuals, pseudo-intellectuals, or with their assistance.” Mentalities that are more difficult to define than ideologies involve “ways of thinking and feeling, more emotional than rational, that provide noncodified ways of reacting to these situations.” (Geiger 1932, 77-79) Being closer to the present and the past than utopian ideologies, mentalities may allow a pragmatic approach in day to day political decisions.

Finally, in most authoritarian regimes, the army has a privileged position. Due to the limited nature of popular consensus, there is more of a need for potential force which
the military provides. Often “we find the army presented as essentially apolitical, above parties and classes, hoping to transfer its powers to the ‘people’ once order is re-established and the corruption of the previous regime cleaned out.” In many authoritarian regimes emerging from military action, although the army may hold on to key positions, it soon co-opts politicians, civil servants, and technocrats who increasingly make most of the decisions (Linz 1970, 267-68).

Having discussed the most salient aspects of authoritarian regimes, let’s turn to those of democratic systems. As Sørensen puts it, a perfect democracy involves “a high degree of participation, of political competition, a wide range of civil and political liberties as well as a wide scope of democratic power (over the means of production)” in addition to a certain degree of socioeconomic equality (1991, 19). For my purposes, I adopt a procedural definition of democracy which simply accepts those systems where there are relatively free multiparty elections as democratic and do not expect all the criteria differentiated by Sørensen to be met in order to refer to a system as “democratic”.

b. Regime Type and Trade Policy Liberalization

Regardless of whether the mechanisms for deposing the executive are elections, coups, or revolutions, the primary objective of all governments is not to lose support and consequently, to retain office. In order to secure this goal, they should be concerned with both the general performance of the national economy and the distribution of economic costs and benefits among politically relevant actors within the state apparatus and the society. Thus, in order to have a full grasp of the domestic political responses to expansion of international trade as a major source of pressure on national economies, its
impact on aggregate welfare of entire societies as well as its distributional effects on various domestic groups should be taken into consideration. The expectations of neoclassical economic theories in regards to the latter have already been discussed in Chapter 1. Therefore, here, I will include only arguments related to the aggregate welfare effects of the expansion of world trade.

Even in cases where government policy keeps the national economy relatively closed, an expansion of trade is expected to heighten the transmission of world economic trends to domestic political economies and hence, to sensitize domestic actors to governments' foreign economic policies. As the cost of international economic transactions declines, the deadweight (social welfare) costs, that represent income lost to society as a whole, of closure rises. By increasing the difference between protected and world market prices, closure leads to a transfer of income from consumers to producers and encourages investment in industries the products of which could be imported at lower cost. Furthermore, "[w]here exports are taxed, easier international exchange similarly increases the distance between (artificially depressed) returns accruing to national export producers and those potentially available on world markets, analogously leading to underinvestment in goods that the country could potentially sell profitably abroad" (Frieden and Rogowski 1996, 34).

In addition to short term efficiency costs, closure also entails long term effects. Aggregate welfare of an entire society may depend on how it develops its "total factor

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1 Where economies remain relatively closed, this effect operates by the way of shadow prices on the opportunity costs of particular economic activities. (Frieden and Rogowski 1996)
productivity," including knowledge, technological adoption and adaptation, as well as organization, and uses of these skills. Because closure is usually associated with an inability to generate growth in total factor productivity due to a lack of incentives to innovate closed economies are also likely to be burdened by long term aggregate welfare costs. As a result, modern theories of international trade predict that an expansion of international trade will lead to an increase in domestic pressures to liberalize international trade and to dismantle structural impediments to transborder exchange.

In brief, both the aggregate welfare and distributional effects of an expansion of trade are expected to generate societal pressures to introduce policies and institutional changes towards liberalization of international transactions. However, the way the executive responds to these pressures is very much determined by the institutional structure. Then, the question is why and under what conditions the executive would choose to liberalize international trade and initiate institutional changes that will facilitate it. In order to be able to answer this question, we need to go beyond the basic assumption that politicians in government seek to remain in office and analyze how they may try to achieve this.

As rational strategic actors, politicians in government should weigh the political costs and benefits of any initiative they take in order to maintain necessary support and thus, their office. Holding other institutional variables constant, theoretically, the key difference between authoritarian and democratic regimes that influence the way their executives make their cost-benefit analyses is how they weigh the future (their rate of

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2 "Total factor productivity" is defined as a residual left after the consideration of increased labor and capital productivity.
time discount)\(^3\). The conventional wisdom holds that in democracies the executive tends
to be preoccupied with the next election and hence, has shorter time horizons than the
executive in authoritarian regimes. In other words, elected leaders are expected to behave
more myopically than autocrats who are not concerned about re-election\(^4\). Although
scholars agree on this basic argument, their inferences about the expected behavior of the
executive in different regimes vary. Those who believe that regime type matters disagree
whether democracies or authoritarian regimes are more likely to initiate liberalizing trade
policies. This debate is further complicated by the arguments of scholars who do not see
regime type as a variable having a significant impact on policy outcomes. A critical
discussion of these contending lines of thought can shed some light on as to why
additional empirical research examining the effects of regime type on policy outcomes is
necessary.

i. **Higher likelihood of trade reform under democratic regimes**

According to one view democratic polities approximate the expectations of the
economic pluralism model more closely than any other system because the incumbent
government is aware of the fact that if it pursues unpopular policies, it will be replaced at
the next election. In democratic regimes, the incentives to respond to domestic pressures
are higher than in authoritarian regimes. Since an expansion of world trade is expected to

\(^3\) This is also a critical factor that may explain differences among similar types of regimes. For instance,
instability (i.e. how likely it is that the current government will be thrown out of office) and polarization (i.e.
how strong is the disagreement between the alternating policy makers) that can be related to the party
systems and government types in democracies may clarify why different democratic systems react differently
to similar changes in the international economic system. For a related discussion see Grilli, Masciandaro, and

\(^4\) At this point, one word of caution may be necessary. The stated argument may be true for stable
authoritarian regimes, but if competing factions of relatively equal power exist in an authoritarian regime and

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strengthen the position of the tradables sector in a polity these domestic pressures are assumed to be pro-liberalization. Consequently, the anticipation is that being responsive to societal preferences, the incumbent government's policy choices will be broadly in accord with the changes in these preferences (Garrett and Lange 1996). The hypothesis which this line of reasoning generates is that expansion of world trade is more likely to lead to liberalization-favoring institutional change and/or liberalization of economic policy in democracies than in non-democratic regimes.

Even without taking into account the countervailing influences of other institutions, I see major flaws in some of the arguments presented in this section so far. If both the aggregate welfare and distributional effects of an expansion of trade increase social pressures for liberalization of international trade, i.e. if there is no tension between aggregate welfare and distributional concerns, is it not rational and relatively easy for a democratically elected government to initiate such policy change, make everybody happy, and guarantee reelection? Since the political game is far more complicated than the economists tend to accept the answer is negative. First of all, in many cases, long term aggregate benefits of liberalization are offset by short term pain that is likely to diminish support which a myopic incumbent government cannot afford. Secondly, the tradables sector may not be able to realize its potential to influence political outcomes when the distributional game requires that the government distribute benefits to the groups whose support brought them to office. In cases where these groups do not advocate liberalization of international trade and/or it imposes concentrated costs on

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if the autocrat is constantly in fear of coups d'états or even popular revolutions, s/he may behave more myopically than the argument implies.
these groups, it will be neither rational nor easy for the executive to initiate change. Therefore, the contention that under changing international economic conditions, democracies are more likely to liberalize than authoritarian regimes may have limited utility.

ii. Higher likelihood of trade reform under authoritarian regimes

There is a second group of scholars who emphasize the advantages of having an authoritarian regime in terms of political and economic outcomes. The basic rationale for their arguments is that building a strong national economy is one of the primary objectives of many authoritarian regimes that need to provide an incentive for support of the regime by the majority of the population (Amos 1981). In seeking popular legitimacy and support, modern autocracies and authoritarian governments are not very different from democratically elected executives that try to choose policies which optimize the state of the national economy. If one of their sources of legitimacy is economic performance and liberalization of trade is viewed as being essential to its improvement, authoritarian leaders may not hesitate to take action.

The fact that authoritarian leaders are usually not as myopic as their counterparts in democratic systems is also underlined as a factor facilitating change. In this respect, emphasizing the dominance of the distributional game on the executive's agenda and of vested interests that seek to maintain a protected economy, Lal goes so far as to say "[a]..."
courageous, ruthless and perhaps undemocratic government is required to ride roughshod over these newly-created special interest groups” (1997, 33). He does not find it surprising that most democratically elected governments have attempted liberalization in a half-hearted way only to backslide as the political and economic difficulties of the bumpy transition are encountered.

Similarly, Sørensen (1991), in his analysis of the relationship between regime type and development, argues that some authoritarian political systems, which he calls “authoritarian developmentalist regimes,” are capable of pushing radical reforms because of their autonomy vis-à-vis vested interests. As a consequence, they may be more effective than democratic regimes in initiating and implementing liberalization policies. Furthermore, Wade (1990), in his study of the South East Asian Newly Industrializing Countries, argues that authoritarian regimes are more capable than democratic ones in maintaining the needs of economic development vis-à-vis other claims. According to Wade, a hard or authoritarian state that is centralized and relatively insulated from the society can influence resource allocation with a long term national interest which may sometimes conflict with the short run profit maximization. One of his prescriptions for improving state effectiveness is to create an executive that is stronger than the legislature. In his case study of Taiwan, Wade finds that by excluding some groups from top

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6 As it will be discussed below, even in democracies, longer average terms in office are expected to facilitate decisions more in favor of aggregate welfare consideration (Frieden and Rogowski 1996).

7 As opposed to the “authoritarian developmentalist regimes” which are concerned with both growth and welfare, Sørensen (1991) distinguishes “authoritarian growth regimes” (the most typical of authoritarianism) that is determined to push accumulation and growth in addition to “authoritarian state elite enrichment regimes” that promotes neither growth, nor welfare, but functions mainly to serve the self-enrichment of the elites who control the state.
positions, limiting civil and political rights, controlling students and teachers, the Taiwanese government has been able to improve the country's economic performance^.

Finally, in their review of adjustment efforts in nine Latin American countries, Stallings and Kaufman (1989) find evidence that regime type relates to the scope and content of extended fund facility programs. They suggest that authoritarian regimes are most likely to adopt strongly orthodox programs, not only for stabilization, but also for longer term structural change while regimes in transition to democracy are more likely to introduce heterodox programs. Regarding established democracies, their conclusion is that such regimes are likely to pursue orthodox stabilization programs, but have difficulty sustaining longer term programs of orthodox structural change.

iii. Is regime type as relevant as it seems?

The arguments of those who hold that either democratic or authoritarian regimes are more likely to introduce liberalizing change are challenged by another group of scholars. Namely, Campos and Root, in a recent critique of those observers who link South East Asian success to the concentration of power in a central state and the authoritarian character of their regimes, argue that "hard dictatorial regimes in which policy makers act independently of constituent oversight have rarely generated sustained growth" (1996, 6-7). Their contention is that in many authoritarian regimes where the government uses its power to expropriate the wealth of citizens, economic actors do not act in their long term interests and thus, sustainable economic growth cannot be achieved. Thus, they argue, it was not due to their regime type, but rather due to their

^ On the impact of regime type on economic growth, also see Barro (1997), who underline the positive relationship between democracy and prior measures of prosperity.
leaders' establishment of institutions, rules, and procedures that limited government discretion over economic policy that these countries could obtain economic outcomes unlike many authoritarian regimes in the developing countries. In brief, they do not find the regime type to be the institutional variable that explains the South East Asian economic miracle.

Besides, Haggard (1990) does not find a theoretical reason to link ISI, which is an industrial strategy shaping a government's trade policy approach to a large extent, with authoritarian rule. Emphasizing that ISI occurred under a variety of political arrangements, he also acknowledges the salience of other variables, such as external constraints and societal coalitions in influencing policy outcomes in diverse national settings. In another study analyzing thirty IMF extended fund facility programs in twenty-four countries, Haggard (1986) finds no systematic association between regime type and the ability to stabilize. Neither does Remmer in her 1986 survey of 114 stabilization programs in nine Latin American countries over the thirty years from 1954 to 1984.

In connection with the arguments of these scholars that counter those built on simplistic assumptions about regime types, some similarities between democratic and authoritarian regime should be underscored. Not unlike democratically elected governments, their authoritarian counterparts do not want to lose the backing of the more specific groups that have supported them. That is to say, no authoritarian government is as autonomous from specific interests as Lal, Johnson, and Wade claim and hence, has to respond to certain interests in order to remain in office. As Milner puts it, "[e]ven such autocratic leaders as Hitler and Stalin depended on the support of internal groups to
retain their positions and make policy.” (1998, 28) Those to be satisfied by authoritarian governments may be different from those which democratic governments need to respond to, but still every government, democratic or authoritarian, has its own clientele or constituency (within the state apparatus and/or the society) and the strategic interaction (as it is structured by the institutional framework) between the government, i.e. the executive, and its clientele or constituency is likely to make a difference in political outcomes.

Given the lack of agreement among scholars in regards to the impact of regime type on domestic political outcomes, additional empirical evidence is necessary to help resolve this controversy. Therefore, the following hypotheses require further scrutiny.

**Hypothesis 1.1**: Expansion of world trade will lead to a higher degree of trade liberalization in democracies than in authoritarian regimes.

**Hypothesis 1.2**: Involvement of international actors in domestic trade policy making will lead to a higher degree of trade liberalization in democracies than in authoritarian regimes.

As it has been asserted in Chapter 1, a simple dichotomy between democratic and authoritarian regimes does not provide sufficient leverage in trying to explain domestic political responses to an expansion of international trade. Therefore, in this study, I go beyond this dichotomy and further focus on the institutional arrangements that shape the strategic interaction between the executive and the politically most relevant actors both within the state apparatus and the society.

### 2. Number of Institutional Veto Players

Tsebelis defines a veto player as “an individual or collective actor whose
agreement (...) is required for a policy decision” (1995, 293). His main argument is that the potential for policy change in different institutional settings relies upon three characteristics of the veto players: their number, their congruence, i.e. the difference in their political positions, and their cohesion, i.e. the similarity of policy positions of the constituent units of each veto player. He concludes that the potential for change of a political system decreases when the number of veto players increases, when their congruence decreases, and when their cohesion decreases. While this potential for change is a necessary condition for change, it is not sufficient. That is to say, “a potential for policy change does not guarantee such change, but the absence of this potential precludes it” (Tsebelis 1995, 293). Even though Tsebelis mainly concentrates on policy change and democratic institutions, his propositions may be also extended to institutional change and authoritarian political systems.

Initially, all actors involved in the issue area I am studying, that is, trade policy (including choices both of trade policy and of institutions regulating and implementing trade policy), are believed to have preferences about both policy and institutions. Changes in international economic conditions are expected to alter the preferences of one or more players in domestic political economy. In diverse institutional settings, the executive is considered to be the primary agenda setter in the issue area studied, regardless of who are influenced by the changes in the international economy and thus, whose preferences are altered at the first place. Therefore, for the issue to be put on the agenda, the executive should be responsive to this change in preferences and possibly modify its own set of preferences. However, change in preferences do not automatically
translate into policy and/or institutional change. Political outcomes are a function of the strategic interaction between the executive and the other veto players with potentially different preferences. The way these players interact depends on the way their relations are institutionalized.

The hypotheses derived from literature on the impact of number of veto players on political outcomes is based on the assumption that the preferences of these players will vary as long as they represent different interests. Therefore, it will be more difficult to initiate a change acceptable to all those involved. In this study, I focus on institutional veto players, who are specified by the Constitution or other fundamental laws of the state as having formal veto power over the adoption of a policy (Tsebelis 1995). In order to be able to introduce policies, the executive needs the approval of institutional veto players as entities distinct from the executive and representative of different interests than those represented by the executive. Two hypotheses regarding the mediating effects of the number of institutional veto players on the relationship between international pressures and the liberalization of trade policy can be formulated as follows:

Hypothesis 2.1: Expansion of world trade will lead to a higher degree of trade liberalization as the number of institutional veto players decreases.

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9 During only one of the ten episodes identified for empirical analysis in this study, a coalition government was in power. Since this would not allow me to reach at any generalizable conclusion about the impact of partisan veto players on political outcomes this second category of veto players are not included in my framework. It should also be noted that institutional and partisan veto players are not the only veto players that can exist in a political system. Depending on the policy area of concern, the specific balance of forces within the polity, or the personality of the occupant of a position, additional categories of veto players, such as powerful interest groups and the military may be of particular importance. Yet, the existence of such veto players is quite idiosyncratic. Hence, I have chosen to concentrate on formally defined institutional veto players that can be more readily compared across different political contexts.

10 This distinction may be difficult to pinpoint in non-democratic political systems where the authoritarian leaders virtually always appoint the executive the decisions of which are unenforceable without the consent of those who have appointed them.
Hypothesis 2.2: Involvement of international actors in domestic trade policy making will lead to a higher degree of trade liberalization as the number of institutional veto players decreases.

Whether these hypotheses hold against empirical evidence from the ten episodes selected from Spain and Turkey between the late 1950s and mid-1980s constitutes one of the questions that will be tackled in Chapter 4. In addition to the number of institutional veto players, the congruence between the trade policy preferences of the executive and these veto players is also expected to have an impact on the relationship between international pressures and the degree of trade liberalization. Thus, hypotheses in regards to this impact are also relevant for the purposes of this study.

3. The Congruence or the Distance Between the Trade Policy Preferences of the Executive and the Veto Players

Each actor involved in the trade policy making process has its own set of preferences. The distance between these preferences is also another variable that affects actual policy outcomes. As Tsebelis (1995) argues, as the distance between these preferences increases, policy stability also increases. In other words, it becomes more difficult to introduce policy change.

When the introduction of trade policy change requires the approval of institutional veto players, such as the legislature, (granted that the executive is the agenda setter in our strategic game) their preferences matter. This is especially the case when the executive does not enjoy a majority in the legislative branch and hence, has to guarantee the support of a sufficient number of legislators outside the executive. In parliamentary systems with highly unified parties that tend to operate as hierarchies with strong party
leadership and back benchers who adhere to the party line, it is generally the preferences of the legislators from other parties that may create resistance to change. On the other hand, in systems characterized by weak party unity, the preferences of the party back benchers may also be a factor influencing policy outcomes (Maurer 1995). In brief, a complete analysis of the trade policy outcomes necessitates an investigation of the distance between the trade policy preferences of the executive and institutional veto players.

**Hypothesis 3.1:** Expansion of world trade will lead to a higher degree of trade liberalization as the distance between the preferences of the executive and the institutional veto players decreases.

**Hypothesis 3.2:** Involvement of international actors in domestic trade policy making will lead to a higher degree of trade liberalization as the distance between the preferences of the executive and the institutional veto players decreases.

In this project, the distance between the preferences of the executive and of the institutional veto players is dichotomized into “high” and “low.” The expectation is that there will be a reverse relationship between the distance between preferences and the extent of liberalization.

**B. Societal Actors, Institutional Channels of Access to Governmental Decision Making and Trade Policy Preferences**

With its aggregate welfare and distributional effects on national economies, expansion of world trade is expected to influence the trade policy preferences not only of governments, but also of societal actors\(^\text{11}\). Trade-theoretic perspectives, namely, the

\(^{11}\) Just like Gourevitch (1986), I use this label in preferences to others, such as “interest groups”, “classes”, and “social forces” in order to avoid the highly charged associations of each. See Gourevitch (1986, 59) for a discussion of each term.
Stolper-Samuelson Theorem, the Ricardo-Viner Approach, and the Economies of Scale Perspective, propose complementary, rather than mutually exclusive explanations of the distributional effects of easier international trade, the trade policy preferences of various societal actors, and trade policy coalitions based on factor mobility. However, their treatment of how these preferences find expression in the political arena, that is, how we get from the specification of preferences offered in these three models to coalition formation, remains inadequate. As Alt and Gilligan (1994) and Alt, et.al. (1996) argue, in the formation of trade policy coalitions, the degree of factor specificity interacts with collective action problems and political institutions. Yet, even a comprehensive analysis which takes into the account the interaction between these three sets of variables so as to provide a more accurate explanation of coalition formation in the studied policy domain cannot address the question of how the trade policy preferences of societal actors are translated into policy outcomes. I contend that this question can be more effectively attacked if it is broken up into two: First, how do coalitions form around a set of trade policy preferences? Second, given a set of trade policy coalitions, how are preferences represented in these coalitions translated into policy outcomes? Since the main objective of this study is to explain trade policy outcomes, rather than coalitions I focus on the second question. That is to say, I do not seek to systematically test the validity of various propositions made about the trade policy coalitions that are expected to form in a world economy characterized by expansion of international trade. Instead, I limit myself to an examination of coalitions that are empirically differentiated for each of ten selected episodes and the impact of these coalitions on foreign trade policy outcomes.
Moreover, contrary to the conventional wisdom, my framework is based on the premise that unorganized societal actors can influence trade policy outcomes. First of all, I acknowledge that in democracies voters who have been consistently theorized out of the trade policy process on the grounds that they are unorganized, uninformed or powerless should be brought into the analysis. Secondly, individual economic entrepreneurs, such as big bankers and businessmen, may be able to gain access to the decision making process and thus, affect trade policy outcomes. My argument is that the extent to which the trade policy preferences of all these societal actors affect trade policy outcomes depends on their ability to access the decision making process, which is, in turn, a function of political institutions shaping relations between the executive and societal actors.

Given that the main objective of the executive is to remain in power, the foreign trade policy responses to international pressures require political support. In other words, when the executive makes policy choices, it is constrained by the need to mobilize or retain support. In order to be able to achieve this, it is compelled to care about the trade policy preferences of societal actors. However, concentrating solely on these preferences cannot sufficiently account for the variation in foreign trade policy outcomes.

Within a country every group’s preferences do not have the same impact on politics. Some groups’ preferences are weighed more heavily in any

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12 See Verdier (1994) for an analysis of how voters influence the trade policy process and thus, the policy outcomes.

13 It can be argued that in democracies relations between the legislature and societal actors should be also taken into consideration in order to capture the dynamics of electoral competition. However, in this study, I seek to develop a framework that can be applied to democratic and non-democratic political systems. Therefore, I limit myself to an analysis of relations between the societal actors and the executive as the agenda setter. Elections will be integrated into this analysis as they relate to an existing government’s calculations of remaining in office.
decision process and as Schattschneider (1960) reminds us, part of the reason is the institutional structure (Milner 1997, 18). Therefore, only by explicitly linking preferences and institutions a more accurate explanation of the impact of societal actors on trade liberalization may be attained. Institutions or the rules of the game pertaining to the interaction between the executive and societal actors can privilege particular societal actors’ preferences. Consequently, foreign trade policy outcomes are likely to reflect their preferences more. A differentiation of who these privileged societal actors are and what their foreign trade policy preferences involve can contribute to a better understanding of trade liberalization in various institutional contexts.

Political institutions or the rules of the game favor certain societal actors by specifying the mechanisms through which they find access to the decision making process. In this study, I distinguish three institutional channels or mechanisms through which the trade policy preferences of societal actors can be revealed to the government as the most relevant ones in this trade policy domain. They are, namely, elections, and what I will call, “group lobbying” and “individual lobbying” and are not mutually exclusive. First of all, all democratically elected governments have electoral concerns and hence, are sensitive to the trade policy preferences of voters. Electoral process generally advantages societal actors with numerical strength. For instance, if the great mass of the

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14 Note the evolution of Milner’s ideas from her earlier (1988) to more recent (1997) work.
15 Such an approach can fill in the gap not only between studies that tend to emphasize preferences and those that concentrate on political institutions, but also between society-based explanations and “statist” arguments.
16 For related arguments, see Alt and Gilligan (1994), Alt, et.al. (1996), and Verdier (1994).
17 For instance, referenda which are virtually never used are excluded from my analysis.
population derives most of its income from agriculture, their trade policy preferences will be weighed more heavily by the government regardless of their ability to engage in collective action.

Various scholars, such as Rae (1971), Gudgin and Taylor (1976), Rogowski (1987), Taagepera and Shugart (1989), Lijphart (1994), Garrett and Lange (1996), and Lukauskas (1997) have emphasized the impact of electoral systems on domestic political outcomes. Three variables, namely, electoral formula, such as plurality or the different types of proportional representation, district magnitude, i.e. the number of representatives elected per district, and electoral threshold, i.e. the minimum support a party needs to gain representation, have been identified as most important in shaping the political effects of electoral systems. Although I acknowledge the potentially divergent effects of the variance in one or more of these variables, I agree with Lukauskas (1997), who finds that identical electoral institutions may yield different political results depending on the characteristics of political elites and the populace (1997, 56). Post-1983 Turkey and democratic Spain comprise his examples of countries where similar electoral laws led to different political outcomes in the financial policy domain. Therefore, rather than going into the variation on electoral systems as a source of variation in political behavior, I concentrate on whether elections were an institutional mechanism of access to decision making available to societal actors.

While elections are institutional mechanisms available to societal actors in democracies, the other two, that is, group and individual lobbying can provide societal

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18 It should be underlined that each voter is also an economic actor, such as, a worker, a farmer, a trader, or an industrialist.
actors access to governmental decision making in both democratic and non-democratic political systems. "Group lobbying" involves lobbying activities by organizations of special interest at different levels of aggregation, e.g. factor and sector. On the other hand, "individual lobbying" is carried out through personal connections between economic entrepreneurs, such as the owners or managers of individual firms, and the government officials, including the prime minister and ministers. In some political systems, especially where the costs of collective action are high and/or the government reacts more readily to direct approaches by individuals than by organized interests, "individual lobbying" may characterize the way the relations between the executive and societal actors is institutionalized.

In my empirical analysis, after identifying the societal actors on whom the outcome of a trade policy decision will have a perceptible impact, I will determine whether they have access to governmental decision making through one or more of the institutional channels differentiated above. This is, however, only half the story. In order to be able to explain foreign trade policy outcomes or more specifically, trade liberalization, the trade policy preferences of the societal actors with access to decision making and those of the government should be taken into account. If the preferences of these actors are in agreement with those of the government, foreign trade policy outcomes are expected to reflect their common preferences. For example, when both advocate a move away from the status quo towards a more liberal trade policy, it is likely that a "moderate" or "high" degree of trade liberalization can be achieved. If, on the other hand, both adhere to the status quo, a change in trade policy should not be
anticipated. In cases where their preferences clash, policy outcomes will depend on the significance of the societal actors with access to governmental decision making for the government’s staying in office. If the government perceives that their support is essential for its remaining in power, policy will most likely reflect a compromise between the government and these societal actors. However, if this is not the case, the government may be able to disregard their preferences. Consequently, the policy outcomes are likely to mirror the preferences of the government. Based on this argument, the following hypotheses can be proposed:

**Hypothesis 4.1:** Expansion of world trade will lead to a higher degree of trade liberalization when there are pro-liberalization societal actors who have access to decision making and whose support is sought by the government.

**Hypothesis 4.2:** Involvement of international actors in domestic trade policy making will lead to a higher degree of trade liberalization when there are pro-liberalization societal actors who have access to decision making and whose support is sought by the government.

In brief, both preferences and institutions matter. Thus, by bringing them together in a single analytical framework, this study can contribute to a more accurate explanation of how trade policy outcomes are generated under changing international and domestic economic conditions.

**II. Explaining Institutional Change: Institutions as Dependent Variables**

In the first part of this study, I focus on the effects of a given set of institutions on trade liberalization. However, this is only one side of the story. When foreign trade policy gains salience in a government’s agenda, it may not only reconsider policy, but also re-
evaluate the institutional structure that has a significant impact on policy outcomes. When international pressures create incentives for the executive to alter its trade policy approach and yet, the domestic institutional structure imposes constraints on policy change, the executive may see it advantageous to modify the rules of the game so as to establish an institutional framework more favorable to its preferred policies. In other words,

existing institutions can generate powerful pressures for governments to persist with policies that are favored by the constellation of interests that initially supported their ascent to power, even if the power of these interests declined, and even if this has deleterious consequences for macroeconomic performance.

In these circumstances, governments may have incentives to change the institutional structure of their polities so as to mitigate the tension between distributional politics and economic performance (Garrett and Lange 1996, 54).

In this endeavor, those who occupy positions within the executive are not just reactive actors that operate within a fixed institutional context, but proactive ones that are capable of shaping it. However, not all governments that have trade policy high on their agenda should be expected to initiate institutional change. Then, the question is how to account for this variance.

The analytical approach developed by Katzenstein (1978) can constitute a useful starting point for a better explanation of trade-related institutional change. He singles out two components of strategies of foreign economic policy, namely, policy objectives and policy instruments. The definition of objectives or the ends of policy, such as export-led growth and selective protection, reflects a choice among values which differ across
countries and over time. The policy instruments or the means of policy, on the other hand, include licenses, tariffs, quotas, exchange controls, export insurances as well as institutional measures, such as creation of new institutions and a shift of power between institutions. Governments choose from among available policy instruments in order to achieve their policy objectives. In other words, their preferences about policy instruments are largely shaped by their policy objectives under changing international and domestic economic conditions. As such, governments' preferences about institutions are closely linked to their preferences about policy. They aim to keep or put in place institutions which facilitate the introduction and implementation of policies which will help attain their policy objectives.

As a government that supports the status quo policies will also uphold the status quo institutions thwarting change, a government that advocates a change in policy should not be always expected to introduce modifications in the institutional structure. In some cases, the government favors policy change as a short term remedy for its country's economic problems without transforming its policy objectives. In such cases, I argue, the government is likely to overlook institutional characteristics as a factor contributing to these problems. Consequently, my contention is that a government that attempts a shift away from the long-held trade policy objectives is more likely to seek a modification in the institutional structure than one that does not.

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19 According to Katzenstein, “the definition of policy objectives is shaped largely by the ideological outlook and material interests of the ruling coalition. Such coalitions combine elements of the dominant social classes with political power-brokers finding their institutional expression in the party system and in a variety of institutions a step removed from electoral competition - government ministries, banks, industrial associations, and large public or private corporations” (1978, 306-308). In non-democratic political systems
By focusing on the trade policy objectives of the government, I can address the question of institutional change at a more fundamental level than scholars like Garrett (1993) and Garrett and Lange (1996), who take objectives as given and differentiate the conditions under which a government will pursue a strategy of institutional change in line with these objectives. As I concentrate on the trade policy objectives of governments as the key explanatory variable behind institutional outcomes, I also acknowledge that governments are concerned with the political costs of their actions and behave strategically in order to minimize these costs. I hold that even when the conditions specified by Garrett and Lange (1996) are less than favorable for governments to pursue a strategy of institutional change, they may still have some room for maneuver that allows them to introduce institutional modifications. At this juncture, the critical question is not whether a government that views the existing institutions as impediments to the realization of its policy objectives will pursue a strategy of institutional change, but what kind of institutional change it will seek to accomplish. The answer to this question will help generate specific hypotheses that can capture institutional modifications often overlooked in the literature.

I propose that in order to create a more favorable institutional environment for the introduction and implementation of their preferred policies, governments are likely to avoid changes in macro-level institutions, such as the number of institutional veto players characterized by the absence of electoral competition, such coalitions combine the same elements finding their expression in non-democratic political institutions.
included in this project and the electoral system often underlined as a significant variable affecting trade policy outcomes, because the costs of altering these institutions are expected to be high. Instead, governments that favor a redefinition of trade policy objectives and see institutional change as a means to this end are more likely to resort to less costly alterations in more malleable micro-level institutional variables.

First of all, involvement of different political actors with contending interests in the decision making process renders policy change difficult. Therefore, in order to minimize the impact of these actors, the executive may try to insulate or centralize actual decision making through changes in the institutions of the state. Yet, the elimination of institutional veto players in the trade policy domain and centralization of decision making in the executive by altering the formal (or macro-level) institutional structure can be achieved only under exceptional circumstances when the institutions of the existing political system are widely questioned by a large coalition of forces. Thus, as a strategic actor aware of the constraints against changes in macro-level institutions that tend to be highly sticky, the executive may prefer strategies involving marginal adjustments around these institutions in order to centralize decision making. For instance, a small group of technocrats within the government can be informally granted exceptional decision making powers and information flow to and from other political actors both within and outside the government may be hampered. Still another strategy of institutional change may include putting existing trade-related institutions under the control of the core executive and/or creating new institutions under its jurisdiction. Based on the argument presented so far, the first hypothesis to be analyzed is the following:
**Hypothesis 5.1:** A government that favors a redefinition of trade policy objectives is more likely to centralize actual trade policy decision making through changes in micro-level institutional variables than one that does not.

Secondly, like all governments, a government committed to a transformation of the country's trade regime also needs to have a coalition of supporters in order to stay in office. The most important of these supporters are occupants of positions within the institutions of the state and politically relevant societal actors. If the existing distribution of power among these actors do not favor a trade reform, the executive may introduce changes that lead to a redistribution of power over decision making in favor of those who are likely to support the executive's preferred policy.

In regards to institutional actors within the state apparatus, the government can resort to various strategies. One is altering the identity of actors who shape trade policies by redistributing decision making powers and/or creating new institutions with such power. Still another government strategy of building support for its policies is the modification of the composition of existing institutions by replacing the current personnel with those closer to the executive's policy orientation. In this respect, "bureaucratic clientelism," consisting of "a systematic infiltration of the state machine by party devotees and the allocation of favors through it" (Lyrintzis 1984, 103) may become a rather effective tool.

**Hypothesis 5.2:** A government that favors a redefinition of trade policy objectives is more likely to redistribute trade policy decision making powers among the existing institutions of the state and/or create new institutions equipped with these powers than one that does not.
Hypothesis 5.3: A government that favors a redefinition of trade policy objectives is more likely to change the composition of the institutions within the state apparatus in favor of those who are likely to support its preferred trade policy than one that does not.

In order to create a political environment favorable to a trade reform, the government may also attempt to redistribute wealth and power among major societal actors. These efforts involve weakening societal actors likely to resist the policies planned or implemented by the government and strengthening and/or creating coalitions in support of the executive's position. Legal, political, and economic measures with durable institutional effects can be used to these ends. For instance, the legal and coercive authority of the state may be utilized to limit organizational activities and hence, costs of collective action can be drastically increased. Restructuring industries and organizing new economic entities that will be the beneficiaries of the new policy agenda are some of the other ways in which the executive may try to restructure the institutionalized relations between itself and societal actors.

Hypothesis 5.4: A government that favors a redefinition of trade policy objectives is more likely to take measures to redistribute wealth and political power among societal actors in favor of those likely to support its preferred trade policy than one that does not.

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21 As Dixit states, individual policy acts “often create facts, institutions, and expectations that have their own momentum and acquire at least some of the same durability as a change in the constitution itself” (1996, 25). For more on this point, see Dixit (1996, 25-31).

22 In his 1993 study of Sweden during the 1930s and Britain during the 1980s, Garrett concludes that only those governments that can assume a medium term horizon can be expected to translate advantageous international conjunctures (another requirement for institutional change) into enduring change in the structure of the labor movement. Yet, his focus on stable democracies and “successful” cases of structural change puts the wider applicability of his framework into question. Thus, in this study, I aim to find out if institutional change can be achieved even when the conditions which he emphasizes are not met.
To conclude, by shifting scholarly attention from macro-level institutions which are likely to be sticky due to the relatively high costs of altering them to micro-level aspects of the institutional structure, the framework presented in this section is better able to capture the incremental, yet critical changes in institutions. Hence, it opens up new possibilities for future research on institutional change.

III. Conclusion

The two sets of general hypotheses developed in this chapter comprise the basis for my episodic analysis of trade liberalization and accompanying institutional change. Although I do not claim that the variables included in this framework can fully explain the variance in trade policy and institutional outcomes, a systematic inquiry into the impact of these variables on domestic political responses to expansion of world trade can contribute to the related research program.

After this presentation of my analytical framework, in the next chapter, I introduce the “episodes” included in this study and analyze the covariation or the lack thereof between international pressures and trade policy outcomes during these episodes. Subsequently, in Chapters 4 through 6, I test the proposed hypotheses against empirical evidence from Spain and Turkey between late 1950s and mid-1980s.
CHAPTER 3

AN EPISODIC ANALYSIS OF TRADE LIBERALIZATION

The research design of this study has been built on the premise that changes in trade policies and related institutions are likely to be episodic rather than continuous. In other words, it is usually when changes in international and domestic political economy open a political space for the re-evaluation of these policies and institutions that the dynamics of change in this policy domain is activated. It is often during these episodic occurrences that the limits of existing trade policies are recognized, the constraining effects of domestic political institutions are more strongly felt, and trade policy preferences are more openly expressed. Therefore, by examining the politics of trade policy during selected episodes, we can better capture the causal processes that lead to different degrees of trade liberalization and institutional changes across countries and over time. Accordingly, in this study, observations from ten episodes during which trade policy gained salience in the Spanish and Turkish governments’ agenda between late 1950s and mid-1980s are used to determine whether the hypotheses generated in the previous chapter hold against empirical evidence.
To summarize, I expect that external pressures are more likely to lead to a higher degree of trade liberalization during episodes that take place under democratic systems than authoritarian ones. Furthermore, it is argued that the likelihood of such liberalization increases as the number of veto players decreases, the congruence between the trade policy preferences of the government and the veto players increases, and when there are pro-liberalization societal actors who have access to decision making and whose political support is sought by the government. Regarding institutional change, I contend that during episodes when the government advocates a reformulation of trade policy objectives, it is more likely that institutional change will accompany policy change. How these propositions fare against evidence from each of ten selected episodes will be investigated in the subsequent three chapters. Yet, before then, a discussion of each of these episodes is in order. In this chapter, after clarifying the criteria which will be used to differentiate the degree of trade liberalization, i.e. the independent variable in the first part of my study, I will present an overview of four Spanish and six Turkish episodes covered in this study. Subsequently, the relationship between international pressures generated by expansion of world trade and by international actors and trade policy outcomes during each of these episodes will be examined.

I. Classification of Episodes

In regards to the trade policy outcomes generated, each episode is classified as one of "high", "moderate", or "low" trade liberalization. According to Michaely, et.al., trade liberalization involves "any change which leads a country's trade system toward
neutrality in the sense of bringing its economy closer to the situation which would prevail if there were no governmental interference in the trade regime" (1991, 14). Krueger and Aktan also utilize a “neutral” trade regime “which would occur if procedures were confronted with border prices for all their tradable inputs and outputs (and there were no systematic discrimination in the domestic market based on the destination of production)” as a benchmark to estimate the bias of a trade regime (1992, 72). The less the operation of a trade regime deviates from the way it would work under complete neutrality, the more liberal it is. Therefore, a movement that leads in this direction is a “liberalization”, whereas a change that increases the deviation or bias is its opposite. That is to say, the original bias of the trade regime is a factor in determining whether a policy change is an act of liberalization. Based on this general definition, the following conclusions are reached in regards to the particular policies included in this study.

Controlling for other policy changes, reduction or elimination of tariffs by themselves as well as reduction or elimination of quantitative restrictions are acts of liberalization. Moreover, a move from direct government regulation through rationing, i.e. quantitative restrictions, to intervention through the use of the price mechanism, most often tariffs (replacement of a quantitative restriction by an equivalent tariff) is still another manifestation of trade liberalization.

The original deviation of the trade regime from neutrality becomes a more important consideration in evaluating the liberalizing nature of export promotion schemes and changes in exchange rate regime. Both may be employed as protectionist policy instruments. However, within the context of an economic system with anti-export
bias, any action that encourages exports can help bring the economy closer to neutrality by reducing the disincentives that exporters would otherwise face and hence, can be considered as an act of liberalization. In the case of economies with overvalued currencies, devaluation may be regarded as a step toward a more liberal trade regime. Finally, a shift from an existing system of multiple exchange rates which favors importers to a single rate is, again, a move toward neutrality and thus, an act of liberalization.

In this project, modifications in tariffs and quantitative restrictions are taken as the main caveats in determining the extent of trade liberalization during each episode and export promotion and exchange rate policies are evaluated within that context. Episodes which involve reduction or elimination of both tariffs and quantitative restrictions are categorized as those of "high" trade liberalization (Spain 3, Spain 4, Turkey 6). In episodes which are differentiated as being those of "moderate" trade liberalization, existing tariff levels are either maintained or increased, while quantitative restrictions are reduced (Spain 1, Turkey 1, Turkey 4, Turkey 5). Lastly, in "low" trade liberalization episodes, neither the tariffs nor the quantitative restrictions are lowered or abolished; they are either kept at their existing levels or increased (Spain 2, Turkey 2, Turkey 3). Episodes that involve changes only in export promotion and/or exchange rate policy are regarded as being characterized by "low" degree of change.
II. Episodes

A. Spain 1: 1957-1960

The end of the Civil War in Spain and the post-war rebuilding of its economy coincided with the Second World War\(^1\), followed by a wave of reconstruction and development in major European economies. During this period, autarky aiming to achieve self-sufficiency was the trade policy approach advocated by the Franquist policy makers. As the 1939 Industrial Law put it, Spain had to be “redeemed from the importation of exotic products,” forced to produce everything it needed regardless of cost, and cut off from the outside world by a massive program of import substitution (Carr and Fusi 1981, 50). High tariffs, quantitative restrictions as well as exchange controls were among the main policy instruments included in this program.

While the European economies flourished and world commerce boomed starting from late-1940s, Spain remained excluded from the world trading community both by choice and by the other countries’ ostracism of the Spanish dictatorship. Being insulated from international trade, enclosed in a small domestic market, and unable to import raw materials and capital goods due to a lack of foreign exchange reserves, the Spanish economy was at the threshold of a major economic crisis. Balance of payments deficits brought the country to the brink of bankruptcy during the second half of the 1950s\(^2\). Furthermore, inflation that reached 15.5% in 1957 (Salmon 1995) and chronic shortages of consumption goods as well as fuel, energy, raw materials and equipment adversely

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\(^1\) Spain did not participate in the Second World War and chose to remain neutral.

\(^2\) According to OECD (1960, 1961) reports, at the beginning of 1959, imports were rising despite the quota system and a 25% tax. Exports were falling rapidly, at the rate of 10% a year. At the end of 1958, Spain had only $10 million in reserve and a $60 million net deficit, counting current obligations.
affected the economic well-being of many Spaniards who resented the fact that they had to endure these difficulties when the Western democracies experienced an impressive recovery from the hardships inflicted upon them by the Second World War. Increasing strikes during the 1950s signaled that the economic crisis could turn into a political one in a regime which relied on the wider economic jurisdiction that it could deliver prosperity. It was this combination of economic problems and social protests in a national economy isolated from an expanding world market that compelled Franco to introduce a major cabinet reorganization in 1957. A reconsideration of Spain’s trade policy approach was also inevitable.

The *Opus Dei* technocrats, who occupied the economic ministerial positions in Franco’s new government, presided over a fundamental shift in the economic reorientation of the regime. Following visits by teams from the OEEC, the IMF, and the World Bank in 1958 and 1959, the *Opus Dei* members of the cabinet proposed an economic stabilization plan to Franco in 1959. The Economic Stabilization Plan, which announced the end of the period of autarky in Spain, was then described in a twenty-two page memorandum to the OEEC and the IMF on 30 June 1959. At this point, it is important to note that the initiative to take action came from the Spanish government and the extent of the reforms to be carried out was not dictated by the aforementioned organizations.

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1 The details of the consultations and the debates they aroused in Spanish government circles were not publicized.
The reform program which acquired the force of law in 21 July 1959 included significant changes in policies regulating Spain’s foreign trade. First, the gold parity of the peseta was defined as 0.0148112 grams of fine gold. This amounted to a devaluation of the peseta in terms of the US dollar from 42 to 60 pesetas per dollar. Moreover, the multiple exchange rate system was replaced by a uniform exchange rate system.

In addition to changes in exchange rate policy, the 1959 Plan involved progressive reductions in quantitative restrictions and reorganization of the import trade system along more liberal lines. At least 50% of Spain’s imports from convertible currency countries were liberalized. Nonliberalized private trade would be undertaken under a system of nondiscriminatory quotas except for a margin no higher than 10% that would be reserved for imports subject to licensing. State trading was to be limited almost exclusively to agricultural products. Imports from nonconvertible currency countries would continue under bilateral trade agreements.

As the quantitative restrictions were gradually reduced, a new tariff structure with general duties higher than before were put into effect on 8 June 1960. The new *ad valorem* tariff system covered 3300 items instead of the approximately 1000 on the earlier list. In this system, 25% of items had tariff rates less than 17%, 50% had tariffs between 17% and 35%, and the rest had higher tariff rates. The average tariff rate was 24.9% (de la Dehesa, Ruiz, and Torres 1991).

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4 In addition to these policy changes, the Plan also dealt with the public sector, fiscal and monetary policy.

5 Imports were placed under one of four classifications: 1) the free list; 2) those subject to quotas; 3) those requiring individual licensing; 4) those imported through state trading.
Finally, export promotion incentives were raised. Export subsidies that became effective in 1960, drawback that reimbursed the exporter for those customs duties and other import taxes embodied in the export commodity, export credits and insurance constituted the main policy instruments used to encourage exporters (Baklanoff 1978).

Based on the criteria differentiated above, this episode qualifies as one of "moderate" trade liberalization in that tariffs were increased as the quantitative restrictions were reduced, exports were promoted, peseta was devalued, and the exchange rate system was unified.

**B. Spain 2: 1972-1975**

The newly opened up Spanish economy of the late-1950s and 1960s largely benefited from the worldwide expansion of international trade during the decade. All major economic indicators showed significant improvement. However, this performance started to lose momentum in 1966 as the organization and structure of the national economy approached its limits. In order to control rising inflation and to prevent further erosion of the equilibrium in balance of payments, in 1967, Spain's economic policy makers approved a program involving a 16.7% devaluation of the peseta, tighter financial policies, and a freeze on prices, wages, and other incomes in 1968-1969. This program helped Spain recover its macroeconomic stability and 1972 witnessed the highest rate of economic growth the Spanish economy had attained in the course of the decade ending that year (Lieberman 1995). In addition, between 1971 and 1972, the

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^b For instance, GNP per capita rose from 437 US dollars in 1957 to 794 US dollars in 1966 (Banco de Bilbao estimates), the annual growth rate of GDP went up from -2.5% in 1959 to 8.5% in 1966 (Banco de Bilbao 1983, 237). Between 1959 and 1971, the average annual growth rate of GDP was about 7%.
value of Spain's trade expressed in US dollars expanded from 1.23% of the world trade's aggregate value to 1.45% (Banco de Bilbao 1973, 130). Thus, it was under these favorable conditions following the implementation of stabilization measures that the Spanish government considered a unilateral package of trade liberalization in 1972\(^7\), initiating another episode during which trade policy became an issue on the executive's agenda.

One of the most significant aspects of the measures included in this package was that they were temporary. Their duration would depend on "the continuation of present economic conditions." The legislation adopting changes in tariffs would be in force for periods of three or six months and had to be renewed by a new decree when it expired. First, a selective reduction in import duties was introduced in 1972. This was followed by a more extensive tariff cut affecting about 54% of all imported items subject to tariffs in 1973 and a further 10% reduction of tariffs on all imported industrial goods in 1974.

Furthermore, quantitative restrictions on imports were loosened. After the 1972 replacement of traditional system of long lists of products not subject to quotas with a short list showing those goods subject to quotas, additional agricultural and industrial goods which had been subject to state trading rules or quotas were placed under the free import regime.

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\(^7\) Spain had already signed a preferential trade agreement with the EEC in 1970. This agreement did not involve major concessions on the part of Spain as the EEC countries agreed to substantially reduce their tariffs (average reduction was 60%) on Spanish industrial exports.
Unfortunately, “the present economic conditions” which the Spanish policy makers depended on for the duration of their policies did not last. After the first oil crisis of 1973, Spain’s economy took a downturn. The characteristics of the global crisis were more pronounced in Spain than elsewhere in Europe since the Spanish industrial expansion of the 1960s and early 1970s depended on the availability of cheap oil. Spain’s balance on current account changed from a surplus of 500 million US dollars in 1973 to a deficit of 3.26 billion US dollars one year later. At the start of 1975, a high rate of inflation and a rapidly growing external deficit were among the problems the Spanish economy faced. Under changing international economic conditions, the Spanish government re-evaluated its trade policy. The outcome was the reversal of all reductions in tariffs and quantitative restrictions that had been introduced since 1972. Consequently, with these reversals, the net change in tariffs and quantitative restrictions between 1972 and 1975 was nil. It is for this reason that seemingly two different decision points are included in this single episode.

During this period, the peseta was devalued when it appreciated against the US dollar. Nominal exchange rate went up from 69.2 pesetas per US dollar in 1971 to 57.4 pesetas per US dollar in 1975 (de la Dehesa, Ruiz, and Torres 1991). The multiple exchange rate system, which was re-introduced when the unified exchange rate system established in 1957 could not be maintained, did not go through a significant modification between 1972 and 1975.

Finally, in regards to export promotion policy, the old export credit system was reshaped. Public export credit was placed under the exclusive control of Banco Exterior
de España and commercial banks, savings, institutions as well as Banco Exterior de España were allowed to carry out export credit transactions. The ratio of export credits to exports rose from around 26 % in 1972 to 34.6 % in 1975 which was the year Franco died leading to the establishment of a transitional government and the end of this episode.

Despite devaluations and changes in export promotion policy, this episode should be classified as one of “low” trade liberalization because at the end of the episode, the tariffs and quantitative restrictions were not different than the level they were at in 1972.


The last two years of Franco’s regime (1973-1975) were marked by both economic and political instability. As it sought to secure the survival of the authoritarian regime under increasing public dissatisfaction, the Spanish government also had to deal with a deteriorating economy after the first oil crisis. In 1975, the GNP growth reached its lowest level since the days of autarky. Moreover, Spain’s external debt more than doubled from 1973 to 1975. However, neither the late Franquist government nor the transitional governments appointed by the King Juan Carlos after Franco’s death could sufficiently focus on these economic problems because political concerns had to be given priority over economic ones. Hence, it was the first freely elected post-Franco government of Unión de Centro Democrático (UCD, Democratic Center Union) that would put economic issues, in general, and trade policy, in particular, back on the agenda in 1977.
Aside from its stabilization and structural adjustment initiative, the UCD government also introduced changes in policies shaping Spain’s foreign trade. After the 20 % devaluation of the peseta against the US dollar in mid-1977, the government initiated a series of reductions in both tariffs and quantitative restrictions. Even though they had the same transitory character as they did during the second episode, this time, there were no reversals.

The first tariff cut of 1978 applied to industrial goods and amounted to a 20 % fall in rates greater than 10 % and was applicable only to the portion exceeding 10 %. In April 1979, a new across-the-board tariff reduction was approved. This decree involving a 15 % cut on specific duties and a progressive reduction in \textit{ad valorem} duties was later renewed in July and October 1979 and January 1980.

The changes in quantitative restrictions comprised major modifications in the distribution of commodities among import lists. Transfers from the restricted list to liberalized status were realized in 1978 and 1979. Practically all imported goods that had been subject to global quotas at the end of 1974 were transferred to the free list. The importation of those industrial and agricultural commodities not subject to such quotas was liberalized. State trading procedures were significantly decreased.

A major increase in funds available for export credits and the export tax rebate mechanism was still another initiative taken by the UCD government. While the percentage of total exports receiving export subsidies were 37 % in 1977, it went up to 50 % in 1982, the year the UCD lost the national elections to the \textit{Partido Socialista Obrero Español} (PSOE, Spanish Socialist Workers Party).
When the Organization of Petroleum Exporting Countries decided to increase the price of oil once again in 1979, the Spanish economy had not yet recovered from the blow of the first oil crisis. As the country's trade deficit rose from 5.7 billion US dollars in 1979 to 12 billion US dollars in 1980 (Lieberman 1995, 214), the UCD government's attempt at rapid trade liberalization slowed down and no new considerations regarding trade policy came to the agenda. Yet, policy changes that had already been made were kept in place. In brief, although this episode did not start with a detailed program, since the changes were rather comprehensive covering all the policy areas included in this study it is classified as one of "high" trade liberalization.

D. Spain 4: 1982-1986

At the end of the two oil crises that affected all oil-importing countries, Spain was among the worst performers within the OECD area. The problems of economic stagnation, inflation, unemployment, and external deficits could not be effectively tackled by the UCD leadership that had to govern during a period of political turmoil. Demonstrations, acts of terrorism, and signs of unrest within the armed forces leading to a military coup attempt in 1981 were some of the developments which diverted the UCD government's attention away from a structural adjustment program as the consolidation of democracy and the maintenance of social peace became its primary concerns. Consequently, when the PSOE was elected to form the new Spanish government in October 1982, it inherited an economy burdened with serious economic problems during a major international economic crisis. One of the advantages was that the PSOE's rise to power coincided with the consolidation of democracy in Spain and thus, it could put
economic issues higher on its agenda. Thus, it was in 1982 that the last Spanish episode covered in this study started.

The correction of Spain's macroeconomic imbalances, restructuring of the Spanish economy, and full integration into the EEC were the objectives of the Socialists' economic policy. Changes in trade policy were considered within this general framework and particularly, in view of Spain's entry into the Common Market by the next national elections. Initially, as the PSOE government started to implement a moderately restrictive fiscal and budgetary policy combined with a tight, restrictive monetary policy, and an industrial reconversion program, it delayed further liberalization of trade. However, it was always on the agenda within the framework of negotiations with the EEC. At this earlier stage, the peseta was devalued by 8%, with a 22% devaluation for the whole year (Bermeo and García-Durán 1994, 108). Reductions in tariffs and quantitative restrictions introduced during the third episode were maintained until 1986.

After the signing of the Treaty of Accession to the EEC on 12 June 1985 and its ratification by Spain's Congress of Deputies on June 26 and by its Senate on July 17, Spain became a member of the Community as of 1 January 1986. The Treaty contained the most comprehensive liberalization measures ever taken by Spain. First of all, all tariffs on industrial goods coming from the EEC and EFTA countries would be reduced to zero over a period of seven years. Besides, as of 1 March 1986, all industrial goods

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8 This included tariffs that were in effect on 1 January 1985. The timetable according to which this liberalization would be carried out was as follows: 1 March 1986, 10%; 1 January 1987, 12.5%; 1 January 1988, 15%; 1 January 1989, 15%; 1 January 1990, 15%; 1 January 1991, 12.5%; 1 January 1992, 12.5%; 1 January 1993, 10%.
coming from Portugal, the developing country members of the Lomé Convention as well as preferential Mediterranean countries were reduced to zero.

Furthermore, the Spanish government agreed to lower the quantitative restrictions applied to trade with a large number of countries. Namely, out of the existing 237 of quantitative restrictions on industrial goods imported from the EEC countries, 221 were abolished. Quantitative restrictions on agricultural products coming from the EEC were decreased from 78 to 26. For the Portuguese industrial goods, quantitative restrictions were reduced from 237 to 45, while they went down from 78 to 37 in the case of agricultural imports from Portugal. Even though reductions in quantitative restrictions on goods coming from preferential countries associated with the EEC, the GATT members, and Japan were not as drastic as those on goods from the EEC and Portugal, they still signified a considerable departure from the previously existing levels.

In addition to eliminating all export tariffs, the Treaty also abolished all import and export licenses applied to trade with the EEC and EFTA countries except for those required for some agricultural products. Moreover, in order to harmonize its indirect taxes with those of the EEC, Spain introduced changes in other protectionist measures, as well. The previous cascade tax (IGTE), the import tax (ICGI), and the export subsidy (DFE) were all eliminated.

Last, but certainly not the least, Spain’s exchange rate policy was noticeably modified after its entry into the European Monetary System (EMS). Exchange rates could no longer be manipulated by the Spanish governments to improve the country’s balance.

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9 See de la Dehesa (1991) for the changes in quantitative restrictions on goods imported from these countries.
of payments. In sum, given the extent of changes initiated with Spain’s entry into the EEC, this episode is classified as one of “high” trade liberalization.

E. Turkey 1: 1958-1960

When, in the 1950 national elections, the Demokrat Parti (DP, Democrat Party) defeated the Cumhuriyet Halk Partisi (CHP, Republican People’s Party), which had been the only party allowed until the end of the Second World War, étatism was the underlying economic ideology that had been used to shape Turkey’s economy since the Great Depression of 1929. Étatism, which according to Togan (1994), was a middle way between Western style market economy and the Soviet style planning system, relied on heavy state intervention and protectionism. Following a period during which this ideology was put under critical scrutiny, the DP electoral victory signified its collapse. However, the DP governments of the 1950s did not have a cohesive approach or strategy to replace étatism. Lack of coordination and a case-by-case approach to economic problems as they emerged characterized the DP’s economic policy. Namely, during the years before the 1958 Stabilization Program, the DP’s stance shifted from a rather liberal one between 1950 and 1953 to an interventionist-protectionist one between 1953 and 1958.

The imposition of controls on exchange and imports at the end of 1953 was a knee-jerk reaction to persisting balance of payments difficulties and mounting foreign debt. However, the effects of these policy changes were short-lived. Inflation, import shortages, retarded economic growth, a flourishing black market, overvaluation of the Turkish lira, constant arrears in foreign indebtedness continued to plague the Turkish
economy\textsuperscript{11}. Moreover, public discontent was rising as large segments of the population were adversely affected by inflation and import shortages. Given the economic and political costs associated with these developments and the realization that large scale international funding would not be forthcoming unless it made an effort to improve Turkey's economic situation, the DP government decided to reconsider its economic policies in 1958.

Upon negotiations and agreements with the IMF and the OEEC, the Turkish government announced a series of sweeping changes in virtually every aspect of the foreign trade regime and in many aspects of domestic economic policy in August 1958. In regards to the former, which is this study concentrates on, the episode starting with the Stabilization Program of 1958 involved modifications in exchange rate policy, export and import regimes.

First of all, the \textit{de facto} exchange rates were altered and partially unified. Although the official parity was not changed in August 1958, an exchange tax of 6.22 Turkish liras (TL) per US dollar (over the official rate of 2.8 TL per US dollar) was imposed on all imports, invisible expenditures, and capital transactions. Tariffs were applied on the basis of the 9.02 TL rate, hence making the devaluation complete, \textit{de facto}, on the purchase of foreign exchange. In other words, this modification amounted to a nominal devaluation of 221\%. However, when price-level changes are taken into

\textsuperscript{10} See Krueger (1974) for a detailed discussion of policies implemented between 1953 and 1958.

\textsuperscript{11} Inflation went up from 2.2\% in 1953 to 11.1\% in 1958 (Istanbul Chamber of Commerce home goods price index). Export earnings fell steadily from 396 million US dollars in 1953 to 247 million US dollars in 1958. The emergence of a sizeable black market market was evident in the IMF records of net errors and omissions which became large and negative (IMF, \textit{Balance of Payments Yearbook}). As of early 1958, total indebtedness exceeded 10\% of GNP. Arrears alone were over 2\% of GNP and almost equal to 1958 exports (Krueger 1974).
account, Krueger (1974) finds that the real devaluation was actually about 80% which is still high by any standard. On the other hand, as the exchange rates were somewhat unified, the differential against exports was maintained. The weighted export effective exchange rate (EER) was 3.17 TL per US dollar while the weighted import EER was 5.94 TL per US dollar in 1957. In 1959, these rates became 7.76 and 14.31 TL per US dollar, respectively.

The 1958 Stabilization Program did not introduce any noteworthy changes in tariffs except for minor reductions in stamp duties and certain other surcharges, but established a new trade regime based on detailed import programs determining the procedures to be followed in applying for import licenses, regulations governing importation, and goods eligible for importation. While the first program of September 1958 contained only a quota list, the subsequent ones also included a liberalized list. Commodities not enumerated on either list were not legally importable.

Despite their somewhat restrictive nature, the Import Programs constituted the basis for a trade regime more liberal than that of the 1953-1958 period during which many separate lists of imports existed, “strict” licensing and an “importer’s certificate” were required for all imports, with many commodities transferred to the quota list. Between 1958 and 1960, import licenses were issued automatically. Import price controls were gradually relaxed for some commodities and abandoned for others. Imports increased from 315 million US dollars in 1958 to 470 million US dollars in 1959 (Baysan and Blitzer 1991).

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12 Early in 1954, Turkey has replaced specific tariff rates with ad valorem tariffs on virtually all imports.
13 This import regime would be improved and kept in place in the decades to come.
Changes in the export regime revealed mixed motives on the part of the Turkish government. Export taxes which were imposed in order to provide the country with noninflationary revenue meant higher costs for exporters. Yet, at the same time, exports were gradually liberalized in various ways. Export price controls became more realistic. Many minimum export prices which had been set at high levels were aligned to international prices. Besides, exporters started to register the prices at which they were exporting and the price checks for most commodities were made \textit{ex-post} rather than \textit{ex-ante}. These alterations entailed a significant relaxation of the export regime.

To sum up, during this episode, the decision making process of which was interrupted by the military coup of 1960, tariffs were mainly kept as they were before 1958, while quantitative restrictions were considerably lowered during this episode. With the \textit{de facto} devaluation of the Turkish currency against the US dollar and adjustments introduced in the export regime, this episode qualifies as one of “moderate” trade liberalization.

F. Turkey 2: 1970-1971

The DP government, which initiated Turkey’s first liberalization attempt in 1958, was ousted by a military coup in 1960. The military and the elected governments which came to power following the country’s transition to democracy in 1961 continued to adhere to the trade policy framework established in 1958. This framework provided the basic mechanisms for the implementation of import substitution industrialization (ISI) that became the dominant approach advocated by the Turkish governments until 1980.
Between 1960 and 1970, the tariff duties levied on an *ad valorem* basis were kept in place. In addition to these customs duties, additional import taxes including the "municipality share," a wharf tax, a stamp duty, and a production tax were widely used. In their efforts to restrict imports and protect domestic industries, various governments resorted to quantitative restrictions. Commodities in the quota and liberalized lists were frequently reshuffled. As soon as domestic production of an import-competing product began, the import was transferred from the liberalized to the quota list. Thus, the quota list continuously grew. The bureaucratic procedures necessary for the acquisition of import licenses were made more complicated. Furthermore, the anti-export bias of the ISI was also strengthened by the imposition of a series of new export controls involving price registration and export licensing. In spite of the introduction of some incentives for exports, such as a tax rebate system, export credits, and an import replenishment program, the existing disincentives were too high to be compensated by these measures.

During the 1960s, when the world economy, in general, was expanding, the Turkish economy also grew steadily. However, by the end of the decade, foreign exchange shortage once again became an issue as exports failed to keep up with GNP and the demand for imports. Even though there were no major macroeconomic disequilibria, emerging balance of payments difficulties were sufficient to persuade the *Adalet Partisi* (AP, Justice Party) government to reconsider some of its economic policies in 1970 before it was removed from office by the military intervention of 1971 that ended this episode.
Once again, initiatives were taken within the context of an IMF-sponsored stabilization program. The centerpiece of the series of economic reforms introduced in August 1970 was a nominal devaluation which raised the parity rate by 66.7% from 9 TL to 15 TL per US dollar. Moreover, a uniform exchange rate system replaced the existing multiple exchange rates for almost all foreign transactions, except for some traditional exports items to which a lower rate of 12 TL per US dollar was applied.

The 1970 program did not involve any major modifications in the import regime. The two minor changes comprised the lowering of the stamp duty from its 1969 level of 25% to 10% and the advance deposit rates by about half from their 1969 range of 20-150%.

On the other hand, the 1970 decisions tried to, at least partially, reduce the disincentives created by the ISI strategy against exports. A simplification of the tax rebate system, additional measures to increase the effectiveness of the export credit scheme, establishment of two funds to support the export credit program, and allocation of more foreign exchange for the import of inputs by manufacturing exporters were the export promotion measures that accompanied the 1970 devaluation. Yet, these efforts should not be interpreted as a shift towards a more export-oriented strategy. Scholars agree that the 1970 program was a once-and-for-all step taken to improve Turkey’s balance of payments situation and did not question the fundamental philosophy of ISI underlying the regime. Despite the 66.7% devaluation and rise in export incentives, since the protectionist trade regime of tariffs and quantitative restrictions remained intact during this episode it is classified as one of “low” trade liberalization.
G. Turkey 3: 1978-1979

The 1970s were mostly a period of political and economic instability in Turkey. Following an indirect military intervention in 1971 and three non-partisan governments installed by the military, a series of unstable coalition governments were formed during the decade\textsuperscript{15}. None of these governments could initiate economic policies capable of adjusting the national economy to the international economic trends of the time. As the world economic growth slowed down, successive Turkish governments attempted to sustain or even accelerate the aggregate economic growth rates. They failed to take action after the oil price increase of 1973 and left the domestic oil prices unaltered. Consequently, during the second half of the decade, Turkish economy was in trouble again.

Economic performance rapidly deteriorated especially after 1976. In addition to expansionary macroeconomic policies, deepening of ISI, which had engendered an economy highly dependent on imports and foreign borrowing with limited capacity to export, contributed to the worsening of the situation. High inflation, overvaluation of the TL as well as trade deficits aggravated by the increase in oil prices and stagnation of export earnings began to threaten the Turkish economy that had so far relied on heavy borrowing. Turkey's short term debt went up to 6.6 billion US dollars in 1977 from its 1974 sum of 216 million US dollars and balance of payments deficit reached 3.6 million US dollars.

\textsuperscript{14} For instance, see Krueger and Turan (1993) and Baysan and Blitzer (1991).
\textsuperscript{15} Also during this period, public dissatisfaction was cumulating. Strikes, demonstrations, acts of terrorism, and of street violence created an unstable social as well as political and economic environment.
When the CHP-led coalition government came to power in early 1978, the Turkish economy was under the pressure of economic difficulties that had been accumulating since the first oil shock. Hence, the incoming government requested a standby agreement with the IMF in March 1978. As stated in the Turkish government’s Letter of Intent, which marks the beginning of a new episode, one of the main objectives of the program was to reduce the current balance of payments deficit through the expansion of exports which would follow the devaluation of the TL from 19 TL to 25 TL per US dollar on 1 March 1978 and through the restriction of imports. Even though the IMF agreed to these conditions, according to its diagnosis of the problem, more drastic changes, such as a more flexible exchange rate policy and a more credible export promotion strategy, were necessary to improve Turkey’s economic performance. The fact that the IMF could not persuade the Turkish government to introduce these changes suggests that there were stronger domestic forces at work.

The deterioration of Turkey’s economic performance continued even after the 1978 standby agreement. Further increases in the rate of inflation and extreme shortages of foreign exchange could not be prevented. Emergence of black markets and double-pricing for many goods, including sugar, cigarettes, and cooking oil, accompanied by petroleum shortages were signs showing the defects of a closed economy. Thus, it was no surprise that the Turkish government could not meet the conditions set by the 1978 standby agreement and demanded a second one in less than a year. Yet, even after reconsidering its economic approach, the CHP-led Turkish government, as it asserted in the Letter of Intent dated 30 June 1979, concluded that increasing self-sufficiency would
solve the country’s economic problems. Although a devaluation of 43.7% lowering the value of the Turkish currency from 26.5 TL to 47.1 TL per US dollar was put into effect before the official request for a second standby agreement, there were still no indications of a change in the government’s approach to foreign trade. On the contrary, minor modifications introduced during this episode further reinforced the existing protectionist tendencies of the Turkish trade regime. Namely, multiple exchange rates were, once again, in effect. As a consequence, the devaluations did not apply equally to all commodities.

While there were no significant changes in the tariff schedule, the stamp duty was raised to 25% in 1978 from its previous level of 9-9.5%. Additional restrictions on imports consisted of a sharp increase in the number of prohibited categories and the removal of some from the liberalized list in 1979. Moreover, guarantee deposit rates were generally increased in 1978 and 1979 as the bias against the liberalized list categories was maintained. The 1979 subjection of the quota list items to new high rates of 25-40% slightly reduced this bias, but further increased barriers against imports. Lastly, some minor changes were made in the indirect tax rebates for exports in 1978 and 1979. They were decreased by 5% on each occasion, hence lowering the existing EERs for exports. In conclusion, this episode, which ended when the CHP government resigned in October 1979 after suffering a major setback at the polls during the by-elections and the partial elections for the Turkish Senate, is clearly one of “low” trade liberalization, for the lack of a category for de-liberalization.
H. Turkey 4: 1979-1980

After the failure of the two stabilization programs announced in 1978 and 1979 to curb inflation and reduce balance of payments deficits, the CHP, which led the coalition government of the time, suffered a severe defeat in October 1979 partial elections. When the new minority government of the AP took office in November, the foreign exchange situation was truly desperate. The oil shock of 1979 further aggravated Turkey’s economic condition. All the sources of foreign credit were fully utilized and the country was unable to import the essential goods, such as oil, coal, and coffee, for surviving the winter of 1979-1980. Besides, the growth rate of GNP declined from 3 % in 1977 to -0.7 % in 1979, while inflation hiked up to 71.7 % in 1979 from 25.5 % in 1977. Having revealed its discontent with the economic and political situation by voting the CHP-led government out of office, but not given any one party the majority backing it needed, the Turkish public seemed to have lost the hope that the country’s social, economic, and political problems could be solved by the long-known politicians using timeworn strategies.

Restoring law and order that had fallen victim to extreme polarization and radicalization of political forces on all sides of the ideological spectrum during the 1970s and rehabilitating the economy were the two seemingly insurmountable challenges facing the new AP government. Its repercussions regarding the former were not effective, leading to the 1980 military coup which brought this episode to an end. On the other hand, economic policy that became a part of the AP government’s agenda as soon as it came to power went through a comprehensive surgery.
As it initiated negotiations with the IMF for a new standby arrangement, the AP government announced a stabilization and liberalization program on 24 January 1980 before the signing of the agreement in the summer of that year. The gradual approach underlying the program involved changes which would be introduced over a period of time and thus, all of which could not be put into effect by the short-lived AP government. This episode concentrates on modifications that this government was able to make in Turkey’s trade regime. Because subsequent reforms were carried out under different executive bodies those reforms will be discussed as separate episodes below.

One of the elements of the January 1980 program was the devaluation of the Turkish currency from 47 TL to 70 TL per US dollar amounting to a change of 48%. The new rate applied to all sales and purchases of foreign exchange, except with regard to imports for fertilizers and agricultural chemicals where the rate was 55 TL per US dollar. Seven other less drastic devaluations were made during the same year, hence, by December, the exchange rate was about 90 TL per US dollar. This was a clear indication that the government had committed itself to an actively managed, more flexible exchange rate system. Although, as noted above, some exceptions were granted, the earlier multiple exchange rate system was largely unified.

Furthermore, the 1980 program entailed a critical shift in the government’s approach to the export and import regimes. 1980 was the year that the Turkish leadership finally realized the high costs of the ISI strategy and adopted a more export-oriented approach. While the export incentives were considerably increased right after the announcement of the program, import liberalization that was also one of its stated
objectives proceeded more gradually. It was actually under the military rule that the first major reductions in import restrictions were introduced. The only changes in the import regime initiated by the AP government were reductions of the waiting period for import licenses and, once licenses had been granted, for foreign exchange and of the stamp duty from 25% to 1% on the value of imports. On the other hand, all export promotion schemes, including indirect tax rebates, preferential export credits, and duty-free allocations of foreign exchange for the payment of intermediate inputs were considerably relaxed and expanded.\footnote{For more on the specific changes introduced in these schemes, see Krueger and Aktan (1992).}

As it has been underlined in previous chapters, this study focuses on the introduction rather than the implementation of policy change. Based on this criterion, the fact that the 1980 Program involved alterations in all, but one (tariffs), of the policy areas within the framework for this project and put most, if not all, of them into effect during this episode qualifies it as one of “moderate” trade liberalization.

I. Turkey 5: 1980-1982

On 12 September 1980, the military intervened in Turkish politics for the third time in the Republic’s history. As it dissolved the Parliament and suspended all civilian institutions with the stated mission of saving the political system from total collapse, restoring law and order, making the administrative machinery work, and bringing discipline to public life, the military leadership also made economic policy a part of its agenda. The team that had introduced the 24 January 1980 Program was kept in charge of economic policy. Although the Turkish military did not traditionally favor open trade and
market-oriented economic policies, upon reconsidering the economic situation of the
country, they reached the conclusion that the 1980 program was to be continued.
Accordingly, decisions giving way to the further liberalization of the Turkish trade
regime could be made in a political environment isolated from democratic elements.

After the maxi-devaluation of January 1980, there were ten further devaluations
of the Turkish lira over the subsequent fifteen months. Starting in May 1981, the Central
Bank was given the authority to set exchange rates daily against a weighted currency
basket of seven large trading partners. Under this flexible exchange rate system which
can most aptly be described as a crawling peg (Krueger and Aktan 1992, 46), the value of
the US dollar, fixed at 70 TL in January 1980 gradually rose to 145 TL in February 1982.

Despite the lack of any considerable alterations in tariffs and tariff like charges,
quantitative restrictions on imports were significantly reduced during this period. The
most remarkable modification was the elimination of the quota list in 1981. Also during
the same year, a large number of commodities were transferred from the liberalized list II
(restricted list) to liberalized list I (free import list).

Export promotion schemes which were put into effect during the previous episode
were remained in effect as their proportionate value varied across time. For instance,
export credits accounted for 60 % and the tax rebates for 17 % of the total export
subsidies in 1981. These ratios changed to 30 % and 50 %, respectively, in 1983. In
general, the weighted average value of export subsidies as a percentage of free-on-board
(f.o.b.) price increased from 10.4 % in 1981 to 21.2 % in 1983 (Krueger and Aktan 1992,
74).
In sum, in a time of worldwide recession following two major oil shocks, the military government in Turkey decided to go ahead with the policy changes envisaged by the 1980 Program, rather than freeze or reverse them, up until 1982 when the restructuration of trade policy came to a halt. In sum, since no tariff cuts were introduced, as other measures to create a more open trade regime were taken, this episode is classified as one of "moderate" trade liberalization.

J. Turkey 6: 1983-1986

After the approval of a new constitution by a referendum in 1982, national elections were held in Turkey in November 1983, ending three years of military rule. All the pre-coup parties had been closed down and their leaders had been banned from politics by the military. A brand-new party, Anavatan Partisi (ANAP, Motherland Party), led by the primary architect of the 1980 program, won a parliamentary majority (plurality of the vote) and formed the new government.

The ANAP government moved quickly to proceed with the reforms that had lost momentum during the last year of military rule and hence, initiated another episode during which trade policy gained salience in the government's agenda. One of the first policy statements of the new government was an affirmation of its determination to continue integrating Turkey into the world economy. In spite of changes introduced during the previous three years, many restrictive aspects of the Turkish trade regime of the 1960 and 1970s were still intact. A more stable real exchange rate was attained; yet, Turkey's recently adapted outward-looking strategy continued to rely more on export incentives than on the dismantlement of the protection accorded to import-competing
commodities. Hence, the ANAP government still had a long way to go in terms of liberalizing the Turkish trade regime.

In line with prior measures, the real exchange rate was allowed to depreciate through daily adjustments. As it is estimated by Baysan and Blitzer (1988), on average, the real exchange rate depreciated by about 3.6% annually from May 1981 to May 1986. In addition, there were more attempts towards the establishment of a unified exchange rate for all transactions.

A second set of measures concerned the import regime. The import lists were changed from positive lists under which only enumerated commodities were eligible for importation to negative lists in 1984. In this transformed system, all items not listed could be imported. This shift, in itself, signified a liberalizing move. In the January 1984 Import Program, about 200 items were listed as ineligible for importation and some import-competing goods were listed as eligible for importation only with permission. Granted that previously many more than 200 items had been omitted from the positive lists, the net effect was to free many commodities from quantitative restrictions. The new system liberalized about 60% of 1983 imports. Also during this period, the number of goods requiring import licenses was further decreased. For instance, in May 1986, the number of items subject to license was reduced from 245 to 100 (OECD 1987). Removal of additional commodities from the import list and simplification of import procedures constituted the other alterations made in nontariff barriers to trade.

Moreover, the introduction of changes in tariffs meant that the ANAP government was willing to take the extra step that previous governments did not or could not take.
Concurrent with the liberalization of quantitative restrictions were tariff reclassifications and reductions. By this decision, tariffs for the majority of imports were brought down to about 20% of value. The average weighted tariff protection went down from 38.8% in 1983 to 2.3% in the following year. Even though their rates of levy were far below earlier tariff levels, the operation of a number of extrabudgetary funds, such as the Housing Fund, the Support and Price Stabilization Fund, the ForeignCredits Exchange Rate Differential Fund, and the Resource Utilization Support Fund, some of which were actually set up to provide loans for export-oriented or other foreign exchange earning projects, was a partial anomaly running counter to the general approach advocated by the ANAP government.

In regards to export incentives, the ANAP government announced its intention to stimulate exports more through flexible exchange rates and less through direct export subsidies as early as December 1983. In order to reduce the budgetary cost of export subsidies, the rebate rates were uniformly lowered by 20% in April 1984 and by an additional 25% in September of that year although no changes were in the system itself.

In 1986, when electoral cycles started to show their impact on the ANAP government's trade policy, it had already finalized the introduction of rather sweeping changes since 1983. Besides, after 1986, there was a change in the decision making process which had generated the policy outcomes of the 1983-1986 period. Therefore, it is appropriate to end this episode in 1986.

To conclude, the policy modifications introduced during this episode aimed to reshape Turkey's trade regime to an extent unprecedented in its history. Even though
some remnants of protectionism still lingered, reduction of tariffs as well as nontariff barriers in addition to the creation of a rather flexible and unified exchange rate system were developments sufficient to qualify this episode as one of "high" trade liberalization.

K. A Summary of Episodes

A review of the identified episodes indicates that issues related to foreign trade policy generally gained salience in the countries' political economic agenda under conditions of economic crisis generated and/or aggravated by changes in the international economy. In a world economy where the expansion of international trade has increased the sensitivity and vulnerability of national economies to global economic trends, Spanish and Turkish governments of both authoritarian and democratic character have been compelled to reconsider their foreign trade approach several times between late 1950s and mid-1980s. In a majority of episodes, a re-evaluation of this approach was made together with stabilization and/or structural adjustment programs the non-trade components of which are not covered in this study. These programs were launched either before or contemporaneously with the changes in the trade regime. Although the influence of international organizations, such as the IMF, the OECD (formerly OEEC), on the preparation and introduction of these programs cannot be denied, in virtually all cases, the extent of policy changes to be made was determined by national governments operating under different domestic constraints.

The findings of this chapter in regards to the degree of trade liberalization during each selected episode are summarized in Tables 3.1 and 3.2. Table 3.1 indicates that the

\[ \text{National elections were scheduled for 1987.} \]
<table>
<thead>
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<th>Change in policy</th>
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<th>Episode 2 1972-75</th>
<th>Episode 3 1977-80</th>
<th>Episode 4 1982-86</th>
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<td>Yes (-)</td>
<td>Yes (-/+</td>
<td>Yes (-)</td>
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<tr>
<td>QRs Export promotion</td>
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<td>Yes (+)</td>
<td>Yes (+)</td>
<td>Yes (+)</td>
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<tr>
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Table 3.1: Spanish episodes

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Table 3.2: Turkish episodes

* very insignificant change
evolution of Spanish foreign trade policy over the years showed an upward trend towards more liberalization, despite a slowing down of this process during the final years of the Franquist regime (Spain 2: 1972-1975). On the other hand, as revealed in table 3.2, after the first episode (Turkey 1: 1958-1960), the Turkish trade regime did not go through any significant transformation until 1980 when a shift from ISI to a more export-oriented strategy occurred and a process of gradual liberalization began.

III. An Overview of External Pressures Surrounding the Episodes

The main contention of this project is that domestic political institutions mediate between international pressures emanating from the expansion of world trade and international actors. In other words, I do not expect to find a significantly high covariation between external pressures and the degree of trade liberalization. Before moving onto an analysis of the intervening effects of domestic political institutions, whether this argument can be substantiated by evidence from the identified episodes should be determined. Hence, in this section, I will first search for a correlation between the pre-episode expansion of world trade and the degree of trade liberalization achieved during each episode. Secondly, I will examine the relationship between the involvement of international actors in domestic trade policy making and the degree of trade liberalization. If these external pressures can explain the degree of trade liberalization, then it can be concluded that domestic political institutions did not have a considerable impact on trade policy outcomes.
A. Expansion of World Trade Before and During Episodes

Especially since the 1970s, expansion of world trade has been usually treated as a part of general international trends, such as increasing interdependence, internationalization, and more recently globalization. Although the studies of these general trends have been important in emphasizing the growing interconnectedness of national economies, their utility has remained limited in one crucial respect. By focusing on the big picture, they have tended to overlook the cyclical movements in international trade. Even scholars, such as Rogowski (1989), who distinctly concentrate on the impact of expansion of world trade on domestic politics, have based their analyses of the post-Second World War international economy on a linear model which fails to recognize annual fluctuations, short term stagnations or contractions, like those that followed the two major oil crises. On the other hand, those who have been interested in the effects of such external crises or shocks on national economies have not effectively shown how these shocks relate to the linear model of the post-Second World war expansion of world trade. It seems that it is either the sight of the tree or the forest that is lost. Hence, if we are seeking an accurate explanation of the impact of expansion of world trade on domestic politics, we should go beyond the linear model and the analysis of specific shocks. In the absence of a unified model capable of incorporating them both and capturing the variance in the magnitude of systemic pressures on national economies, one

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18 On "interdependence", see Keohane and Nye (1972; 1977; 1987) and Rosecrance and Stein (1975), on the impact of interdependence on domestic politics, see Gourevitch (1978) and Katzenstein (1978), and on "internationalization", see Keohane and Milner (1996). Garrett (1998) is among those who study the effects of globalization, a frequently used, but rarely operationalized term, on domestic politics.

19 The impact of external shocks is a widely studied topic. For instance, see Gourevitch (1986) and Frieden (1991).
way of avoiding the pitfalls of the existing approaches is to focus on changes in the volume of trade in relation to output (and GDP) without relying solely on average annual rates and by being sensitive to the impact of systemic shocks on both volume of international trade and output (and GDP). Thus, in this section, I will provide a chronological overview of both the general trends and the short term out-of-trend changes in the volume of international trade in relation to output (and GDP) before and during the identified episodes.

After the revival of Western European economies in 1947, both the volume of international trade and world output took a significant upturn. The total value of the trade of non-communist countries rose from 53.3 billion U.S. dollars in 1948 to 112.3 billion U.S. dollars in 1960, that is, at an average annual rate of growth of 6.6\%20 (Scammel 1980). By the mid-1950s, world trade, both in primary commodities and in manufactures, was expanding faster than world production. Between 1953 and 1960 (inclusive) world production increased by 44\% in volume while the volume of manufactured and primary goods exports went up by 83\% and 44\%, respectively. The increase in the ratio of world trade to GNP continued into the sixties (Ibid.). However, although the measures of trade openness, such as the ratios of import volumes to real income, recovered to levels above those of the 1930s and 1940s by the early 1960s, they did not reach levels as high as those of the period before 1914 (McKeown 1991). Consequently, it can be concluded that during the decade prior to the outset of the first Spanish (1957-1960) and Turkish (1958-

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20 The fact that the prices of traded goods were approximately the same in 1960 as in 1948 makes this increase even more impressive.
<table>
<thead>
<tr>
<th>Year</th>
<th>Total Volume of World Exports</th>
<th>Total World Commodity Output</th>
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</tr>
<tr>
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<td>185</td>
<td>159</td>
<td>163</td>
</tr>
</tbody>
</table>

Table 3.3: Indices for World Exports, Output, and GDP, 1950-1985

Source: GATT 1986, Table A1
1960) episodes as well as during these episodes, expansion of world trade was not yet an overpowering source of pressure on national economies.

The period between 1960 and the oil crisis of 1973 was one of high and even growth for world trade and output, when their average annual rates of change reached 8.5 % and 6 %, respectively (GATT 1981, Table 1; GATT 1990, Chart I.1). The indices presented in Table 3.3 also reveal the consistent and drastic increase in the volume of world exports and world output during this period. In addition, evidence from the OECD countries can also be used to show this trend. Between 1960 and 1973, the volume of their international trade more than tripled and GDP more than doubled as the ratio of their exports and imports to GDP steadily increased (Figure 3.1). Hence, compared to the 1950s, pressures generated by expansion of world trade were much stronger at the outset of the second Turkish (1970-1971) and Spanish (1972-1975) episodes. While the second Turkish episode started and ended before the first oil shock, the second half of the 1972-1975 Spanish episode took place as the impact of the oil price increases was started to be felt by national economies. 1975 turned out to be the year during which negative growth rates for world exports (-3 %) and output (-1 %) were recorded for the first time after the end of the Second World War. Indices for both went down (Table 3.3). Moreover, within the OECD area, the ratios of exports and imports to GDP took a downturn (Figure 3.1). In brief, the international economic context in which the second Spanish episode was concluded was quite different from the one in which it was initiated.

As illustrated in Figure 3.2, after 1975, the volume of world exports and world output were characterized by uneven growth. Following a drastic increase in 1976,
annual percentage changes in both went down to 4.5 %. Just as the world economy was recuperating from the first oil crisis and catching the upward momentum of the pre-oil crisis period, the second oil shock hit the national economies. As the growth rates of world exports and output plummeted in 1980 and 1981, that of world output surpassed the growth rate of world exports in 1981. Finally, for the second time in less than a decade, negative annual change rates were recorded in 1982 when the indices for world
exports and output also went down. Although growth rates of world exports and output started to go up again starting from 1983, an even pattern could not be attained.

Figure 3.2: Growth of World Exports and Output, 1974-1986
Source: GATT 1981, Table 1; GATT 1990, Table I.3.
Data regarding the ratio of the volume of international trade to GDP in the OECD area is summarized in Figure 3.1 which indicates a significant rise in the ratios of exports and imports to GDP in 1974 and in 1980, that is, the years right after the two oil crises, followed by a gradual decline and stagnation. It can be inferred from this evidence that during these two years, the OECD economies had not yet adjusted to the post-crisis international economy and that the gradual decline after a time lag of one year was an indication of their efforts to adjust to this new environment. In brief, both world and OECD data indicate that the post-1973 years were those of global economic turbulence and uncertainty and it was within this context that the third and fourth Spanish episodes as well as third, fourth, fifth, and sixth Turkish episodes took place.

Even though the growth rates of world trade and output as well as related indices can be used to show how the former grew more rapidly than the latter during the post-Second World War period, they are not the ideal measures of the extent to which the world market has become integrated and national economies have become more sensitive to changes in the international economy through the expansion of world trade. The ideal measure would be the ratio of total world trade to world output calculated based on reliable measures of each over time. One major impediment to employing this approach is the unavailability of reliable and accurate measures of world output. Even sources that provide information about growth rates of world output do not include annual values. Therefore, in order to develop a comparable measure across time, I will use OECD data which has not only been systematically collected and reported since 1960, but is also

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21 For instance, see GATT, *International Trade*, various issues.
more reliable than seldom reported measures of world output. By calculating the ratio of OECD trade (exports plus imports) to OECD GDP between 1960 and 1986, I will obtain a yardstick to gauge the expansion of world trade before and during the identified episodes, except the first Spanish and Turkish episodes because pre-1960 data is not available from the same series.

Regarding the expansion of world trade during the 1950s and early 1960s, Scammel (1980) finds that the proportion of world trade to GNP was about 25% higher in 1963 than in 1953 although it still fell short of its 1913 and 1928 values. That is to say, the sensitivity of national economies to changes in the international economy was not yet as high as that of 1913 and 1928. Nevertheless, by the time trade policy came to the Spanish and Turkish governments’ agenda in the late 1950, pressures from consistently expanding world trade had already been slowly accumulating so as to generate economic difficulties even in closed economies.

As evidenced by the figures presented in Table 3.4, from 1963 to 1970, the ratio of OECD trade to GDP gradually increased from 23.9% to 28.2%. It was following this period characterized by expansion of trade that trade policy came to the Turkish government’s agenda signifying the beginning of the second Turkish episode. Although the slight drop in the proportion of OECD exports and imports to GDP during the two subsequent years, that is, 1971 and 1972, can be considered as a sign of a short term stagnation in the expansion of international trade, it was not drastic enough to have a considerable impact on national economies. Hence, it can be argued that the pressure imposed upon the Spanish government by the expansion of world trade at the beginning
<table>
<thead>
<tr>
<th>Year</th>
<th>Exports+Imports/GDP (percentage) (at current prices and 1990 exchange rates)</th>
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<tbody>
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<td>24.6</td>
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<td>1961</td>
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<tr>
<td>1986</td>
<td>35.2</td>
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</tbody>
</table>

Table 3.4: OECD ratio of international trade to GDP, 1960-1986

Source: OECD 1996, Tables 13, 17, and 18.
of the second Spanish episode was similar to that imposed upon the Turkish government before and during the second Turkish episode. Yet, the former lasted to experience the first oil shock and its aftermath. The ratio of OECD trade to GDP climbed up from 27.9 % in 1972 to 36.3 % in 1974. This non-negligible increase meant the Spanish economy’s coming under stronger pressures emanating from the expansion of international trade during the second half of the second episode.

Within the OECD area, the period between 1975 and the end of the last Spanish and Turkish episodes in 1986 was one of continuous fluctuations in the ratio of international trade to GDP. The ratios presented in Table 3.4 do not show an even pattern in the expansion of international trade during these years. It seems that the slow yet, consistent upward momentum of the pre-oil crises period was lost. It was during these years of turbulence and uncertainty that the third (1977-1980) and fourth (1982-1986) Spanish as well as third (1978-1979), fourth (1979-1980), fifth (1980-1982), and sixth (1983-1986) Turkish episodes occurred.

Finally, despite frequent fluctuations partly due to the two oil shocks, the OECD economies remained more interconnected with the global economy in the 1970s and 1980s than they were during the 1950s and 1960s. The ratios of international trade to GDP which were around 25 % during the 1960s reached an average of about 32 % in the 1970s and 38 % between 1980 and 1986. Thus, it can be concluded that external pressures imposed upon the Spanish and Turkish economies by the expansion of international trade were stronger during the 1970s and 1980s than they were during the 1950s and 1960s.
B. Involvement of International Actors in Trade Policy Decision Making

During nine out of ten episodes identified above, international actors were involved in trade policy making in various ways, including the enforcement of conditionality requirements, the provision of policy advice, and the promise of economic and political benefits. Before going into the impact of such involvement on trade policy outcomes, the international actors and the role they played in trade policy decision making during each episode should be specified.

1. Spanish Episodes

From the day it was founded up until the establishment of a regular relationship with the United States in 1951, the Franquist regime was ostracized by major powers and international organizations. Following the rapprochement with the U.S., Spain entered the World Health Organization in 1951, UNESCO in 1952, and the International Labor Organization in 1953. The signing of the Pact of Madrid with the U.S. in 1953 was still another step towards Spain's integration into the international community. Although these developments were important in revealing the gradual decline of Spain's isolation from the rest of the world, they did not lead to any serious involvement of international actors in the country's economic policy making process.

As discussed in some detail above, during the second half of the 1950s, the Spanish economy, shaped around autarkic policies, was at the brink of bankruptcy. Thus, when the members of the Opus Dei were appointed to key ministerial positions in 1957, that is, the year marking the beginning of the first Spanish episode, they started a search for more effective economic policy instruments which would improve the country's
economic situation. With Spain’s entry into the OEEC, the IMF, and the World Bank in 1958, these organizations became sources of policy-relevant knowledge to be utilized by the Spanish economic policy makers. In need of genuine consultation, technical information, advice, and ideas on how to solve their country’s economic problems, these policy makers invited delegations from the OEEC and the IMF to Spain in late 1958 and early 1959. Being committed to a set of neo-liberal principles and a greater economic integration in Europe, the OEEC urged Spain to remove constraints on foreign trade and on currency convertibility (OECD 1959). Advice from the IMF, which had been the leading advocate of trade liberalization and financial orthodoxy in the post-war period, was no different.

After consultations with the OEEC and the IMF teams, the Spanish economic policy leaders put together a liberalization and stabilization program which was submitted to the OEEC and the IMF as a memorandum in June 1959. It reflected the advice of these international agencies in detail (Anderson 1970). The Spanish proposal included in this memorandum was that in exchange for enumerated economic reforms the Franco government was willing to adopt, Spain should have the right to obtain the financial assistance it needed from the OEEC and the IMF in order to be able to implement the reform program (Lieberman 1995). The anticipation of such assistance from these organizations as well as from the World Bank in support of the policies to be introduced might have been a significant factor shaping the Spanish government’s decisions during the first episode.
Furthermore, the establishment of the European Economic Community (EEC) by the Treaty of Rome in 1957 created a sense of urgency among the Spanish policy makers who became concerned with the prospect that Spain would be excluded from an integrated Europe. Showing their receptiveness to foreign participation in policy making and willingness to alter their economic policy approach were a way of signaling to Europe that “Spain had indeed turned over a new economic leaf and was now fit company in the new economic arrangements of Europe” (Anderson 1970, 119). Even though this effort failed to persuade the EEC members, who remained highly critical of the political regime in Spain, that it was now fit company, the Spanish government’s anticipation regarding international funding from external agencies materialized. In support of the liberalization and stabilization program, credits from the IMF, the OEEC as well as commercial banks flowed into the country after 1959.

Contrary to the first episode, there was no active international actor involvement in trade policy making during the second Spanish episode (1972-1975). There is no evidence that supports de la Dehesa, et.al.’s contention that the preferential trade agreement signed with the EEC in 1970 “paved the way for new measures adopted by Spain between 1972 and 1974” (1991, 175). Neither is there any indication that the temporary trade policy decisions of the 1972-1975 period were made under the direct or indirect influence of one or more international actors.

During the two subsequent episodes that took place after Spain’s transition to democracy in 1977, the prospect of entry into the EEC gained salience as a factor

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22 See Anderson (1970, 131) for the amount of credits provided by the IMF, the OEEC, and commercial banks.
affecting the Spanish policy makers’ considerations about trade policy. Spain’s integration into the EEC had been on the Spanish governments’ agenda as early as 1962 when Spain’s Minister of Foreign Affairs, Castiella, wrote a letter to the President of the EEC Council and requested that the Community extend to Spain “an association susceptible of reaching in time complete integration...” (Alonso, 1985, 24). However, the EEC’s Birkelbach Report, which prohibited any association between the Community and any European non-EEC member country that could not satisfy the political conditions imposed by the Community on countries seeking full membership, prevented Spain’s membership’s being an achievable goal for the country’s policy makers as long as the Franquist regime lasted. This situation changed after the establishment of a democratic political system in 1977. The UCD government, which came to power at the outset of the third Spanish episode, initiated negotiations for EEC membership a few months after assuming office. Thus, it can be argued that the expectation of imminent integration into the Community greatly influenced the UCD government’s trade policy during the third Spanish episode (de la Dehesa, et.al. 1991).

Moreover, the UCD’s economic program, like the stabilization program of 1959, was prepared in consultation with advisers from the OECD (formerly OEEC) and the IMF. As arguments for trade liberalization were already widely accepted among the Spanish economic policy makers by the time the UCD took office, advice from these two organizations further reinforced the consensus among the Spaniards on a neoliberal solution to the country’s economic problems. In addition to policy advice, the IMF also provided financial assistance to Spain in order to support the UCD government’s
economic policies. After receiving an IMF loan of 290.3 million U.S dollars in 1978, the UCD government did not seek another IMF loan (Bermeo and Garcia Durán 1994). Instead, calculating the political price of meeting further loan requirements to be high, the economic policy leaders of the third Spanish episode never sought another IMF loan (El País, October 2, 1980).

Finally, during the last Spanish episode (1982-1986), the EC (formerly EEC) was the most influential international actor on the Spanish government's trade policy choices. Having included Spain's entry into the EC as a primary goal in its electoral program, the PSOE government, which came to power after the 1982 elections, signifying the consolidation of democracy in Spain, shaped its trade policy around this objective. After the 1982 announcement of the Council of Europe of its support for the incorporation of Spain (and Portugal) into the Community, a series of negotiations were held between the EC and the Spanish government. Despite arising conflicts, the PSOE government's efforts to obtain EC membership did not weaken. This clearly revealed the importance attached to the long term benefits of membership by the Spanish policy makers and consequently, the impact of the EC on trade liberalization in Spain.

2. Turkish Episodes

When trade policy came to the DP government’s agenda in 1958, the Turkish economy had already been suffering from high inflation, balance of payments deficits, retarded economic growth, and constant arrears in foreign indebtedness since 1953. Having put off the introduction of necessary economic policy changes and been no longer

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23 See Lieberman (1995, 269-274) for more on the negotiations between the EC and the Spanish government during this period.
able to borrow any funds from abroad, the Turkish policy makers finally, in 1958, decided to pay attention to the advice given by the IMF, the OEEC, and the World Bank since early 1950s. The realization that foreign assistance would definitely not be forthcoming without conditions played a significant role in the Turkish government’s change of heart (Krueger 1970). The signing of a standby agreement with the IMF to undertake a stabilization program, including a devaluation and liberalization Turkey’s international trade, brought in the international credits the Turkish economy desperately needed and facilitated the consolidation and rescheduling of the country’s external debt.

During late 1960s, balance of payments and foreign exchange shortages once again became a problem the Turkish governments had to deal with. Despite earlier recommendations for devaluation by the IMF, the OECD, and other agencies, changes in trade related policies did not become a salient issue in the AP government’s agenda up until 1970, that is, the year marking the beginning of the second Turkish episode. Although the situation in 1970 was “by no means as severe as that prior to 1958, and external pressures were certainly less” (Krueger 1970, 312), the Turkish government, without waiting economic activity to come to a virtual standstill entered a second stabilization program with the IMF in order to rationalize the country’s trade and payments regime (Krueger and Turan 1993). The role of external agencies in influencing this decision was unclear. As Krueger (1970) emphasizes, the Aid Consortium, which was formed under the aegis of the OECD to coordinate the contributions of all donors to the Turkish economy, made its pledges only a month before the announcement of the stabilization program and did not make devaluation and other policy changes a
precondition for aid renewal. Yet, it seems likely that the Consortium and its members helped persuade the Turkish economic policy makers of the desirability of a devaluation during the second Turkish episode. As expected by the prime minister of the AP government, sizeable foreign credits were extended to Turkey after the introduction of the stabilization program (Ibid.)

During the years following the end of the second Turkish episode, Turkey’s economic conditions went through a drastic deterioration. The coalition government which came to power at the outset of the subsequent episode was faced with a large balance of payments deficit and high short term indebtedness. Based on the Turkish policy makers’ diagnosis of the situation as stemming from the unavailability of foreign exchange, the solution would be the securing of more foreign aid and loans. To this end, the Turkish government decided to introduce a stabilization program and applied to the IMF for a standby agreement. Hence, the Fund became directly involved in Turkey’s economic problems early in 1978. After discussions with the IMF staff, a standby agreement covering a two-year period, with 300 million special drawing rights (SDRs) to be released in three tranches was approved in April 1978. In addition to a devaluation of the Turkish Lira, the agreement tied the right of Turkey to make purchases of SDRs to a set of conditions.24 The Turkish government, among other conditions, agreed not to introduce any new restrictions on imports. However, failing to meet most of the conditions set by the agreement, it requested modifications in the criteria established under the standby and waivers concerning the provisions disallowing new accumulations.

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24 Here I will only mention the conditions directly related to trade policy. For a complete list of the conditions included in this agreement, see Okyar (1983, 535).
in payment arrears and new restrictions on imports. According to the Turkish government, the lack of needed imported inputs laid behind Turkey's economic difficulties. The views of the Executive Board of the Fund significantly diverged from those of the Turkish government. In its assessment of Turkey's economic difficulties, the Board pointed out that the main reason for the poor performance of the Turkish economy was the insufficient profitability of manufactured exports due to the rigidity of the Turkish exchange policy, which was not corrected by ad hoc increases in export rebates and subsidies. Nevertheless, the Board approved the modifications requested by the Turkish government in September 1978.

Even after under the modified conditions of the 1978 standby, Turkey's economic situation continued to deteriorate and took alarming proportions at the end of 1978. In January 1979, the Aid Consortium of the OECD held a summit meeting and expressed its concern with the performance of the Turkish economy and its readiness to contribute to a joint economic assistance of around 1 billion U.S. dollars, dependent on a new agreement between the IMF and Turkey. Around the same time, the IMF finally showed its dissatisfaction with the Turkish government's economic decisions by not releasing the third tranche of the 1978 standby. Under these circumstances and after introducing some changes in domestic economic policy which it thought was necessary before approaching the IMF for a new standby to replace that of 1978, the Turkish government sent a new Letter of Intent to the IMF in June 1979. In this letter, Turkey's Minister of Finance declared that a new stabilization program, aiming to increase self-reliance and strengthen the economy, had been launched early in 1979 and another devaluation had been put into
effect. Yet, the new exchange regime involved a multiple exchange system which was strongly discouraged by the IMF. Despite its reservations, the Fund thought the new program recognized the urgency of restructuring of the economy in favor of export growth and constituted a break with the past and thus, deserved the Fund’s support. Consequently, the new standby was approved in July 1979. By this approval, the Fund also gave the green light for the application of the OECD aid package, the agreement with foreign banks on debt rescheduling and fresh credits as well as the inflow of various World Bank credits (Okyar 1983).

In sum, during the third Turkish episode, international actors, particularly the IMF, were in close contact with Turkey’s coalition government. Although resorting to IMF cooperation and advice made the leaders of this government, who espoused self reliance and economic independence, uneasy, they were well aware of the fact that without the IMF approval foreign credits would not be forthcoming. Therefore, they could not avoid having to rely on standby agreements in order to secure what the Turkish economy needed.

After the resignation of the coalition government and the formation of a new government by the AP in late 1979, trade policy, once again, came to Turkey’s political agenda as a part of a more comprehensive economic reform program. At the beginning of this new (fourth) episode, as Krueger and Turan note, Turkey’s economic situation “was not fundamentally different from what it had been since 1977, except in the sense that economic and political deterioration had been in process longer” (1993, 351). The AP government soon recognized the necessity of winning back the confidence of Western
economic institutions in order to find means of financing an increased flow of imports to an economy with almost no foreign exchange reserves and heavily in arrears on foreign debt. Arrangement of additional financing with the IMF and the OECD consortium of donors seemed to be crucial in achieving this objective. The question was how to approach these international actors, most importantly, the IMF. The AP government’s decision on this was to let the existing standby go quietly by default, take the required economic decisions independently of the IMF, and subsequently, open new negotiations with the IMF toward a new standby agreement. As it began preparing a set of economic policy reforms, including trade liberalization, the AP government maintained contact with the IMF. Following a routine visit by an IMF team, the prime minister sent Özal, the main architect of the economic policies to be introduced during this episode, to Washington to discuss with the Fund the outlines of the planned reform program and a new standby agreement and to show the IMF officials Turkey’s determination to carry out a major economic reform. While the IMF officials responded favorably to the steps the AP government was planning to take, they put special emphasis on the introduction of a flexible and realistic exchange policy and more liberal import policies to replace rigid and quantitative forms of protection and import licensing. In response, Özal indicated his government’s intention to announce a large devaluation, promised a flexible and competitive exchange rate policy in the future, and explained his government’s market-oriented economic approach. (Okyar 1983).

Upon his return to Turkey, Özal and his economic team finished working on the new economic measures which were finally announced on 24 January 1980 before the
signing of a standby agreement with the IMF, that is, without the support or overt influence of the IMF. It was even rumored that the announced measures, particularly, the devaluation and price hikes, were in excess of what the IMF was willing to settle for (Celasun and Rodrik 1989). When asked about the role of the IMF in the introduction of these measures, the prime minister Demirel’s answer was that his government had not acted under the dictation from any side and that the introduction of these measures had been the government’s own decision, made in the light of Turkey’s conditions and requirements (Okyar 1983).

Talks were held between the Turkish officials and international agencies, such as the IMF and the OECD, after the announcement of the 24 January package. The OECD agreed to a grace period of three years for Turkey’s official debts to the OECD countries and tied the release of a new OECD assistance package to the signing of an agreement between Turkey and the IMF. The standby agreement to which the OECD assistance was tied was signed in June 1980. Turkey’s Letter of Intent for this standby included provisions to liberalize the import regime as circumstances permitted and to refrain from adopting multiple exchange rate practices (Krueger and Turan 1993). By this agreement, the IMF approved the release of SDR 1.25 billion in installments over three years. This amounted to the largest credit extended by the IMF to that date and represented 6.5 times Turkey’s quota. The rescheduling of outstanding debt and the commitment of new money by the IMF and the World Bank were the other benefits obtained by Turkey after signing the 1980 standby agreement.
Still another channel through which international actors could have influenced the trade policy decisions of the Turkish leadership not only during the fourth episode, but also during all three post-1979 episodes is the training and employment of technocrats who occupied critical positions in the Turkish economic decision making structure. Namely, Özal had worked at the World Bank during the early 1970s and gathered his ideas on trade liberalization at that time. Furthermore, the members of his economic team had either studied at American universities or worked at the IMF or the World Bank. Based on this evidence, it can be argued that by educating, training, and hiring indigenous economists and technicians, international actors can have a longer term influence on trade policy making by national governments.

During the fifth (1980-1982) Turkish episode, the three-year standby agreement of 1980 was still in effect. The military government continued to introduce policies so as to fulfill the conditions set by this agreement and to keep close relations with the IMF. The Letter of Intent which was submitted to the IMF in January 1982 underlined the results achieved in 1980 and 1981 and expressed the Turkish government’s determination to pursue similar policies in 1982. By then, Turkey had already won the Fund’s confidence by meeting the criteria included in the 1980 standby. Thus, it was easily followed by a one-year standby signed in June 1983, that is, before Turkey’s transition to democratic rule.

In addition to the IMF, the World Bank also became highly involved in the Turkish economy during the fifth episode. Aside from regular project lending, the World Bank provided structural adjustment loans (SALs) in support for liberalization reforms
and rationalization programs in various sectors of the economy, e.g. energy, agriculture, and finance. Especially relevant to the purpose of this study was the SAL conditionality for import liberalization. In order to improve efficiency of production and support exports by reduction in the anti-export bias of the Turkish economy, the World Bank required a shift towards a flexible exchange rate policy, elimination of quotas, and rationalization of tariffs. More specifically, SAL 1 (1980) envisaged a flexible exchange rate policy after January 1980 and initiation of a protection study while SAL 2 (1981) conceived of the daily adjustment of exchange rates and the abolishment of the quota list in the 1981 import regime and reduced licensing of imports. The policy measures included in SAL 3 (1982) were further reductions in licensing, simplified procedures, continual expansion of the liberalization list, commitment to rationalize the tariff system over the next five years, and the preparation of a list of prohibited items (Yagci, et al. 1985). This list of policy actions specified in three successive SALs for gradual liberalization of the Turkish import regime clearly reveals how deeply the World Bank was involved in the policy process.

The OECD, the IMF and the World Bank, often in collaboration, continued to support the economic reforms in Turkey and worked closely with the Turkish Treasury, Central Bank, and the State Planning Organization in the development of economic policies during the last (1983-1986) episode. After coming to power following the November 1983 elections, the ANAP government first canceled the earlier standby agreement signed between the military government and the IMF and replaced it with a new one-year standby arrangement in April 1984. Moreover, between 1984 and 1986,
two more SALs focusing on trade liberalization and an agricultural sectoral adjustment loan were approved by the World Bank. Finally, the ANAP government strongly favored admission to the EC, but most top Turkish policy makers recognized that the prospects for membership were remote (Önis and Webb 1994). Nevertheless, even the distant hope of membership probably contributed to the reform momentum for trade policy.

C. External Pressures and Trade Policy Outcomes

Evidence presented above suggests that external pressures have not only played a role in trade policy's coming to the Spanish and Turkish governments' agenda between late 1950s and mid-1980s, but also affected trade policy outcomes. However, as Table 3.5 indicates, expansion of world trade and involvement of international actors in domestic policy making cannot be considered as the major determinants of the degree of trade liberalization attained during identified episodes.

First of all, if we rely on the average ratios of international trade to GDP as indicators of expansion of international trade and focus on the accumulative effect of expansion of international trade over the decades we should expect a one-way shift from low to moderate and high degrees of trade liberalization over time. Yet, this has not been the case during consecutive Spanish and Turkish episodes. For instance, while moderate degrees of trade liberalization were achieved during the first Spanish and Turkish

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25 For instance, the reduction of remaining licensing for imports to a negligible level between 1985 and 1989 was one of the conditions of SAL 5 (1984).

26 As calculated from the figures presented in Table 3.4, in the OECD area, this average went up from 25% during the 1960s to 32% during the 1970s, and 38% between 1980 and 1986.
<table>
<thead>
<tr>
<th>Episodes (in chronological order according to starting date)</th>
<th>Expansion of International Trade (International Trade/GDP)*</th>
<th>Involvement of International Actors</th>
<th>Degree of Trade Liberalization</th>
</tr>
</thead>
<tbody>
<tr>
<td>Spain 1, 1957-1960</td>
<td>1953-1963: Increase by 25 %</td>
<td>Yes</td>
<td>Moderate</td>
</tr>
<tr>
<td>Turkey 1, 1958-1960</td>
<td>1963-1971: Increase from 24.2 % to 28.1 % without significant fluctuations</td>
<td>Yes</td>
<td>Low</td>
</tr>
<tr>
<td>Spain 2, 1972-1975</td>
<td>1972: 27.9 % (-)</td>
<td>No</td>
<td>Low</td>
</tr>
<tr>
<td>Turkey 3, 1978-1979</td>
<td>1976: 35.2 %</td>
<td>Yes</td>
<td>High</td>
</tr>
<tr>
<td>Turkey 4, 1979-1980</td>
<td>1981: 39.0 %</td>
<td>Yes</td>
<td>Moderate</td>
</tr>
<tr>
<td>Turkey 5, 1980-1982</td>
<td>1981: 39.0 %</td>
<td>Yes</td>
<td>Moderate</td>
</tr>
<tr>
<td>Spain 4, 1982-1986</td>
<td>1983: 37.5 % (-)</td>
<td>Yes</td>
<td>High</td>
</tr>
<tr>
<td>Turkey 6, 1983-1986</td>
<td>1985: 39.2 % (-)</td>
<td>Yes</td>
<td>High</td>
</tr>
</tbody>
</table>

Table 3.5: External Pressures and Trade Policy Outcomes

* Data for the expansion of international trade between 1953 and 1963 is based on Scammel's (1980) calculation of the proportion of world trade to GNP, while the rest is based on the figures presented in Table 3.4, that is, ratios of international trade to GDP in the OECD area. (-) decrease from previous year.
episodes, the second episodes in both countries and the third episode in Turkey resulted in low degrees of trade liberalization. Moreover, even when annual fluctuations are taken into account, expansion of international trade cannot satisfactorily explain the variance in degrees of trade liberalization. Namely, although the third Spanish and the third and fourth Turkish episodes occurred under similar pressures emanating from the expansion of international trade, high, low, and moderate degrees of trade liberalization were attained during these episodes, respectively. In brief, it can be concluded that concentrating on the expansion of world trade as the only explanatory variable is not sufficient to explicate the extent to which governments liberalize their foreign trade policies.

Secondly, an overview of the involvement of international actors in domestic trade policy making does not point to a straightforward relationship between such involvement and degree of trade liberalization, either. The fact that different degrees of trade liberalization were obtained during different episodes when international actors were involved in trade policy making within countries may be partially explained by the variance in the conditions imposed upon national governments in return for the provision of the resources, e.g. international credits, they need. For example, conditions specified by the IMF during the second and third Turkish episodes which resulted in low degrees of trade liberalization were more lenient than those required by the IMF and the World Bank during the sixth Turkish episode during which a high degree of trade liberalization was achieved. Yet, this line of argument cannot account for the moderate degree of trade liberalization obtained during the fourth Turkish episode before the imposition of any
conditions by the IMF, which less than a year ago, that is, during the previous episode, had not been able to pressure the coalition government to go beyond a low degree of trade liberalization under quite similar economic circumstances.

Still another argument regarding why the involvement of international actors did not lead to similar trade policy outcomes may be built on the assumption that governments, especially in democracies, are myopic and thus, more concerned with short term costs and benefits than long term ones. Based on this premise, we should expect that keeping other variables constant, the governments desperately in need of resources available only through international actors would be more easily persuaded and/or coerced by these international actors into changing their policies. This line of argument does not hold against empirical evidence from identified episodes. Although the Turkish economy during the third episode was at least as desperately in need of international funding as it was during the fourth episode, these episodes resulted in different degrees of trade liberalization. As Turkey's economic situation improved after 1980, the military government of the 1980-1982 episode and the democratically elected leadership of the 1983-1986 period sustained and enhanced their trade liberalization efforts. Furthermore, during the third and fourth Spanish episodes, the Spanish governments could attain a high degree of trade liberalization without being obliged to request any foreign loans with conditionality. The long term prospect of EC membership was the major motivation behind the economic decisions made by these governments.

One of the implications of this discussion is that the extent to which a national government chooses to liberalize trade policy is not just a function of the intensity of
pressures from international actors or the severity of the crisis the country is in because these are not the only concerns that add into a government's cost-benefit calculations. Domestic institutional and non-institutional political factors also have an impact on the willingness and ability of a government to introduce changes in trade policy. Without taking such factors into account, a satisfactory explanation, for example, of why the Turkish government could not go beyond a low degree of trade liberalization during the third episode despite all the short term and long term benefits of doing so for the general welfare of the Turkish economy or how the Spanish governments were able to achieve a high degree of trade liberalization during the third and fourth episodes by emphasizing the future benefits of EC membership while acknowledging its short term costs. Thus, studies that seek to contribute to a better understanding of trade liberalization under external pressures should try to distinguish the effects of domestic institutional as well as non-institutional political variables on trade policy outcomes. To this end, in this study, I aim to differentiate the impact of the interaction between interest-based preferences of relevant domestic actors and a set of political institutions on the liberalization of trade policy by national governments.
CHAPTER 4

EXPLAINING CHANGE IN FOREIGN TRADE POLICY:
THE IMPACT "STATE-LEVEL" INSTITUTIONAL VARIABLES
ON TRADE LIBERALIZATION

One of the main contentions of this study is that in the making of trade policy, governments act on the incentives and constraints generated by external pressures and domestic political institutions. Having shown that external pressures imposed on national governments by expansion of international trade and involvement of international actors in domestic trade policy making cannot sufficiently explain the variance in degrees of trade liberalization during identified episodes, the next step in this study is to analyze the impact of selected institutional variables on trade policy outcomes. This chapter will focus on the mediating effects of what can be called "state-level" institutional variables, namely, the regime type, the number of institutional veto players, and the distance between the trade policy preferences of the executive and these veto players. Subsequently, in Chapter 5, the influence of institutional mechanisms of access to decision making available to societal actors on trade policy outcomes will be examined. The ultimate objective is to differentiate the domestic political conditions that favor trade
liberalization. This is only a first cut involving the analysis of a limited and deductively determined set of institutional variables and their impact on trade policy outcomes through the application of the deductive method of rational choice institutionalism. The findings of this study can be used to formulate new hypotheses regarding the effects of domestic political institutions on the liberalization of trade policy by national governments and to develop more effective analytical tools that can be employed in examining these effects.

I. “State-Level” Institutional Variables

A. Regime Type

Regarding regime type, it has been hypothesized that external pressures generated by expansion of world trade and by international actors will lead to a higher degree of trade liberalization in democracies than in authoritarian regimes. In this chapter, observations from the ten selected episodes will be used to find out if this hypothesis holds against empirical evidence. However, before engaging into an examination of this relationship, which is the subject matter of the second section in this chapter, whether the regime under which each episode took place was authoritarian or democratic should be determined.

From the end of the Spanish Civil War in 1939 up until Franco’s death in 1975, that is, a time period covering the first two Spanish episodes (1957-1960 and 1972-1975), Spain was governed by an authoritarian regime. The Franquist state is the ideal example of a “stabilized authoritarian regime”, defined as a political system “with limited, non-
responsible political pluralism; without elaborate and guiding ideology (but with distinctive mentality); without intensive or extensive political mobilization (except for some points in their development) and in which a leader (or occasionally a small group) exercises power within formally ill-defined limits, but actually quite predictable ones" (Linz 1970, 255). After Franco's death, governments appointed by King Juan Carlos ruled over the country for two years during which the Franquist institutions were gradually replaced by democratic ones. Finally, the national elections of 1977 marked Spain's transition to democracy. Consequently, the third and fourth Spanish episodes (1977-1980 and 1982-1986) took place under a democratic regime.

On the other hand, in Turkey, multiparty electoral politics was introduced in 1950 after twenty seven years of single-party authoritarianism. Although the Turkish democratic political system was interrupted by three military interventions, five out of the six chosen episodes occurred during democratic periods. These are the episodes of 1958-1960, 1970-1971, 1978-1979, 1979-1980, and 1983-1986. The only time an episode coincided with a military-controlled authoritarian regime was between 1980 and 1982.

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1 Some of these characteristics will be discussed in some detail as they become relevant in examining the political institutions of Francoism in this chapter as well as Chapter 5. For elaborate analyses of these institutions, see Maravall (1978), Carr and Fusi (1981), Payne (1987), and Gruegel and Rees (1997) among many others.

2 As it has been discussed in Chapter 2, the practice of relatively free multiparty elections constitutes the basis of the procedural definition of democracy adopted in this study. According to this minimalist definition, for a political system to be considered democratic, it is not required to fulfill all the criteria differentiated by Sørensen (1991) for a perfect democracy, namely, a high degree of participation, of political competition, a wide range of civil and political liberties, and a wide scope of democratic power over the means of production.

3 Turkish Republic was founded in 1923 and governed by the party established by Atatürk, namely, Cumhuriyet Halk Partisi (CHP, Republican People's Party) up until the victory of Demokrat Parti (DP, Democrat Party) in the first multiparty elections of 1950.
that is, the fifth episode during which the military temporarily suspended democratic practices. In sum, an authoritarian regime was in power during three out of the ten episodes included in this study, while the rest took place in an institutional context that can be regarded as democratic.

B. Number of Institutional Veto Players

One of the institutional variables that is expected to influence the potential of a political system for policy change is the number of veto players. While such potential does not guarantee a change in trade policy outcomes as a response to external pressures, the absence of this potential is likely to preclude it. In a policy area where the approval of one or more veto players is not required for a change in the status quo, the agenda setter is more able to introduce the modifications it sees appropriate. On the other hand, in policy areas where the veto players' assent is necessary for a shift away from the status quo, there are not only strong disincentives for the executive to push for a change, but also considerable institutional constraints on a willing executive's ability to introduce policy change. Thus, I anticipate a negative correlation between the number of veto players and change in trade policy outcomes.

In this study, I concentrate on institutional veto players mainly because the second category of veto players differentiated by Tsebelis (1995), that is, partisan veto players or parties in a coalition government were present in only one out of ten episodes (the third Turkish episode). As I acknowledge that the existence of partisan veto players may affect policy decisions, I cannot draw any conclusions to this effect in the absence of comparative observations.
Institutional veto players are those whose agreement is legally required for a policy change. As Tsebelis (1995) specifies, an institutional player does not count as a veto player unless it has formal veto power. In democracies, institutional veto players can be easily differentiated from the agenda setter, which is generally the executive in parliamentary systems, such as those of democratic Spain and Turkey. In such systems, the institutional veto players and the executive are distinct entities representing different interests. This distinction gets blurred in authoritarian regimes characterized by the total control of a dictator, e.g. Franco in Spain, or a small group, e.g. the National Security Council (NSC) in Turkey between 1980 and 1983, over the institutions of the state. In some authoritarian regimes, the dictator or the small group in charge, after appointing a Cabinet, may allow this Cabinet or the economic ministers within this Cabinet to set the economic (including trade policy) agenda. For instance, according to Anderson (1970), Franco was the policy initiator when he appointed the *Opus Dei* ministers to lead the Spanish economy in 1957, but from that point on, the *Opus Dei* group of economic ministers became the policy makers or policy initiators. A similar kind of argument can be made in regards to the NSC’s leaving the formulation of economic policy to a group of technocrats within the Cabinet between 1980 and 1983. Thus, in such political systems, if the veto players were to be differentiated empirically rather than based on Tsebelis’ definition of institutional veto players, it would be possible to treat the Cabinet or a small group of ministers within the Cabinet as the agenda setter and the dictator or the small group in charge as the veto player in the trade policy domain. However, the
logic of Tsebelis’ notion of institutional veto players does not accommodate such
distinction. He derives his definition of veto players from the idea of separation of power.

...Madison, in *Federalist* No. 51, defends the separation of powers in the
following way: 'contriving the interior structure of the government as that
its several constituent parts may, by their mutual relations, be the means
of keeping each other in their proper places'. [This text discusses] veto
players specified by the Constitution. I shall call these institutional veto
players (Tsebelis 1995, 302).

Consequently, in authoritarian regimes where powers are merged, rather than separated,
e.g. Spain under Franco and Turkey under the military regime between 1980 and 1983,
institutional veto players, as defined by Tsebelis, do not exist*.

Although parliamentary democracies are characterized by the fusion of the
executive and legislative powers of origin and survival (as opposed to the presidential
systems characterized by their separation) (Milner 1997, 119), the executive and the
legislature in such systems are still separate entities that keep each other in check. While
foreign trade policy issues, including trade policy, tend to be an area where the executive,
even in presidential systems, dominates the agenda setting process, the legislature is
usually the institutional veto player whose formal approval is required for a change in
policy (Ibid.).

In the specific policy areas included in this study, namely, tariffs, quantitative
restrictions, export promotion schemes, and exchange rate policies, "none" or "one" veto
player was specified by the Spanish and Turkish political systems during the episodes
under analysis. The number of institutional veto players varied across countries and over

* This specification points to a problem of collinearity in my sample between the two state-level institutional
variables included in this study, namely, the regime type and the number of institutional veto players. I will
take this problem into account when drawing conclusions from my empirical findings.
time. In this section, I will first review the episodes during which there were no institutional veto players. Secondly, a discussion of the episodes during which the approval of the legislature was required for the finalization of trade policy decisions will be presented.

1. Decision Making Without Institutional Veto Players

During the first (1957-1960) and second (1972-1975) episodes in Spain and the fifth episode (1980-1982) in Turkey, the executive including the authoritarian leadership and its Cabinet did not need the approval of any institutional veto player in order to initiate a change in any policy. The formal structure of the Spanish state during the first two episodes was not based on a written constitution, but rather on a set of fundamental laws. Within this structure, there were no effective limits on Franco’s power. “He was a ‘constituent dictator’ the limits of whose powers were self-imposed” (Carr and Fusi 1981, 15). He could pass any law or decree he chose. In a political system that explicitly rejected the doctrine of separation of powers, not only was Franco the Chief of State, but also all legislative powers were vested in him. The Cabinet, the members of which were appointed and dismissed by Franco, were responsible to him alone. The Cortés, or the Spanish Parliament, was neither a representative nor a legislative body. As some of its members were directly selected by the Chief of State, the rest were elected not by popular vote, but by the members of the syndicates, the Movement, the Church, the military, universities, professional groups, city and provincial councils. The ability of the Cortés to make laws, as stated in the Ley Constitutiva, was subject to Franco’s approval. In sum, the Franquist regime was characterized by the absence of any institutional veto
players. Although Franco rarely exercised his limitless authority to direct economic policy (Lancester 1989), his agreement was the only formal requirement for a change in policy.

In Turkey, when the military took over in 1980, it abolished the 1961 Constitution and established a temporary political system. Within this system, the National Security Council (NSC), composed of five generals, namely, the Chief of Staff, heads of the Army, Navy, Air Force, and Gendarmerie, had complete control over the policy outcomes. After carrying out both executive and legislative functions during the early days of the military rule, the NSC appointed a Council of Ministers led by a retired general who had been an active participant in the preparations of the coup. In terms of its powers, being appointed by and responsible to the NSC, this Cabinet was not much different from those in the Franquist system. It was by no means a player independent from the NSC. Thus, it is not possible to consider the NSC, which had the ultimate legislative authority, as an institutional veto player separate from the Cabinet. Given the degree of centralization of political power in the polity, trade policy changes, designed by the Cabinet members in collaboration with the Commissions of the NSC, and the NSC, and approved by the NSC could easily acquire the force of law.

2. Decision Making With Institutional Veto Players

Unlike in authoritarian regimes where decision making powers in all policy areas are formally granted to a single individual or group, in democracies, these powers are distributed among different branches of the state. Hence, the involvement of one or more

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5 Even the taxation law, which could not be put into effect due to resistance from the legislature during the previous episode was done so effortlessly during this fifth Turkish episode.
institutional veto players may be required for the introduction of policy change. A
discussion of episodes during which a shift away from the status quo asked for the
approval of institutional veto players can elucidate the extent to which the number of
veto players influences trade policy outcomes.

The democratic system within which the third and fourth Spanish episodes took
place was based on the Constitution of 1978, which established a bicameral system
recognizing the right to autonomy of the regions and nationalities. In this system, the
upper chamber, i.e. the Senado, is meant to be the chamber of territorial representation
while the lower chamber, el Congreso de los Diputados, is the chamber of popular
representation. Each chamber has a different function with powers which are exclusive to
that chamber and in respect to which the other has no power. The Congreso is in a
position of clear superiority over the Senado, both in the relationship with the executive
and the legislative proceedings whereby the Congreso can decide whether or not it
accepts any modifications made by the Senado. Both because the ability of the Congreso
to overrule objections by the Senado and because foreign trade policy falls under the
authority of the Congreso, the two chambers of the Spanish parliament are not
considered as two separate institutional veto players. Thus, the Congreso was the only
institutional veto player whose approval was required for the finalization of decisions
regarding trade policy changes during the third episode and the ratification of the Treaty
of Accession at the end of the fourth episode.

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6 According to the Article 93 of the Spanish Constitution, since the Treaty of Accession to the EEC involved
conferring some of the powers of the state to an international organization, a ley orgánica authorizing the
signing of the Treaty was necessary. Because leyes orgánicas need to be approved by an absolute majority
In all five episodes during democratic periods in Turkey, the most significant means of altering trade policy were governmental decrees and laws. The legal framework enabled governments to issue decrees upon authorization from the legislature. Although these decrees went into effect on the day they were published in the Official Gazette, they still had to be referred to the legislature for approval. While this procedure allowed governments to avoid the necessity of working through commissions and subjecting every feature of their bills to debate on the floor of the parliament, it did not eliminate the involvement of the legislature as an institutional veto player capable of blocking government action.

In the trade policy domain, Turkish governments' ability to issue decrees during democratic periods, except for the first episode extended even to changes in tariffs. By Article 2 of the “Law Changing the Import Customs Tariffs Based on Customs Law Number 5383” (Law number 474), which was introduced on 14 May 1964, the Council of Ministers was empowered to change the customs duties. Thereafter the changes in import tariffs were announced through governmental decrees. This practice continued after Turkey’s transition to democracy following the 1980 military coup. With the exception of imports from EC countries, the tariff rates during the period 1983-1988 were determined by the rates reported in the import regime issued by the government, and in the case of commodities not included in the import regime the tariff rates were set as concessionary tariff rates applied to commodities imported from EC countries.

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of the Congreso, the PSOE government had to get its approval in order for the Treaty to be incorporated into domestic law.

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A brief discussion of the Turkish parliament as the key institutional veto player can help understand the dynamics of the trade policy decision making process. While the Turkish parliament was composed of two chambers between 1961 and 1980 when the second, third, and fourth episodes took place, the Turkish political system was a unicameral one during the first and sixth episodes. In the bicameral system, according to the Article 92 of the 1961 Constitution, the objections of the upper chamber, i.e. the Senate of the Republic, could be overruled by an absolute or two-thirds majority of the total number of representatives in the lower chamber, depending on the majority by which the Senate rejected the proposal. What the Turkish Senate had was a "delaying veto power," to use Tsebelis' (1995) terminology. Therefore, employing his counting rules, it can be concluded that during both unicameral and bicameral periods, there was only one institutional veto player that could block changes in foreign trade policy.

C. The Congruence or the Distance between the Trade Policy Preferences of the Executive and the Institutional Veto Players

External pressures have different effects on actors with conflicting interests. Consequently, the expectation is that actors in the trade policy domain will have different preferences. As the distance between these preferences increases, it gets more difficult to realize a shift away from the status quo. Yet, one caveat is that if all those involved, including the executive and the societal actors, opt for policy stability, i.e. the distance

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7 The upper chamber in Turkey was not composed of democratically elected senators. It was an elitist and corporatist body with no distinct electoral base (Parla 1995).

8 The fact that the Senate did not play an active legislative role, but only caused delays in the legislative process was one of the rationales behind the 1982 Constitution's return to a unicameral system.
between their preferences is low, and thus, there is a strong coalition around existing policies, it is again not likely to observe a policy change.

Since the executive is the major agenda setter in my framework I focus on the distance between the preferences of the executive and the institutional veto players as well as between the executive and the societal actors in the policy domain. The trade policy preferences of all these players are formed in a given incentive structure shaped by existing institutions and policies as well as external pressures. In this section, I will differentiate the trade policy preferences of those involved in the policy domain and determine whether the distance between the preferences of the executive and the veto players and between the executive and politically relevant societal actors was “high” or “low” during each selected episode. Cases, i.e. episodes, where these actors converge around a common trade policy approach and where their disagreements, if they exist, involve the minor details of the measures to be taken will be categorized as those of “low” distance between the trade policy preferences of the actors involved. On the other hand, this distance will be classified as “high” when the actors involved have divergent preferences regarding not only specific policies, but also the general trade policy approach that should be adopted.

1. Spanish Episodes

The two Spanish episodes during which the legislature acted as an institutional veto player were characterized by a convergence of the trade policy preferences of the
executive and the parliament. Starting from the early years of Spain's transition to democracy, all actors in the trade policy domain approached it with a consideration of the country's integration into the world economy in general and into the EEC in particular. Acknowledging that trade liberalization was an integral part of Spain's effective preparation for future EEC membership, they were united around a liberal approach to international trade. All political parties, "from the neo-Francoists of Fraga Iribarne (CD) to the Communists of Carillo (PCE), and from the Andalusian Socialists (PSA) to the Basque Christian Democrats (PNV) declared their faith in European unification and their eagerness to see Spain take an active part in this process" (Tsoukalis 1981, 122), when Spain's accession to the Community was formally discussed in the Cortes for the first time in 1979.

It is important to briefly discuss the political context in which this unanimity was achieved. For many, the main reason for pushing for economic integration was that it would help consolidate Spain's newly established and still unstable democracy. It can be contended that in this political environment, economic cleavages took a back seat to political concerns and trade liberalization came to be regarded as an economic tool for political ends. The exceptional consensus on trade policy that made changes in all policy instruments included in this study attainable becomes more evident when compared to

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9 This does not imply collinearity. As will be obvious when the Turkish episodes during which the legislature acted as an institutional veto player are analyzed, the fact that the trade policy preferences of the executive and the parliament converged during these Spanish episodes does not mean that this will always be the case.

10 It was only the extreme Right and Left that did not agree with this objective.
the difficulty the minority government of UCD had in passing legislation in other policy areas, such as fiscal policy\textsuperscript{11}.

When the PSOE government came to power in 1982, there was not a significant change in the trade policy preferences of the political parties within the parliament. Besides, in the new legislature, PSOE had an absolute majority. Being a highly centralized party in which the decisions of the prime minister (or the president of the government in the Spanish political language) and deputy prime minister played a decisive role, the PSOE could effectively mute any possible disagreements among its representatives in the Cortes.

2. Turkish Episodes

During the 1950s, the DP governments’ trade policies were rather volatile. While the first DP government that came to power in 1950 removed all restrictions on imports, after 1954 it resorted to highly protectionist policies\textsuperscript{12}. Statements made by government officials, including the Minister of Foreign Affairs, before and after the introduction of Stabilization Program in 1958 did not indicate that the government was convinced of a significant reformulation of its trade policy approach. While the country’s balance of payments problems were emphasized, acquisition of foreign credits rather than policy change was specified as the solution (Mortan and Cakmakli 1987). Even Krueger, who has, to date, presented the most in depth analysis of the 1958 Stabilization Program is uncertain of the preferences of the DP government.

\textsuperscript{11} See Garcia-Diez (1991) and Fuentes Quintana and Requeijo (1984) for more on how the UCD government’s weak position in the Cortes affected policy.

\textsuperscript{12} Lack of coordination and planning was actually one of the major criticisms against these governments.
It is unlikely that the Stabilization Program would have been adopted... had it not for the willingness of foreigners and international agencies to extend credit contingent upon the acceptance of the Stabilization Program. Whether the government believed that the entire program was desirable or only half-heartedy accepted it remains an open question (1974, 71).

Given the ambiguity of the DP government’s trade policy preferences during this first Turkish episode, it is hard to reach a definite conclusion about how they differed from the other major party, that is, CHP in the Turkish parliament. Neither is it possible to derive these preferences from out-of-episode observations since the DP’s trade policy approach varied so much over a very short time.

Between 1961 and 1980, the trade policy preferences of major parties having seats in the Turkish parliament were shaped by their commitment to ISI. In line with the preferences of their constituencies, which will be discussed in the next section, they advocated high trade barriers and an overvalued currency as they undermined the significance of exports for the Turkish economy.

During the second episode (1970-1971), even the members of the AP cabinet were not immune from such protectionist tendencies. For that reason, although devaluation had been on the Prime Minister Demirel’s mind for some time, he had been confronted with opposition from some members of his Cabinet who seemed to have been intimidated by societal reactions. On the other hand, the trade policy preferences of the two other political parties in the parliament, namely, the CHP, the Gâven Partisi (GP, Reliance Party), and the Millî Nizam Partisi (MNP, National Order Party), were evident.

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13 In the 1957 elections, the DP had received 47.3% of the votes and 69.6% of the seats while the CHP got 40.6% of the votes and 28.7% of the seats (State Institute of Statistics 1966).

in their rejection of the AP government’s decision to start the second stage of Turkey’s integration into the EEC by the Additional Protocol of 1970. They argued that the Turkish economy was not ready for the trade liberalization associated with this Protocol, including the progressive abolition of customs duties and quantitative restrictions on imports from the Community, and emphasized the necessity of protecting Turkish industries from international competition (Cumhuriyet, 27-31 July 1970). Additionally, the MNP brought two motions of interpellation regarding the signing of the Protocol to the floor of the parliament (Cayhan 1997). The CHP, on the other hand, demanded the opening of a parliamentary inquiry regarding the government’s foreign trade policy in general (Cumhuriyet, 17 March 1970). In sum, during this episode, there were considerable differences between the trade policy preferences of the AP leadership and the political parties having seats in the legislature.

The trade policy orientation of the CHP-led coalition of 1978-1979 (Episode 3) overlapped with the status quo that had shaped Turkish political economy since 1961. Okyar describes this government’s economic approach as follows:

In the Turkish government’s view, there was nothing structurally wrong with the Turkish economy or with the economic development policies followed in Turkey between 1960 and 1978. The causes of the crisis in foreign payments and the quickening trend in inflation that arose in the middle of 1977 were ascribed to the faulty - but quickly repairable - policies ... Correspondingly, all that was needed to restore the situation was additional foreign financing and the rescheduling of short term debts to help the balance of payments (1983, 539-540).

That is to say, trade policy liberalization was not viewed as a remedy for the problems of the Turkish economy.
Aside from the CHP and its coalition partners, the AP, the *Milli Selamet Partisi* (MSP, National Salvation Party), and the *Milliyetci Hareket Partisi* (MHP, Nationalist Action Party) were the other parties with parliamentary representation during this episode. Among them, only the AP with its links with large industrialists and commercial interests\(^\text{15}\) looked favorably at a liberalization of the Turkish trade regime. Being backed by small industrialists, merchants, and landed groups, the trade policy preferences of the MSP and the MHP were closer to those of the CHP than of the AP. In sum, the majority in the parliament belonged to those who continued to advocate ISI and thus, the distance between the trade policy preferences of the government and the legislature can be considered as “low”.

Inter-party divisions that started to emerge between the AP and the other political parties having seats in the parliament during the third episode on the issue of trade liberalization persisted during the fourth episode (1979-1980). Yet, this time the political party in power was the AP advocating the abandonment of the inward-oriented, import substitution guided political economy in favor of an export-driven one. During this period, anticipating the reactions of other political parties as well as major societal actors, the AP government carried out all preparations of the 24 January 1980 Program in secrecy. In addition, the division of the measures within this Program between those which could be introduced through governmental edicts and regulations and those which required legislative action also indicated that the AP expected serious opposition to its economic reforms, including a liberalization of Turkey’s trade regime. As expected, after

\(^{15}\text{As will be discussed in the next section, during the second half of the 1970s, these groups emerged as the supporters of a shift away from ISI towards a more outward-oriented economy.}\)
the announcement of the Program, Erbakan, the leader of the MSP, which had actually promised its outside support for the minority AP government when it was formed, argued that the government had done just the opposite of what the MSP recommended at that time and criticized the government's economic policies. At the beginning of July 1980, the CHP requested a motion of interpellation against these policies (Çolasan 1984). That is to say, both the MSP and the CHP were extremely critical of the January 24 measures.

Last, but certainly not the least, the victory of the ANAP, led by Özal, at the first elections after the military intervention meant that the trade policy approach he had been advocating since the 1970s would be that of the new Turkish government during the sixth episode. His unquestionable control over his party and cabinet allowed his preferences to be also those of the government. Being the designer of policies that gave way to the end of a highly inward-oriented era in Turkey, he proceeded with his trade liberalization project as soon as he was elected as prime minister in 1983. Özal’s objective was to “pull foreign competition in” (Cumhuriyet, 27 January 1984) by lowering trade barriers, including tariffs, and increase Turkey’s exports through daily exchange rate adjustments, i.e. devaluations, and incentives to exporters.

Özal, whose party had an absolute majority in the legislature, enjoyed unusual political control over the members of his own party and thus, prevented any intra-party conflicts that could divide the party in the parliament. As Krueger and Turan describe it,

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16 The incentives were significantly reduced in 1985 and devaluations remained the major instrument which the government used to boost exports. Up until 1985, incentives granted to the so called “foreign trade capital companies” included obtaining loans from abroad, the right to keep a part of foreign currency earnings abroad to meet import requirements, and lowering the import deposit requirements. For more on these companies, see Ilkin (1991).
The deputies of his [ANAP] had been designated by him as candidates. Their election owed much to his personal popularity. Therefore, they were not only loyal to him, but they obediently deferred to his policy choices (1993, 378).

In addition to the coherence of preferences within the governing party, the absence of an opposition that distanced itself from the government in the trade policy domain facilitated the introduction of a “high” degree of liberalization during this episode. The military leadership had banned all pre-coup parties, their leaders, as well as any new parties that seemed to be the successors of these parties from participating in the elections of 1983. Hence, aside from the ANAP, the two parties that gained seats in the parliament after the elections were those which the military leadership had artificially created and were absorbed in a process of realignment. Newspapers from and secondary sources about this period do not include any clear expressions of trade policy preferences by these two parties. One interpretation is that given their focus on realignment and inability to generate any alternatives to Özal’s project, they chose to give their tacit consent to government policies and hence, gave him a reasonably free hand in making and implementing policy.

II. “State-Level“ Institutional Variables and Foreign Trade Policy Outcomes

A. Evidence

Having discussed the variance in the “state-level” institutional variables across selected episodes, let us now continue with an analysis of the expected covariance between these institutional factors and foreign trade policy outcomes. The findings of
this chapter are summarized in Table 4.1. In this section, I will examine if, based on the reported evidence, the regime type, the number of institutional veto players, and the distance between the trade policy preferences of the executive and these veto players had the hypothesized effects on liberalization of foreign trade policy during the ten episodes included in this study.

1. Regime Type and Foreign Trade Policy Outcomes

The hypothesis that external pressures will lead to a higher degree of trade liberalization in democracies than in authoritarian regimes is not supported by evidence from the selected episodes. In terms of degree of trade liberalization, there is as much variance among democracies as between democratic and authoritarian systems. This finding is in line with the arguments which underline the shortcomings of analyses based on a simple dichotomy between regime types and acknowledge the salience of other variables in explaining policy outcomes.

Of the ten episodes included in this study, three took place under authoritarian regimes. These are, namely, the first (1957-1960) and second (1972-1975) episodes in the Spanish case and the fifth (1980-1982) episode in the Turkish case. The degree of trade policy liberalization during these episodes have been classified as “moderate”, “low”, and “moderate”, respectively, as it has ranged from “low” to “high” during episodes when a democratic government was in power. One striking observation is that while authoritarian regimes have been able to liberalize their foreign trade policies, a “high” degree of trade liberalization has not characterized the policy outcomes they generated.

17 These two parties disintegrated in the four-year period following the 1983 elections.
<table>
<thead>
<tr>
<th>Regime Type</th>
<th>Number of Institutional Veto Players</th>
<th>Distance between the Trade Policy Preferences of the Executive and Institutional Veto Players</th>
<th>Degree of Trade Liberalization</th>
</tr>
</thead>
<tbody>
<tr>
<td>Spain, Episode 1 1957-1960</td>
<td>Authoritarian</td>
<td>0</td>
<td>NA</td>
</tr>
<tr>
<td>Spain, Episode 2 1972-1975</td>
<td>Authoritarian</td>
<td>0</td>
<td>NA</td>
</tr>
<tr>
<td>Spain, Episode 3 1977-1980</td>
<td>Democratic</td>
<td>1</td>
<td>Low</td>
</tr>
<tr>
<td>Spain, Episode 4 1982-1986</td>
<td>Democratic</td>
<td>1</td>
<td>Low</td>
</tr>
<tr>
<td>Turkey, Episode 1 1958-1960</td>
<td>Democratic</td>
<td>1</td>
<td>Indeterminable</td>
</tr>
<tr>
<td>Turkey, Episode 2 1970-1971</td>
<td>Democratic</td>
<td>1</td>
<td>High</td>
</tr>
<tr>
<td>Turkey, Episode 3 1978-1979</td>
<td>Democratic</td>
<td>1</td>
<td>Low</td>
</tr>
<tr>
<td>Turkey, Episode 4 1979-1980</td>
<td>Democratic</td>
<td>1</td>
<td>High</td>
</tr>
<tr>
<td>Turkey, Episode 5 1980-1982</td>
<td>Authoritarian</td>
<td>0</td>
<td>NA</td>
</tr>
<tr>
<td>Turkey, Episode 6 1983-1986</td>
<td>Democratic</td>
<td>1</td>
<td>Low</td>
</tr>
</tbody>
</table>

Table 4.1: “State-Level” Institutions and Trade Liberalization

NA: Not applicable
Without going into the differences between similar regimes that are the subject matter of subsequent sections in this chapter, how can the observed foreign trade policy outcomes be explained using regime type as an intervening variable? First of all, trade liberalization efforts by authoritarian regimes in Spain and Turkey can be tied to the incentives the political system has created for the actors concerned. Not unlike democratically elected governments, the main objective of authoritarian leaders is to stay in power. In other words, their first priority is survival. To this end, "modern autocracies and authoritarian regimes seek popular legitimacy and support" (Perlmutter 1981, 10). Given that democratic political participation is not an acceptable instrument to acquire legitimacy and support, the executive in authoritarian regimes needs to rely on other means. Both the Franquist regime in Spain during the first episodes and the military regime in Turkey between 1980 and 1983 emphasized maintenance of political stability and social peace as well as improvement of economic conditions in order to legitimize authoritarianism.

As Gruegel and Rees assert in their study of Franco's Spain, "the wider economic justification for the existence of the dictatorship was that it could deliver prosperity" (1997, 117). The search for economic success was one of the questions that dominated the Franquist governments' political agenda during the 1950s. When the post-Second World War changes in the international economy started to challenge the promise of Spain's autarkic model to achieve this objective, the Franquist response was a pragmatic, rather than an ideological one. As long as the political stability of the regime was not threatened, but reinforced by reform, Franco was willing to adopt to new circumstances (Maravall 1997). Moderate liberalization of foreign trade policy during the first episode
can be also regarded as a transformation intended to strengthen Franco’s dictatorship by sheltering it against economic crisis that could have put the ability of the regime to deliver into question and hence, endanger its survival.

Similarly, Krueger and Turan, in reference to the military government that came to power in Turkey on 12 September 1980, argue that

[authoritarian governments are often in need of greater legitimacy since they replace governments which have come to power through ways known to and accepted by the electorate. As a result, in contrast to the suggestion that they can do anything they deem necessary, they are probably constrained from making decisions and adopting policies that would undermine their popularity (1993, 362).

This was particularly a concern of the Turkish generals who ousted a democratically elected government in 1980 because their intervention with the aim of bringing back social and political order was supported by a significant portion of the Turkish population that had been tired of the political polarization and conflict of the 1970s. The military assumed control with the promise of a timely return to civilian rule as had been the tradition in the history of the Turkish Republic\(^\text{18}\) and thus, had shorter time horizons than Franco’s “stable authoritarian regime” (Linz 1964). As few Spaniards really expected the collapse or overthrow of the Franquist regime before his death (Payne 1987), the end of the military government in Turkey could be anticipated just as it came to power. Consequently, it may be expected that the leaders of this authoritarian regime would be more myopic than their Spanish counterparts. This difference did have an impact on the way the Turkish military attacked the question of economic reform before

\(^{18}\) Both after the 1960 and 1971 military interventions, the military leaders returned power to civilians as soon as the stated goals of the interventions were accomplished.
and after they intervened. According to Demirel, the leader of the civilian government ousted in 1980, the officers would not have dared to intervene had the stabilization and liberalization policies not been in place. From this perspective, if the military coup occurred in 1980, rather than in 1979, it is because the generals were averse to taking office under unfavorable economic conditions (Milliyet, 24 January 1990). This observation clearly reflects the salience the authoritarian leaders attribute to economic performance as a source of legitimacy and popularity. Given the improvements recorded in the Turkish economy after the introduction of the 24 January 1980 program, the military chose to continue along the same lines.

Even though, as underlined by Kenan Evren, who headed the 1980 intervention, the transitional nature of the military regime could have made the introduction of a program with wide ranging measures difficult at the first place (Milliyet, 24 January 1980), the role such an authoritarian regime played in facilitating the imposition of further trade liberalization measures is not denied even by the designers of the original program. In agreement with scholars who hold that the intervention boosted, and even rescued, the 24 January 1980 measures (Barkey 1990), Turgut Özal, the major architect of these measures, argued that the military regime could provide an opportunity for introducing changes which could not have been done under a democratic government by muting the societal reactions to the distributional effects of trade liberalization and stabilization (Çölaşan 1984, 63). After all, there were no guarantees that if the coup had not taken place, the pre-intervention AP government and governments that would have followed would not backslide in their attempts to liberalize Turkey's foreign trade policy.
as earlier governments had done. The advantages of having an authoritarian regime for policy change were also emphasized by both prominent businessmen and organizational leaders of the business community. As a leading industrialist pointed out, “the absence of government-opposition conflict is a great stroke of luck because now rapid and dynamic decision making is possible” (*Milliyet*, 17 February 1982).

The authoritarian governments in Spain during the late 1950s and in Turkey during the early 1980s introduced “moderate” trade liberalization. A common characteristic that facilitated this was their isolation of economic matters from political ones. Political stability and order was the highest priority of both Franco and the Turkish generals. As long as economic stability and success were viewed as an instrument to this end, these governments did not resist changes in economic policies that would help maintain political stability and order. In his analysis of foreign trade policy changes in Spain during late 1950s, Anderson contends that “when the moment of decision was upon her, the Spanish regime, in this realm of economic policy at least, demonstrated a flexibility and openness to change quite as great as that of most Western nations” (1970, 232). As economic policy was a technical matter, not subject to the taboos of the system, the objectives of autarky were hardly sancrosact. Similarly, the Turkish military, which had been among the prominent supporters of import substitution in Turkey during the 1960s and 1970s, did not hesitate to change its approach to foreign trade policy during
the post-oil crises period when it came to see economic reforms initiated by the AP
government in 1980 as the only alternative for the economic well-being of the country.¹⁹

Still another characteristic of the discussed authoritarian regimes is the
willingness of their top leaders to delegate economic decision making to technocrats
occupying ministerial positions in the Cabinet. Neither Franco nor the Turkish generals
were well-versed in questions pertaining to the economy. Furthermore, both Franco and
Turkish military leaders preferred to focus their attention on questions of political and
social order. As Gunther asserts, “for Franco, most economic decisions fell within a zone
of policy indifference” (1980, 275). A similar observation about Turkish military rulers is
made by Krueger and Turan who hold that these rulers “did not want to take their
attention away from questions of law and order and concentrate it on matters of
economics” (1993, 362). Hence, Franco, through a change in the cabinet in 1957, gave
the economic policy making initiative to Opus Dei technocrats while the Turkish military
kept Özal and his team in charge of economic affairs after the 1980 coup. Trade policy
liberalization was the choice of both Spanish and Turkish technocrats.

In brief, my discussion indicates that authoritarian regimes are not necessarily less
likely to liberalize trade policies. Yet, the fact that the second Spanish episode was
characterized by “low” trade liberalization and that there were no episodes of “high”
trade liberalization achieved under authoritarian regimes in my sample require an
interpretation of their limitations. They were evident even in episodes of “moderate”
trade liberalization. For instance, in July 1956, before the appointment of the new

¹⁹ As early as May 1980, four months before the intervention, General Saltik commented that the decisions
of 24 January 1980 were logically coherent, there was no alternative to them, and they should be
cabinet, the Spanish Chief of State announced, "we will try forcefully, in the least time possible, to reach a situation in our economy that permits us commercial liberty and in which we can return to the tariff as the automatic regulator of our commerce" (Cited in Anderson 1970, 139). This was an indication of one of the persistent traits of Franco's leadership that was also a factor during the second Spanish episode: a cautious approach and an avoidance of making more lasting commitments in the economic realm than were absolutely necessary. The limitations of the Turkish military regime of the 1980-1983 period became apparent when Özal, after continuous disagreements with the military leadership, resigned and trade policy reforms came to a halt in 1982.

On the other hand, the "low" trade liberalization episode of 1972-1975 in Spain occurred in the backdrop of increasing dissent against the Franquist regime. Starting from late 1960s, strikes, ETA kidnappings, hold-ups, and terrorist activities succeeded one another. Public order together with the economic crisis following the first oil shock occupied the agenda of the new Arias government that was appointed by Franco after the assassination of Carrero Blanco by an ETA commando on 20 December 1973. At the end of this episode, liberalization efforts initiated at its beginning were reversed.

The controlled nature of changes in foreign trade policy during all three episodes may be linked to the authoritarian leaders' major concern with political stability. In other words, it can be argued that the type of regime created incentives for these leaders to give

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20 In addition to institutional explanations, these reversals of policy may be also interpreted as a protectionist reaction to the adverse effects of the oil crisis on the Spanish economy. However, this cannot account for the generally controlled approach advocated by authoritarian regimes across episodes.
primacy to political stability. High liberalization economic policies could disrupt the repressed political order maintained under non-democratic regimes.

“Political sociology has often interpreted processes of economic growth within non-democratic regimes as producing contradictions in the institutional order of the society and as presenting a difficult challenge to the existing political power” (Maravall 1978, 18). For instance, Huntington’s “gap hypothesis” (1968) may be related to why these regimes approach the question of trade liberalization as an instrument of economic development with caution. His hypothesis suggests that political instability may result from the inadequacy of existing political institutions to provide channels of political participation to socially mobilized individuals. In societies that have not reached a high level of economic development, rapid improvements in economic performance may enter into this process as a destabilizing factor by promoting new levels of aspirations and wants that may mobilize individuals, but that cannot be met within the existing institutional framework. Franco’s Spain, it can be contended, has such an experience after the so called “economic miracle” of the sixties. Opening up of the autarkical system to international influences together with rising living standards gave birth to social aspirations that could hardly be accommodated by a no-party state with limited pluralism. By the early 1970s, workers, students, sections of the Church, ethnic groups, namely, the Basques and Catalans, had all moved towards a rejection of the authoritarian regime. Franco’s regime was in a crisis. Thus, under these conditions, the regime which had always tried to keep economic change isolated from political change had to

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21 See Maravall (1978), Carr and Fusi (1981), and Payne (1987) for a discussion of societal changes generated by the “economic miracle” of the sixties and their consequences.
acknowledge the relationship between the two. The prudence of the Spanish government in the foreign trade policy domain during the second episode should be interpreted within this context. Furthermore, this line of argument can shed light on the fact that authoritarian regimes in my sample did not introduce “high” trade liberalization during the episodes examined. However, it has to be emphasized that given the diversity of authoritarian regimes, the observations and explanations which have been presented in this section should not be automatically generalized to other authoritarian regimes.

To conclude, in this section I have concentrated on selected authoritarian regimes. My intention was to show the existence and impact of incentives to liberalize foreign trade policy in these regimes within the context of a world economy characterized by expanding international trade and increasing involvement of international actors in domestic economic policy making. It can be inferred that these incentives were stronger than or as strong as those generated during some episodes that took place under democratic regimes. This preliminary analysis reveals the limited utility of studies that focus solely upon regime type as an institutional variable capable of accounting for variance in trade policy responses to external pressures. One of the main reasons for this is that there are significant differences among the political institutions of democracies and hence, the degree of trade liberalization accomplished by various democratic governments. Finally, it should be emphasized that despite their limitations, analyses based on a dichotomy between authoritarian and democratic regimes are not futile. Namely, the findings of my analysis have shown the limits of trade liberalization in
authoritarian regimes and the need for more comparative studies of trade policy making in similar types of regimes.

2. Number of Institutional Veto Players and Foreign Trade Policy Outcomes

The observations from ten episodes demonstrate that while the presence of institutional veto players may directly (through actual use of veto) or indirectly (through government’s anticipation of the institutional veto player’s reaction) limit the executive’s ability to introduce change, the number of veto players cannot by itself explain the direction and degree of change. For instance, in political systems and policy areas where decision making powers are delegated to the executive, that is, in those with high potential for change, policy outcomes will reflect the executive’s policy preferences which may involve just a change in exchange rate policy or an overall transformation of the trade regime ranging from tariffs to NTBs. In this situation, given the lack of any constraints imposed by veto players, the institutional variable studied in this section is unable to account for the extent of change. Neither can a focus on the number of veto players alone help us anticipate whether the change will be liberalizing or protectionist. Nevertheless, as an institutional variable that imposes constraints on the strategic behavior of the executive, the number of institutional veto players plays a mediating role between external pressures and change in trade policy and hence, may have some explanatory value.

a. Policy Change in the Absence of Institutional Veto Players

An analysis of episodes during which there were no institutional veto players in the political system shows the ease in which the governments introduced the policy
changes they deemed necessary although the degree of trade liberalization they achieved did not reach “high” levels.

Not taking other constraints into account, the fact that there were no institutional veto players made it easier for the Spanish governments during the first and second episodes to introduce the changes they preferred in trade policy. In the first episode, the Decree/Law 10/1959 of 21 July 1959, which put the Stabilization Program into effect and did not necessitate legislation, as well as the Tariff Law of 1960 were among such changes. The advantages involved in a system with no institutional veto players were also evident in the facility the Spanish governments adopted short-term trade policy measures during the second episode when modifications were made as often as every three or six months.

Similarly, during the fifth Turkish episode, the military government implemented the trade policies proposed by its technocratic team without being obliged to confront the constraints imposed by an institutional veto player. Although it is not within the policy domain examined in this study, the introduction of a new taxation law, which was considered by the AP government during the previous episode, but could not be put into effect due to the anticipation of opposition by the other parties in the parliament, constitutes a good example to the extent of policy change that can be accomplished by a government in the absence of institutional veto players. In such an institutional context, a “moderate” degree of trade liberalization reflecting the preferences of the military leadership could be achieved with ease.
b. Policy Change with Institutional Veto Players

First of all, contrary to the expectation, during three out of seven episodes during which the legislature’s approval was required for a policy change, a “high” degree of trade liberalization was achieved. Namely, during the third Spanish episode (1977-1980), the UCD government, despite its lack of a majority in the parliament, could introduce changes in all policy areas included in this study. Subsequently, the PSOE leadership, which came to power at the beginning of the fourth Spanish episode (1982-1986), got Spain’s Treaty of Accession to the EEC easily ratified. Thirdly, after assuming office in 1983, the ANAP government in Turkey established a new foreign trade regime based on significant changes in tariffs, NTBs as well as exchange rate policies during the sixth Turkish episode (1983-1986). Both the PSOE and the ANAP governments had certain advantages which facilitated policy change and made wide-ranging modifications easier to accomplish.

In the 1982 elections, the PSOE won a convincing absolute majority and came to command 57% of the seats in the lower house. This significantly reduced the prowess of the Congreso as an institutional veto player and made the executive’s legislative tasks much easier (Bermeo and García-Durán 1994). Moreover, being a disciplined party with a strong leadership “that was often criticized for practicing a form of democratic
centralism (Heywood 1995, 93-94) the PSOE had no difficulty in getting the Treaty of Accession ratified.

Having obtained about 53% of the seats in the Turkish parliament in the 1983 national election (State Institute of Statistics 1985), the ANAP government had a considerable amount of control over the legislative process. As stated by Kalaycioglu (1990), the ANAP government had so much control over the legislative process that it had managed to thwart efforts to debate its economic policy steps on the floor of the parliament by frequent uses of governmental decrees. Besides, like in the case of PSOE, the ANAP leadership had a significant control over the party deputies whose chances of re-election were closely related to their ranks on the list of candidates determined by the central committee of the party and occasionally by the party leader. This created strong incentives to vote along the party line. Owing to these advantages, the ANAP government was able to pass legislation adjusting tariff rates. This signified a policy change that had not been accomplished, or even attempted, by the Turkish governments during earlier episodes.

On the other hand, the other four episodes, during which the legislature was an institutional veto player, were classified as those of either “low” or “moderate” trade liberalization. Two of these episodes, namely, the second and third Turkish episodes between 1970 and 1971 and between 1978 and 1979, respectively, were characterized by

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22 As Heywood put it, “the PSOE leadership was not averse to suspending or even expelling members who refused to toe the party line; more generally, they were simply marginalised to such an extent that they left of their own volition...” (1995, 94)

23 In the 1982-1986 legislative session, 91.5% of the bills introduced by the executive was passed (Maurer 1995, 76).
a "low" degree of trade liberalization while a "moderate" degree of trade liberalization was introduced during the remaining two (Turkey 1: 1958-1960; Turkey 4: 1979-1980).

During the first Turkish episode of 1958-1960, the DP had about 70% of the seats in the Turkish parliament (State Institute of Statistics 1966). In the 1950s, the Turkish parliament evolved into a "submissive" legislature (Weinbaum 1975). With disciplined party voting that had become the modal practice of the 1950s (Kalaycioglu 1990), the DP government could have easily passed its policy proposals. Yet, its trade liberalization efforts did not go as far as reductions in tariffs. In examining trade policy decision making during this period, the author has not found any reference to governmental attempts to reduce tariffs, revealing that liberalization of tariffs did not become an issue even within the executive structure as NTBs and exchange rate policies were being reshaped. Consequently, it cannot be argued that it was due to the constraints imposed by the legislature that this episode turned out to be one of "moderate" trade liberalization.

Governments that were in charge of Turkey's foreign trade policy during the two episodes of "low" trade liberalization, i.e. second and third episodes, did not demand an overall restructuration of Turkey's trade regime, either. The presence of an institutional veto player may have had an impact on their decisions. However, without accounting for the effects of other institutional variables, this would be a premature conclusion. A better understanding of the degree of trade liberalization in the first three Turkish episodes can be gained by analyses of the trade policy preferences of the executive in conjunction with
those of the other politically relevant actors in this policy domain and relations between the executive and these actors.

At the outset of the fourth Turkish episode, the proposals which Özal presented to the Prime Minister and which later constituted the 24 January 1980 Program did not include any items regarding reductions in tariffs (Çolsan 1984). One interpretation is that according to the sequencing of reforms Özal in mind, priority was given to a move away from quantitative restrictions, promotion of exports, and creation of a more realistic exchange rate regime and changes in tariff would constitute a part of the second stage of trade liberalization. This claim is substantiated by tariff cuts made during the sixth episode when Özal-led ANAP government was in power. On the other hand, the AP government's announcement of changes in other policy areas connected with the country's foreign trade indicates that in the trade policy domain, though not in other areas, this government was able to overlook the constraints associated with the presence of an institutional veto player.²⁴

In conclusion, a significant correlation between the number of institutional veto players and degree of trade liberalization has not been established. The observations that during episodes of "low" and "moderate" trade liberalization, the absence or presence of institutional veto players was not the most significant variable determining the degree of change in trade policy and that the presence of institutional veto players did not necessarily preclude "high" trade liberalization reveal the necessity of examining the

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²⁴ For instance, anticipating the reaction of the parties within the Turkish legislature, attempts to introduce a new tax law which could not be introduced by a governmental decree was delayed. This change could be realized under the military regime in the absence of an institutional veto player.
impact of the number of institutional veto players on trade policy outcomes in relation to preferences and other institutional variables.

3. Distance between the Trade Policy Preferences of the Executive and the Institutional Veto Players and Foreign Trade Policy Outcomes

During the three episodes of "high" trade liberalization, there was not a considerable distance between the trade policy preferences of the executive and the institutional veto players. The third (1977-1980) and fourth (1982-1986) Spanish episodes were characterized by a confluence of preferences between the governing party and other parties having seats in the Spanish parliament. They all agreed on a liberal trade policy which would prepare Spain for EEC membership and make the signing of the Treaty of Accession possible. Although they did not grant the ANAP government's trade policies the same wholehearted support given to those of the UCD and PSOE governments by other parties in Spain, the parliamentary parties during the sixth (1983-1986) Turkish episode gave their tacit consent in a time period when trade policy liberalization seemed to be the only alternative capable of improving Turkey's economic situation.

The other episodes during which the legislature was involved in the decision making process as an institutional veto player were the first through fourth Turkish episodes. Since the trade policy preferences of the DP government between 1958 and 1960 could not be definitively determined and conclusion regarding the impact of the distance between the trade policy preferences of the executive and the institutional veto player, that is, the legislature, during the first episode cannot be substantiated.
On the other hand, the evidence from the second episode suggests that when there are significant differences between the trade policy preferences of the government and the other parties in the parliament, even a willing government is unable to go beyond a “low” degree of trade liberalization. The AP government’s inability to introduce any major change in Turkey’s trade regime between 1970 and 1971 can be partially explained by the other parliamentary parties’ adherence to the status quo. Yet, this explanation is weakened by evidence from the fourth Turkish episode when, again, an AP government was able to push for trade liberalization despite anticipated and actual opposition and thus, attain a “moderate” degree of trade liberalization. A comparison of these two episodes reveals that the extent to which an institutional veto player can influence government decisions may depend on various factors, such as the severity of the economic crisis the country is in and the urgency of resolving its economic problems. As it has been mentioned before, the second Turkish episode was not preceded by an external shock whereas the impact of two oil crises was deeply felt during the fourth episode. Consequently, by 1980, protectionist policies which constituted the widely accepted status quo during the time period covering the second episode became an issue of contention under changing international and domestic economic conditions. The belief that only a radical change involving the abandonment of ISI could save the Turkish economy facilitated the introduction of a “moderate” degree of liberalization by the minority government of AP in 1980. Such a sense of urgency was absent from economic policy considerations during the second episode.
Finally, during the third Turkish episode, the political parties having seats in the Turkish parliament were divided on trade policy. While some including those within the CHP-led coalition government continued to view protectionism as Turkey’s best bet, the major opposition party, namely, AP shifted to a more outward-oriented approach. Yet, those in favor of protectionism continued to enjoy a majority in the parliament.

During the second half of the 1970s, inter-party divisions over trade policy accompanied by strong disagreements in almost all issue areas and policies had already brought the Turkish parliament to a stalemate. This condition can be pinpointed as a factor impeding the introduction of any policy change. Yet, it should also be taken into consideration that the coalition government, especially its main partner, the CHP was not willing to initiate any modifications in trade policy which would liberalize Turkey’s international trade. Therefore, during this episode of “low” trade liberalization, it is difficult to differentiate whether it was solely the government’s own trade policy preferences or their distance from those of the opposition in a deadlocked parliament that limited the degree of trade liberalization.

B. Evaluation: “State-Level” Institutional Variables and Trade Liberalization

The overall conclusion that can be drawn from my analysis above is that the variance in the degree of trade liberalization cannot be satisfactorily explained by the variance in the regime type, the number of institutional veto players, and the distance between the trade policy preferences of the executive and the institutional veto players across countries and over time. This conclusion is further strengthened by the collinearity between regime type and number of institutional veto players. Should this finding lead us
to rule out state-level institutional variables as factors influencing change in foreign trade policy? I believe that this would be a premature resolution reached without fair consideration. A fair treatment of the institutionalist approaches requires being clear on what they can and cannot explain as well as on the limitations of the theoretical and analytical tools used to study the impact of institutions of political outcomes.

First of all, in evaluating the utility of institutionalist approaches, it should be acknowledged that institutions are mediating variables, not the ultimate motors of action. As Thelen and Steinmo assert, “institutions constrain and refract politics, but are never the only cause of outcomes” (1992, 13). Thus, studies that concentrate on the effects of one or a few political institutions on political outcomes can shed light on how they constrain or facilitate trade liberalization, but should not be expected to fully account for the degree of trade liberalization attained during identified episodes.

Furthermore, in shaping political outcomes, institutions interact with each other and with non-institutional variables. Hence, analyses of the impact a single institutional variable has on political outcomes should not be expected to explain all the variation in the degree of trade liberalization. Despite this limitation, such analyses as well as those isolating the effects of a few institutional variables and the interaction between them on political outcomes constitute a necessary step towards an understanding of more complex interactive processes.

Having expressed the precautions against setting the bar too high in evaluating the findings of this study, the next step is to bring these findings together. First, evidence from the ten identified episodes does not indicate regime type to be a major determinant
of the extent to which the Spanish and Turkish governments liberalized trade policy. Yet, the observation that the authoritarian governments which were in power during the first and second Spanish episodes and the fifth Turkish episode did not go beyond a "moderate" degree of trade liberalization is important in showing how the authoritarian leaders' concerns about political liberalization and instability may constrain economic liberalization in general and trade liberalization in particular.

Secondly, observations from episodes where the approval of institutional veto players were not required for a policy change reveal that within this institutional environment, the executive can easily introduce the changes it deems necessary. Yet, the number of veto players cannot, by itself, explain the degree and direction of change without accounting for the trade policy preferences of the executive. This assessment is also valid for the explanation of trade policy outcomes in political systems where an institutional veto player is involved in the decision making process.

Contrary to the expectation, during three out of seven episodes where the legislature acted as an institutional veto player, the governments were able to attain a "high" degree of trade liberalization. Still, this should not lead to the conclusion that the number of veto players is not a consequential variable in explaining trade policy change. In all these episodes of "high" trade liberalization, there were some favorable conditions which significantly reduced the constraints that the parliament imposed on the executive. First of all, during the fourth Spanish and sixth Turkish episodes, the governing parties, PSOE and ANAP respectively, had highly centralized party structures and an absolute majority in the legislature. On the other hand, the UCD and PSOE governments which
were in power during the third and fourth episodes in Spain operated in an environment where major parties and societal actors agreed on the trade policy approach that should be in effect. In other words, the proximity of the distance between the trade policy preferences of the executive and the other parties having seats in the parliament increased the likelihood and degree of change. In the absence of the latter condition, even the willing AP government of the 1970-1971 period in Turkey had to back down against opposition from other parties in the parliament.

Moreover, as evidenced by the “high” degree of trade liberalization during the third and fourth Spanish episodes as well as the sixth Turkish episode, the proximity of trade policy preferences of the executive and the institutional veto player, i.e. the legislature, can facilitate policy change when both opt for a move away from the status quo. However, the observation that a “moderate” degree of trade liberalization could be achieved when there was significant differences between the preferences of the AP government and other parliamentary parties during the fourth Turkish episode while such an outcome could not be generated under a similar relative preference structure during the second Turkish episode compels us to consider conditions under which the distance between the preferences of the executive and the legislature may have a decisive effect on foreign trade policy outcomes. These conditions may be a function of international factors, e.g. the intensity of external shocks, and/or domestic political and economic factors.

Last, but certainly not the least, the absence of any notable disagreement between the trade policy preferences of the executive and the institutional veto players does not
guarantee a liberalizing change in trade policy. Convergence of trade policy preferences
around the status quo contributes to policy stability. Namely, during the third Turkish
episode (1978-1979) the trade policy preferences of coalition government and the
majority in the parliament did not diverge from the existing set of protectionist policies
and hence, no considerable attempt to liberalize Turkey’s foreign trade policy was
observed during this episode.

Having reviewed the major findings of my analysis regarding the effects of “state-
level” institutional variables on the degree of trade liberalization, the next step is to
evaluate the approach that has been employed in studying these effects. Thus far, within
the tradition of rational choice institutionalism, I have relied on deductively derived
hypotheses framed around the question of whether the variance in the selected variables
have a decisive impact of the degree of trade liberalization. As demonstrated by its
findings, such an approach cannot capture the real dynamics of the trade policy decision
making process and persuasively show how institutions matter.

One of the major weaknesses of the method applied in this chapter stems from its
over-aggregated treatment of institutions. For instance, the differences among similar
types of regimes are so great that it is not surprising the variance in the trade policy
outcomes generated under similar regimes is as significant as the variance in trade policy
outcomes generated under different types of regimes. Yet, being based on a dichotomy
between authoritarian and democratic regimes as two encompassing categories, the
simple approach employed in this chapter misses the dissimilarities in the way trade
policy decisions are made in similar types of regimes. On the other hand, the formal
definition of institutional veto players is so rigid that it fails to present an accurate model of trade policy decision making especially in authoritarian regimes defying the principle of separation of powers. In brief, a deductive and highly abstract approach to the study of institutions remains of limited analytical value because it cannot capture the complexity of the process through which trade policy outcomes are produced. This brings us to the question of what kind of an institutionalist approach can better reveal how institutions matter.

Going beyond the often abortive attempts starting out by asking whether institutions matter, a historical institutionalist approach is better equipped than its rational choice counterpart to tackle the more essential question of how institutions affect trade policy outcomes. Advocating a more inductive method, historical institutionalists develop their hypotheses “in the course of interpreting the empirical material itself” (Thelen and Steinmo 1992, 12). As such, they can provide a more contextually sensitive and fine-grained representation of the trade policy making process. Therefore, in examining the impact of societal actors on trade policy outcomes, I will shift to a historical institutionalist approach to show how institutions shape the political interactions among the actors involved, their interests, and strategies.

III. Conclusion

In this chapter, as a first step in my endeavor to distinguish the impact of domestic political institutions on the degree of trade liberalization, I have attempted to isolate the distinct effects of the selected “state-level” institutional variables on foreign
trade policy outcomes. A set of deductively derived hypotheses have been put to the test against empirical evidence from identified episodes. An overall evaluation of the findings indicates that none of the “state-level” institutional variables included in this study can provide a satisfactory explanation for the degree of trade liberalization. The decision making process through which trade policy responses to external pressures are generated is more complicated than can be captured by the approach on which my analysis has been based. Thus, in the next chapter, where I study the role which institutional variables connecting the executive to societal actors in the trade policy domain play in shaping trade policy outcomes, I will adopt a different approach. Specifically, I will use the analytical tools provided by historical institutionalism to examine the effects of institutional mechanisms of access to decision making available to societal actors on the degree of trade liberalization.
CHAPTER 5

EXPLAINING CHANGE IN FOREIGN TRADE POLICY: THE IMPACT OF SOCIETAL ACTORS ON TRADE LIBERALIZATION

In this study, the impact of domestic political institutions on foreign trade policy outcomes are examined in two parts. Employing a deductive approach to the study of institutions, the previous chapter has focused on the "state-level" institutional variables. However, in order to present a more accurate explanation of domestic policy responses to changes in the international economy, it is necessary to go beyond these variables and consider the impact of societal actors on policy outcomes. Open polity analyses provided by scholars, such as Rogowski (1989), Frieden (1991), and Milner (1988), assume that the interest-based preferences of societal actors are directly translated into trade policy outcomes. Their failure to account for the political process through which these preferences find expression and influence trade policy outcomes limits their ability to draw an accurate picture of the politics of trade policy making. In this chapter, I aim to fill this gap by bringing institutions and preferences together in a single framework guided by the inductive logic of historical institutionalism.
I contend that by putting the players, their interests and strategies as well as the distribution of power among them in context and showing how they relate to one another in a given institutional structure, the historical institutionist approach can better capture the complexity of real political situations and thus, the real dynamics of the trade policy making process. This less aggregated approach can explicitly incorporate the diverse interactions that are encapsulated in this process and are often black-boxed by rational choice theorists in search of parsimony. Hence, the question of how institutions matter can be more effectively addressed by adopting a historical institutionalist approach.

I. Building a Road Map for Empirical Research

While institutions shape the way the societal actors relate to the government and thus, specify whose voice is more likely to be heard during the decision making process, trade policy preferences of both the societal actors and the government have a non-negligible effect on the direction and degree of change in foreign trade policy. My main argument is that the extent to which the trade policy preferences of societal actors influence trade policy outcomes depends on their ability to access the governmental decision making process through available institutional mechanisms. However, having access to decision making does not guarantee that a societal actor will have a salient impact of policy decisions. The ability of societal actors to influence trade policy outcomes also depends on whether their political support is sought and hence, their preferences are taken into account by the government. Consequently, I hypothesize that expansion of world trade and the involvement of international actors in domestic policy
making process will lead to a higher degree of trade liberalization when there are pro-
liberalization societal actors who have access to decision making and whose political
support is sought by the government. An analysis of whether this hypothesis holds
against evidence from selected episodes will contribute to a more thorough
understanding of the effects of domestic political institutions in conjunction with the
interest-based preferences of the government and the societal actors on foreign trade
policy outcomes.

The steps involved in my empirical analysis of the ten episodes selected from
Spain and Turkey can be represented in a flow chart (Figure 5.1). First societal actors
who are going to be affected by a change in foreign trade policy as a response to
expansion of world trade will be identified. If there are no such actors with interest in
trade policy, policy outcomes are likely to reflect the trade policy preferences of the
government. If, on the other hand, there are societal actors who perceive that they are and
will be influenced by government’s trade policy in a world economy characterized by
expanding international trade and increasing involvement of international actors in
domestic policy making, the next step is to determine whether they have access to
decision making. In this study, I focus on three institutional mechanisms, namely,
elections, group and individual lobbying, through which the societal actors can reveal

1 Trade-theoretic approaches predict that expansion of world trade will inevitably lead to the emergence of
such actors due to the rising costs of closure for those who are closest to the country’s comparative advantage
and competitive in the international markets. However, they disregard the fact that domestic institutions and
policies may prevent or delay the rise of pro-liberalization forces by blocking relative price signals from the
international economy from entering the domestic one and freezing coalitions and policies into place by
keeping the costs of changing these coalitions and policies high. Under these conditions, expansion of world
trade may not have the immediate effects anticipated by trade-theoretic approaches on the trade policy
preferences of societal actors and hence, the emergence of societal actors advocating trade liberalization may
be impeded or put off. See Keohane and Milner (1996) for more on this line of argument.
1) Is the societal actor affected by a change in trade policy as a response to external pressures? → No → Trade Policy Reflects the Government's Preferences

↓

Yes

↓

2) Does the societal actor have access to decision making? → No →

↓

Yes

↓

3) Does the government seek the political support of the societal actor? → No →

↓

Yes

↓

4) Are the trade policy preferences of the societal actor in agreement with those of the government? → No → Trade Policy Reflects a Compromise between the Government and the Societal Actor

↓

Yes

→ Trade Policy Reflects the Shared Preferences of the Government and the Societal Actor

Figure 5.1 A Road Map for Empirical Research

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their preferences and demands to the government. The availability of these institutional channels will be a factor in determining whose preferences, among all societal actors with an interest in trade policy, are going to be weighed more heavily by the government. I contend that the preferences of those who cannot access the trade policy making process can be easily disregarded by the government. If this process is closed to access by all societal actors having stakes in trade policy decisions, the foreign trade policy outcomes are likely to mirror the preferences of the government.

In cases where one or more societal actors have access to decision making, their ability to influence trade policy outcomes is expected to be a function of whether the government needs their support in order to remain in power. If it does not, then the government can ignore the preferences of even societal actors with access to decision making and introduce policies in line with its own preferences regarding the degree of trade liberalization. In the absence of a domestic political support base for trade liberalization, the government is expected not to introduce any trade liberalization measures or to limit its efforts to a low degree of trade liberalization.

On the other hand, if the political support of societal actors with access to decision making is deemed necessary for the survival/re-election of the government, then it should take their trade policy preferences into consideration. When the preferences of these societal actors diverge from those of the government, it is likely that the policy outcomes will involve a compromise between the government and the societal actors who have access to decision making and whose support is sought by the government. Depending on how liberal or protectionist each is or how far apart their trade policy
preferences are, the government and the societal actors are likely to reach a compromise around either a low or moderate degree of trade liberalization. Conversely, in cases where the government’s preferences are in accord with those of the societal actors, then policy outcomes are going to reflect these common preferences. If both the government and the societal actors support the status quo policies, a policy shift is not a likely outcome. Finally, the most favorable condition for a high degree of trade liberalization is when both the government and the societal actors concerned are prololiberalization.

Having specified the general questions that will guide a systematic collection of empirical evidence regarding the process through which societal actors come to exert influence on governments, the next step is to formulate another set of questions directly addressing the proposition that the expansion of international trade and the involvement of the international actors in domestic policy making will lead to a higher degree of trade liberalization by the governments of protected economies when there are prololiberalization societal actors who have access to decision making and whose support is sought by the government. This second set of questions which will be answered based on the empirical evidence collected in the light of the first set are presented in Figure 5.2.

Briefly, I anticipate that in cases where there are no societal actors who advocate trade liberalization as a response to external pressures or where they exist but do not have access to decision making or their political support is not sought by the government, whether the government is prololiberalization will determine trade policy outcomes. If it is not, either the status quo policies will be maintained or a low degree of trade
Are there any societal actors who advocate trade liberalization as a response to external pressures? 

\[ \text{Yes} \rightarrow \text{No} \rightarrow \text{Status quo or Low Degree of Trade Liberalization} \]

Do the proliberalization societal actors have access to decision making? 

\[ \text{Yes} \downarrow \rightarrow \text{No} \rightarrow \text{Low Degree of Trade Liberalization} \]

\[ \text{Does the government advocate trade liberalization?} \]

\[ \text{Yes} \rightarrow \text{Low or Moderate Degree of Trade Liberalization} \]

\[ \text{No} \rightarrow \text{Low or Moderate Degree of Trade Liberalization} \]

\[ \text{Does the government seek the political support of the proliberalization societal actors?} \]

\[ \text{Yes} \rightarrow \text{Low or Moderate Degree of Trade Liberalization} \]

\[ \text{No} \rightarrow \text{Low or Moderate Degree of Trade Liberalization} \]

\[ \text{Does the government advocate trade liberalization?} \]

\[ \text{Yes} \rightarrow \text{Moderate or High Degree of Trade Liberalization} \]

\[ \text{No} \rightarrow \text{Low or Moderate Degree of Trade Liberalization} \]

Figure 5.2 The Impact of Proliberalization Societal Actors on Trade Liberalization
liberalization will be introduced under external pressures. If it is, the absence of any domestic political support base will deter the government from going beyond a low degree of trade liberalization. On the other hand, if there are proliberalization societal actors with access to policy making and whose support is sought by a government adhering to the status quo policies, then the trade policy outcome will be the product of a compromise between the government and proliberalization societal actors. Depending on the distance between their trade policy preferences, a low or, at most, a moderate degree of trade liberalization should be expected. Last, but certainly not the least, if both the government and the societal actors are in favor of trade liberalization, a high or, at least, a moderate degree of trade liberalization can be achieved.

In this chapter, I aim to find out if expectations represented in Figure 5.2 hold against empirical evidence from selected episodes. In other words, I seek to analyze whether observations from these episodes support the hypothesis that external pressures will lead to a higher degree of trade liberalization when there are proliberalization societal actors who have access to decision making and whose support is sought by the government.

II. Spanish Episodes

A. Spain 1: 1957-1960

As the world economy in general and international trade in particular were expanding during the 1950s, the Spanish economy was suffering from increasing costs of closure which were being felt by virtually all segments of the Spanish population.
Surrounded by high tariff walls, enclosed in a domestic market with limited power to consume industrial goods, and incapable of importing the raw materials and capital goods to supply and modernize its industry, the economy was starved. Physical controls and rigid price regulation from above distorted the market, favoring traditional entrenched sectors as opposed to dynamic sectors of the economy (Carr and Fusi 1981, 52-53).

Apportionment of foodstuffs, chronic shortages of fuel, energy, raw materials, and equipment, and deterioration of purchasing power were main sources of discontent among the Spanish populace. As Lieberman reports, “the real value of wages and salaries in 1956 was probably 15% to 35% below the pre-Civil War level” (1995, 44). In brief, during the 1950s, the Spanish society as a whole was burdened with rising social welfare costs of maintaining an autarkic system in a world economy characterized by easing of international trade. Thus, abandonment of this system for a more liberal one would have a discernible impact on all societal actors. However, their ability to access decision making was constrained by the institutions of the Franquist regime. First of all, in a political system where governments were not popularly elected, but appointed by an authoritarian leader, namely, Franco, no societal group could utilize its voting power to influence policy outcomes.

Deprived of their right to vote and aware of the fact that the only reason the executive would take their interests and activities into account was their ability to disturb the societal peace much valued by the political leadership, societal groups, such as workers and students, resorted to illegal strikes and demonstrations to express their discontent with economic and social conditions. However, changes in trade policy were not among the demands expressed by workers engaging in such activities. As rational actors, they were most probably aware of the fact underlined by Alt, et.al. that “trade policy is a tremendously ineffective and inefficient tool for redistributing income in any society” (1996, 709). Thus, it seems that Franquist Spain, labor did not choose to utilize its limited resources to influence government’s trade policy. Bataller (1983) does not find any public records of conscious use of tariff policy in response to hypothetical labor pressures or justification of protection as an instrument to improve workers’ conditions. The policy instruments adopted by Franquist governments to maintain political stability and social peace included full employment, government authorization of layoffs, a rather comprehensive system of social security, and other benefits. As such, trade policy remained an insignificant component of relations between the Franquist governments and Spanish workers.

2 Deprived of their right to vote and aware of the fact that the only reason the executive would take their interests and activities into account was their ability to disturb the societal peace much valued by the political leadership, societal groups, such as workers and students, resorted to illegal strikes and demonstrations to express their discontent with economic and social conditions. However, changes in trade policy were not among the demands expressed by workers engaging in such activities. As rational actors, they were most probably aware of the fact underlined by Alt, et.al. that “trade policy is a tremendously ineffective and inefficient tool for redistributing income in any society” (1996, 709). Thus, it seems that Franquist Spain, labor did not choose to utilize its limited resources to influence government’s trade policy. Bataller (1983) does not find any public records of conscious use of tariff policy in response to hypothetical labor pressures or justification of protection as an instrument to improve workers’ conditions. The policy instruments adopted by Franquist governments to maintain political stability and social peace included full employment, government authorization of layoffs, a rather comprehensive system of social security, and other benefits. As such, trade policy remained an insignificant component of relations between the Franquist governments and Spanish workers.
Moreover, while elections as an institutional mechanism through which societal actors could access the governmental decision making process were absent in Franco’s Spain, group lobbying was subject to strict restrictions. As discussed in a previous chapter, one of the defining characteristics of authoritarian regimes is “limited pluralism”. Within the Franquist political system, the concept of organic state, which implied that the various sectors or interests of society were not to be understood as autonomous, but rather meshed into the state itself, constituted the basis on which relations between the government and the societal actors were built (Anderson 1970). Since “harmonization of interests” was the stated objective of the Franquist leadership political parties and autonomous collective organizations that were believed to generate conflicts within the society were banned. Only legally recognized form of interest representation was that which was licensed by the state. In economic affairs, vertically organized syndicates to which membership of all workers, technicians, and employers, with the exception of a few groups (government employers, the free professionals, and domestic servants) was compulsory constituted the main vehicles of participation licensed by the state. However, their ability to act as a channel of communication between those they nominally represented and the executive and affect policy making was very limited. Having obtained their legitimacy by state action and given an advisory, rather than controlling role in the policy making process, the syndicates did not have much leverage over the policy choices made by the executive. Deprived of the right to strike and other economic weapons, enrolled in a compulsory organization without legal alternatives, the important leaders appointed and the rest carefully screened, neither
could the membership constitute a basis for power that would have made the syndicates a more effective actor in the policy decision process.

For a more complete picture of the executive-societal actor relations in Franco’s Spain, we should go beyond the analyses of formal structures and discuss the other ways in which societal actors who would be affected by trade policy decisions were able to gain access to decision making. The way these relations were formally and informally institutionalized clearly privileged the interests and preferences of some societal actors. For instance, the *Ley de Unidad Sindical*, which specified that all political economic representation should flow through the syndical bodies was rigidly enforced toward labor as many forms of business, commercial and associational organization were implicitly recognized as part of the representational structure and provided access to the decision making process. In other words, group lobbying activities of banking, industrial and commercial sectors as well as big landowners who are usually referred to as “the oligarchy” were tolerated within the boundaries of “limited pluralism”. Even though the key elements of the oligarchy seemed to have divergent and sometimes conflicting interests, according to Whitaker (1961), from the political point of view, there are good grounds for speaking of the Spanish oligarchy as a unit.

Its basic economic interests interlock in a number of ways, above all through the high degree of control which the banking community has achieved over the other segments of the oligarchy. The economic nexus is also reinforced by personal ties. Large landowners, including members of the nobility, have gone into business and banking. Conversely, since landowning has many attractions for Spaniards, including social prestige, the banker or businessman who prospers is likely to acquire a *fianca*, or country estate, if he did not own one in the first place (Whitaker 1961, 146).
Although the Franquist governments did not look unfavorably at the group lobbying activities of the oligarchy, the disincentives against autonomous collective action and organization remained high. Within the existing institutional context, Heywood (1995), for instance, finds no evidence that the banks acted together to try to influence and alter economic policy. Instead, various sectors of the oligarchy generally chose to access decision making through channels which I categorize as individual lobbying and which were not available to other actors in the society. As Gunther also underlines, the oligarchy “preferred to use particularistic and/or clientelistic ties to persons inside the State Administration” (1980, 256). Linz describes this mechanism as “a complex network of influences and mutual favors” (1981, 391) that gave those in direct contact with the political leadership, that is, the members of the oligarchy, a privileged position. Their privileged position was further reinforced when the members of the Opus Dei, who had close connections with big bankers and businessmen even before they came to power, were granted key economic ministerial positions at the beginning of the first Spanish episode in 1957.

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3 There are different interpretations of the extent to which the oligarchy could influence and dominate policy outcomes in Franquist Spain. While some, such as Lancaster (1989) emphasize how due to the concentration of economic power, the people with this power increasingly came to guide economic policy, others argue that the executive led by Franco had the ultimate control over the whole economy and polity. Namely, Whitaker (1961) discusses how the government exercised control over the private sector, including the banking and industrial sectors, through a national banking council dominated by government members and through the syndicates, respectively. In his assessment of where power lied in the Franquist system, Maura (1976) asserts that because Franco never owed his strength to any economic sector, nothing happened to alter the fact that Franco always could prevent men in key positions of, even the private sector from either remaining there against his will or from persisting in what he considered a hostile stance. Regardless of the interpretation one is inclined to agree with, it can be concluded that among all societal actors, the bankers, the businessmen, and the big land owners were those with the easiest access to decision making and hence, the most influence over the trade policy outcomes during the Franquist period.
In addition to their dominant position in the Spanish economy, various sectors of the oligarchy were societal actors whose interests and preferences could not be disregarded by the Franquist governments for still another reason. As Whitaker (1961) emphasizes, Franco's regime was based on and could not stand without the support of certain key elements in the Spanish society. The oligarchy constituted one the four major groups whose support was essential for the survival of Franco's dictatorship⁴. Furthermore, during the 1950s, "changes in international economy and political conditions together with the impossibility of further growth along autarkic principles led to changes in the relative power of the 'political families' supporting the regime" (Bataller 1983, 16) in favor of the oligarchy⁵. Ultimately, the appointment of members of Opus Dei to economic ministerial positions in 1957 not only signified a redistribution of power in the top echelons of the Spanish decision making structure, but also enhanced the significance of the oligarchy's support for the regime.

Having determined that the oligarchy had access to decision making and that its support was sought by the Spanish government during the first Spanish episode, the next question is whether the trade policy preferences of this government were in agreement with those of the oligarchy. Regarding the trade policy preferences of the government, it should be first underscored that the 1957 shuffling of the Cabinet marked a turning point in the Spanish leadership's approach to international trade. As Ullastres, the Minister of Commerce of the 1957 cabinet, repeatedly asserted, the objective of the economic policy

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⁴ The other three were the armed forces, the Catholic Church, and the Falange.
⁵ The other "political families" included the old guard Falangists, Carlists, doctrinaire monarchies, semiauthoritarian traditionalist Catholics, and right-wing generals.
was to integrate Spain in the booming world of advanced capitalism, particularly into the European market (Carr and Fusi 1981). One way of achieving this integration was the gradual opening up of the Spanish economy to international competition through liberalization of trade policy. Even though the Opus Dei ministers were determined to end autarky, at the time, they did not advocate the immediate abolition of all protectionist measures. Hence, between 1957 and early 1959, these ministers adopted a tentative and cautious approach to Spain’s economic problems through the modification and adjustment of established instruments (Anderson 1970).

On the other hand, up until the 1950s, virtually all segments of the Spanish society, supported the autarkic policies of the Franquist governments. When the post-Second World War expansion of international trade started to raise the costs of closure for closed economies, this coalition of interests also came under threat. In order to ascertain the preferences of the constituents of this coalition under changing economic circumstances, the newly appointed Cabinet of the first Spanish episode resorted to an instrument that had never been used by Franquist decision makers. In January 1959, before the announcement of the Stabilization Plan, a questionnaire was sent to the “most characteristically representative” institutions of the various economic sectors, including those comprising the Spanish oligarchy. Namely, the Syndical Organization, the Superior Council of Chambers of Commerce the Bank of Spain, Spanish Confederation of Savings and Loan Associations, Superior Banking Council, Institute of Agricultural-Social Studies, National Institute of Industry (INI), the Institute of Political Studies, the Faculty of Economics at the University of Madrid, and the National Economic Council were
asked of their opinions on the probable consequences of liberalization and European economic integration for Spain as well as their specific economic interests. Their responses revealed a unanimous assent to Spain’s pursuing a policy of economic liberalization and European integration. A common aspect of the replies was the absence of any expressions of the concerned organization’s direct self-interest and an emphasis of the problem in national, rather than group-specific terms. This attention to the aggregate welfare effects of a change in policy can be attributed to the seriousness of the economic crisis Spain was in.

Among others, the societal group that pushed most strongly for an abandonment of autarkic policies was not the abundant labor or the major tradables sector, that is, agriculture, but big bankers and businessmen who, together with the big landowners, were the societal actors with access to the decision making process in a regime that excluded others from this process. Both the bankers and big businessmen had close connections with their colleagues abroad. It was obvious to the big bankers and businessmen that they could no longer expect further expansion and growth in a closed, yet import-dependent economy. Owing to their size and international contacts, large banks and firms would gain from an opening up of the Spanish economy. With the

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6 See Anderson (1970) and Whitaker (1961) for more on this questionnaire.
7 As calculated by Rogowski (1989), in 1960, population per square kilometer of agricultural land in Spain was 92.3. Since this is above the calculated world average of 79 which he takes as the dividing line, Spain can be regarded as labor abundant. Large scale emigration of Spanish workers abroad during the 1960s may still be another indication of labor abundance in Spain during the first episode.
8 Even after the introduction of the 1959 Stabilization Plan, agricultural exports comprised 53.1% of Spain’s total exports in 1964 (Alonso 1991).
9 Franquist governments’ full employment policy as well as protections against layoff and firing which were inefficient measures to be dispensed with in order to enhance the competitiveness of Spanish goods and services in a more liberal trade regime would not make workers a major liberalizing force. On the other hand, governments’ policy of maintaining high support prices benefited big landowners and kept them content with the status quo.
prospects of benefiting from trade liberalization, big landowners also gave their tacit consent to trade policies solicited by the banking and industrial interests.

On the other hand, being not yet highly competitive in the international markets, big firms were for a system of selective protection. While they preferred a lowering of trade barriers in the importation of commodities they needed for production, such as capital goods, fuel and raw materials, they continued to seek protection for their finished products. While both advocated a move away from autarky, the type of trade liberalization they had in mind was one with selective protectionist measures. In other words, neither the government nor the big bankers and businessmen sought a “high” degree of trade liberalization. Thus, a government declaration made a day before the 1959 Decree was in agreement with the trade policy preferences of both the executive and these societal actors: “most of the goods that have been transferred to the liberalized list were raw materials and equipment parts in order to allow the Spanish industry to fully utilize its productive resources by ensuring them the supply of raw materials at international prices” (Cited in Bataller 1983, 19). Moreover, the protectionist Tariff Law of 1960 which imposed high rates especially on consumer goods, such as, automobiles (68%) also revealed an overlap between the preferences of the executive and big bankers and businessmen. The outcome was a “moderate” degree of trade liberalization that reflected their joint preferences.

B. Spain 2: 1972-1975

The decade between 1963 and 1973 was when the growth rate of international trade reached its peak with an average annual rate of 9.1% (Rogowski 1989) and
continued to surpass that of world output. The Spanish economy which had been gradually opened up since 1957 greatly benefited from this expansion. While its GNP, evaluated in real terms, grew at an average annual rate of about 7 % during the period between 1959 and 1971, its industrial productivity almost doubled between 1960 and 1971. The most visible outcome was a continuously rising standard of living (Lieberman 1995). Hence, in general, the post-1957 liberalization of Spain’s foreign trade policy in a world economy characterized by expansion of international trade helped reduce the aggregate social welfare costs associated with a closed or autarkic economy and what we would have called a “median voter” if Spain were a democracy during the 1960s gained from this. A general public with an interest in trade policy was created.

As to be expected, expansion of world trade during the 1960s and early 1970s also created winners and losers. Less efficient, previously protected industries, such as textiles, steel, and coal were among the losers. The intensified militancy of Asturian coal miners in the face of closures and dismissals in a stagnated industry was a sign of increasing sectoral cleavages (Carr and Fusi 1981). The sectors that profited most from Spain’s industrialization efforts during this period “were generally those which incorporated into their production processes new and more sophisticated technologies” (Lieberman 1995, 148) and thus, were more efficient and competitive. Metallurgy, construction materials, rubber, means of transport, and consumer goods industries, e.g. television sets, electrical appliances, were examples to such sectors. In brief, by the beginning of the second Spanish episode in 1972, the impact of the easing of
international trade had been so considerable on so many segments of the Spanish economy that all had stakes in government’s trade policy choices.

Despite the drastic transformation of the Spanish economy and society, which is often called a “miracle”, between the first and second episodes, changes in the institutional mechanisms that provided societal actors access to decision making remained minimal. In spite of cosmetic changes in the Syndical Organization, and growing public awareness of economic issues coupled with the generation of public debate, few new participants into the actual policy making process were created. Workers, small farmers, and small businessmen were still excluded from this process while the balance of power among the dominant societal actors changed to the detriment of the big landowners. On the other hand, benefiting from the 1960s economic boom, big bankers and businessmen enhanced their wealth and influence in the political system. Ties between the governmental policy makers and business interests further intensified. For example, 64% of the eighty seven Franquist ministers and ex-ministers living one year before the regime’s end were members of the boards of directors of one or more large businesses between 1961 and 1974 (Cited in Lancaster 1989, 36).

When trade policy once again gained salience in the Spanish political agenda in 1972, the “monocolor government,” eleven out of nineteen appointed ministers of which were members of Opus Dei or closely connected with that organization was in power. This government which Franco had formed in 1969 came to be the last one over which he presided in person. As measures of trade liberalization were introduced during the first half of the second episode, the institutional channels which granted privileged societal
actors access to governmental policy making remained as they had been since *Opus Dei*’s rise to power. In sum, the persisting dominance of the *Opus Dei* technocrats and their allies in the society over the country’s foreign trade policy made further trade liberalization during the first half of the second Spanish episode possible.

With Carrero Blanco’s formation of a new Cabinet without most of the *Opus Dei* ministers in 1973, *Opus Dei*’s monopoly over economic policy making came to an end. The successor of Carrero Blanco government, which took control under the leadership of Arias Navarro in January 1974, included even fewer *Opus Dei* ministers (Lieberman 1995). As the *Opus Dei* personnel largely disappeared, the traditional families slipped into the background (Grugel and Rees 1997). Furthermore, the appointment of the new Arias Navarro government coincided with a drastic deterioration of the Spanish economy due to the increase in the price of imported crude oil together with a sharp global increase in the prices of primary commodities. Having discharged its pro-liberalization elements, the Spanish leadership under Arias Navarro, with the aim of limiting Spain’s external current account deficit, preferred a more protectionist policy response to this sudden external shock.

The dismissal of *Opus Dei* technocrats from the Arias Navarro government also rendered the access of Spain’s big bankers and businessmen to decision making difficult and led to the diminution of their influence over economic decision making during the final year of the second Spanish episode. Subsequently, it can be concluded that the 1975 reversals of trade liberalization measures, such as, reductions in tariff and quantitative restrictions, which had been introduced since 1972 were mainly a reflection of the trade
policy preferences of the Arias Navarro government and a protectionist response to a major external crisis of a government overburdened with economic and political instability in a disintegrating political system.


As discussed in Chapter 3, neither the last Franquist government, nor the transitional governments appointed by King Juan Carlos between 1975 and 1977 could implement policies that would resolve Spain’s post-oil crisis economic problems which had had an adverse impact on the whole Spanish society. Hence, the trade policy decisions of the first democratically elected government after Franco’s death were not something the societal actors could afford to undervalue. Above all, Spain’s transition to democracy had opened new institutional channels of access to decision making. First, with the introduction of democratic elections, societal actors could now use their voting power derived from their numerical strength to influence policy outcomes. For instance, as electoral concerns, non-existent in the Franquist system, started to influence government action, the importance of labor’s voting power gained political relevance in democratic Spain.

Moreover, under the new regime, group lobbying could be more meaningfully carried out by truly representative organizations. Yet, during the early years of Spanish democracy, most of these organizations of interest were still being formed. The Spanish transition to democracy signified “a radical discontinuity in the structure of interest representation and emergence of a pluralistic, highly fragmented, politicized, and relatively weak system of organizations which was still in flux in 1980” (Linz 1981, 396).
In other words, ideological cleavages and heterogeneity of economic and social interests prevented the emergence of a strong system of interest representation immediately after democratization.

During the third episode between 1977 and 1980, workers were better organized than any other group in the Spanish economy, including agricultural sector that remained divided due to the diverse nature of Spain’s agrarian structure and financial and industrial interests that had been accustomed to interact with the government ministers at a personal level, that is, to access decision making through individual lobbying, rather than through organized action\textsuperscript{10}.

Throughout his early months in office, the UCD leader, Suárez, tried to pull previously excluded societal actors, such as workers, into the decision making structure. He met with the official representatives of labor on a regular basis. In addition to their electoral clout, the capacity of the trade unions for causing public disturbances through (newly legalized) strikes in a still unstable political and economic system was an instrument that could be used to affect government policy. Concessions made to labor by the UCD government through social accords, such as the Moncloa Pacts, during the third episode clearly revealed the enhanced ability of trade unions to access and affect policy making.

As elections and group lobbying gained more salience as institutional mechanisms of access to decision making vis-à-vis individual lobbying in post-Franco Spain, the Franquist oligarchy’s monopoly as the only group capable of effectively

\textsuperscript{10} Heywood (1995) finds no evidence that the banks acted together to try to influence and alter economic policy even under the Franco regime.
communicating its demands to the political leadership came to an end. With the rapid industrialization of the 1960s, the importance of one of the groups within the oligarchy, namely, big landowners for the Spanish economy had already diminished significantly. Their share in the national economy fell and the rural population shrank due to emigration. As a result, the political relevance of the landed groups' trade policy preferences waned. On the other hand, owing to their control over a scarce resource, that is, capital, big bankers and businessmen still constituted a group whose interests and activities could not be ignored by governments. Nevertheless, even though the UCD Cabinets of the 1977-1982 period included ministers directly connected to private bank capital through board memberships and indirectly linked through family ties, Suárez shunned meetings with the official leadership of the Confederación Española de Organizaciones Empresariales (CEOE, Spanish Confederation of Business Organizations) in order to convince the trade unions that his desire to dismantle the old regime was genuine (Bermeo and García Durán 1994). This alienation of business interests from the UCD indicated that they could no longer enjoy the same easy access to decision making which they were used to during the Franquist period.

Given that voters through elections and organized interests through group lobbying obtained access to decision making in democratic Spain, let us turn to the trade policy preferences of the UCD government and societal actors as factors having an impact on policy outcomes. As it has been discussed in Chapter 4, during the third Spanish episode, the UCD government advocated the liberalization of the Spanish foreign trade policy geared towards future EEC membership. Just like the government,
the trade policy preferences of the societal actors were also shaped by their desire for Spain’s entry into the Community. According to an opinion poll, 67% of the people surveyed were in favor of Spain’s entry into the EEC, only 7% were against and 28% fell in the “don’t know” category (Baklanoff 1978, 103-113). Moreover, all major interest groups, including industrialists, trade unionists, and farmers supported the idea of EEC membership. During this episode between 1977 and 1980, when the Spanish politics was characterized by a high level of consensus among major political and societal actors, none accentuated the economic consequences of policy change and of EEC membership for specific interests. Consequently, a “high” degree of trade liberalization reflecting joint preferences could be achieved. Finally, when the second oil crisis hit the Spanish economy in 1979, the UCD government, operating within the existing preference structure and institutional framework, did not reverse the trade liberalization measures introduced during this episode unlike the last Franquist government which did after the first oil crisis during the previous episode.

D. Spain 4: 1982-1986

When the PSOE came to power in 1982, the world economy was experiencing one of its worst years since the 1940s.

Instead of bringing an expected end to the worldwide recession which followed the first oil crisis, 1982 witnessed a deepening of depressed economic conditions, whether measured in terms of production, employment or volume of international trade. World trade was hampered by the growing use of the devices of the “New Protectionism” by major trading economies. The resulting distortions in the flows of international trade limited the exports of developing nations and rendered the latter unable to service their foreign debts. World trade was further weakened by a decline in the growth rate of major industrialized countries (Lieberman 1995, 220).
Being highly dependent on imported oil, the Spanish economy was especially weakened by the two oil price shocks\textsuperscript{11}. In addition to increasing prices of imported oil, rising wages and social security contributions lowered the international competitiveness of Spain's exports which were already adversely affected by the post-oil crises drop in international demand. The deterioration of Spain's terms of trade and the decline in the rate of export growth had a widespread impact on the Spanish society. The growth rate of private consumption decreased, unemployment went up in both industrial and agricultural sectors, and the performance of almost all major industrial sectors took a downturn. Deeply aware of the sensitivity and even vulnerability of the Spanish economy to international trends and shocks as well as the necessity of generating effective national policy responses to them, societal actors, from the least politicized voter to organizations of interest representation, had an interest in the route Spain's international trade would take.

One of the institutional mechanisms providing societal actors access to decision making was elections. Like the UCD, the PSOE adopted catch-all strategies in order to expand its support base in an economy characterized by the shrinking of agricultural sector, growth of tertiary sector, and increase in the size of middle strata\textsuperscript{12}. Hence, it may be argued that trade policy decisions of the PSOE government was influenced by its desire to attract voters with different interests.

\textsuperscript{11} Two-thirds of the country's industrial energy requirements were based on imported oil and more than 80\% of the country's freight moved by road (Lieberman 1995).

\textsuperscript{12} See Gunther, et.al. (1988) for more on these strategies and electoral politics in post-Franco Spain.
The 1982 elections, which resulted in a Socialist victory, marked the consolidation of Spain's new democracy and system of interest representation at the outset of the fourth Spanish episode. Among others, the Unión General de Trabajadores (UGT, General Workers' Union) and the CEOE emerged as the two organizations with the easiest access to decision making. The former, which was created by the PSOE in 1888, pulled ahead of the more radical Comisiones Obreras (CCOO, Workers Commissions) and came to dominate the labor movement as it maintained its links with the governing party. On the side of the business interests, the CEOE became a well-funded, extensive, and cohesive organization (Martínez 1984) as the organizational weakness that had characterized these interests in the early years of the transition dissipated. Aware of the fact that it was dependent on capital for modernizing the Spanish economy, the PSOE government made a special effort to open channels of communication with the leaders of the business community and improve government-business relationship that had deteriorated under the UCD governments (Ibid). Just a few weeks after the PSOE came to power, Ferrer, the president of the CEOE announced that there was “better communication with this government than with its predecessors” (Díaz-Varela and Guindal 1990, 89).

During the fourth Spanish episode, the preferences of the societal actors and the government regarding Spain’s entry into the EEC, around which their trade policy approach was shaped, did not change. The unanimity of opinion on its desirability that existed during the previous episode continued to prevail in spite of the unfavorable
conditions engendered by the oil crises. Improvement of the competitiveness of Spanish industry in the light of progressive trade liberalization and accelerating negotiations with the EEC in order to conclude the Treaty of Accession as soon as possible were the two central objectives of PSOE's economic policy. During this last Spanish episode, as some societal groups started to voice their preferences regarding the shape the Treaty of Accession should take, none rejected membership. Packaging of trade policy changes within a single Treaty of Accession facilitated their introduction without much societal resistance. Since the early 1960s, Spanish governments had sought membership to the Community more for political reasons than economic ones and they were supported by a significant majority of the Spanish populace who did not want Spain to be left out of an integrated Europe. In describing the situation in 1982, Holman underlines the existence of a nationwide consensus in the Spanish society for full entry into the EEC. He states that "from Left to Right, all social and political forces favored the formal Europeanization of Spain" (1996, 78). Consequently, the approval of the Treaty of Accession, involving a "high" degree of trade liberalization, can be regarded as a reflection of the shared preferences of the government and all the societal actors.

13 For instance, after the announcement of the European Commission proposals following its negotiations with the Spanish government in 1983, CEOE reacted by arguing that a longer transition period than the one offered by the Commission should be provided before Spain abolished her import duties on the entry of EC industrial goods. Moreover, CEOE opposed the Commission's proposed treatment of Spanish exports of fresh fruit and vegetables to the Community. The PSOE government supported the CEOE's arguments (Lieberman 1995).
III. Turkish Episodes

A. Turkey 1: 1958-1960

During the 1950s, the Turkish economy could not benefit from the post-war expansion of world trade. On the contrary, starting from mid-1950, the volume of its exports went down mainly due to government controls on exchange rates, domestic agricultural price policies, and minimum export prices which blocked the entry of international price signals into the domestic economy and diminished the competitiveness of Turkish exports in international markets. In addition to these measures that created strong disincentives for exporters, the DP government's post-1954 imposition of trade barriers, mainly on high-income consumer goods, provided significant incentives for import substitution. By the beginning of the first Turkish episode in 1958, the costs of maintaining this system had drastically increased. Balance of payments deficits, import shortages, retarded economic growth, a flourishing black market, and constant arrears in foreign indebtedness all pointed to the fact that the Turkish government had to reconsider its policies affecting the country's exports and imports. Its trade policy decisions would have a pervasive impact on the Turkish society as a whole as well as on specific sectors with diverse interests.

Among institutional mechanisms of access to decision making, elections were the one through which agricultural sectors could influence policy outcomes. With their numerical strength, they enjoyed a decisive voting power. In the 1950s, 84% of the Turkish population was living in rural areas and 80% of the labor force was employed in

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14 See Krueger (1974) for more on this. In the first two quarters of 1958, export earnings were 40% below their corresponding level in 1957 (Ibid.)
the agricultural sector (Ergüder 1991, 71). A unique feature of Turkish agriculture was its domination by vast numbers of small land holdings and rarity of Latin American latifundia types of holdings. Hence, “rural vote” shaped by a large number of small farmers played a significant role in Turkish politics. On the other hand, group lobbying activities of the agriculture-based interest groups remained insignificant. “Elections, local party congresses, party organizations, and direct contact with party leaders [i.e. individual lobbying] served as vehicles for articulation of demands emanating from the agricultural sector” (Ergüder 1980). Consequently, interest associations could not serve their expected functions.

Although group lobbying was available to various organizations of interest representation, its effectiveness was constrained by the fact that the existing organizations were those licensed by the state. Namely, in a society where a distinct working class had not yet fully developed, the state granted the monopoly over the representation of labor to the Türkiye Isci Sendikaları Konfederasyonu (Türk-İs, Confederation of Turkish Trade Unions) in 1952. Even though unions within Türk-İs were legally barred from forming any links with political parties, governments persistently tempered with the demands of the Confederation, its internal governance, and leadership selection. In turn, Türk-İs represented labor on mixed consultative boards and regulatory commissions in the public sector. As Sakallıoğlu puts it, “the end result was a labor sector which was co-opted, controlled, and induced to stay out of high politics” (1991, 58).
Similarly, the sole organizational representative of industrial and commercial sectors, Türkiye Odalar ve Borsalar Birligi (TOBB, Turkish Union of Chambers and Stock Exchanges) was established by a legislation passed in 1950. It was an umbrella organization covering the Chambers of Trade and Industry, the Chambers of Trade, the Chambers of Industry and Commercial Exchanges\(^{15}\). By a 1958 law that gave the government the authority to postpone the elections of governing bodies of the TOBB, the government tightened its control over business and interfered in the Union's electoral process in the same year. By doing this, the DP government was clearly defining the legitimate boundaries of interest group activity in Turkey.

Businessmen were made to understand, in other words, that their associations would have government support to the extent that their leadership shared in the same outlook as the government and behaved in conformity with government policy. An independent orientation in interest articulation and representation simply would not be allowed (Bugra 1994, 242).

Given the weakness of their representative organizations vis-à-vis the government and governmental practices discouraging collective action and creating incentives for individual self-interested activities, industrialists and traders preferred to access governmental decision making through individual lobbying. In the early 1950s, promising an environment more favorable to private enterprise, the DP had already built rather close relations with the business community. Since then, through the allocation of preferential credit to entrepreneurs, the DP governments of the decade had helped create

\(^{15}\) In Turkey, the first chambers were instituted as voluntary organizations during the Ottoman Empire. The foundation of the Istanbul Chamber of Industry and the Istanbul Chamber of Trade dates back to 1887. They were kept as the main channels of organizational activity by industrial and commercial sectors during the Republican period.
a group of businessmen whose fortunes were dependent on governmental favors. Besides, in the trade policy domain where protection was given through a quota system, individual urban-based traders with connections to the government could more easily obtain foreign exchange for the importation of particular products. In sum, the responsiveness of the government to individual lobbying and electoral pressures, rather than group lobbying privileged those who could contact government officials at a personal level and who had the numerical strength at the polls.

When foreign trade policy came to the DP government's agenda during the 1958-1960 episode, its trade policy preferences, as it has been discussed in some detail in the previous chapter, were not clearly defined\(^{16}\). These preferences cannot simply be derived from the policies announced by the government, in this case, those included in the 1958 Stabilization Program. Given the insufficiency of empirical evidence pertaining to the DP government's trade policy preferences before the Program was introduced, a definite conclusion regarding how they compared to those of the societal actors with access to decision making cannot be substantiated. However, it should still be noted that during this episode, the DP government did not face any societal pressures towards trade liberalization even though there was a general discontent about the prevailing economic conditions among large segments of the population. Government's utilization of support prices and subsidies to support agricultural sectors producing the majority of Turkey's exportable goods diverted their attention away from trade policies and made them a

\(^{16}\) Nevertheless, it is safe to argue that the DP government did not advocate a "high" degree of trade liberalization.
group with vested interests in the existing system, just like the industrialists and traders protected by trade barriers.

B. Turkey 2: 1970-1971

The Turkish economy expanded parallel to the expansion of the world economy up until late-1960s when the exports started failing to keep up with GNP and the demand for imports and hence, balance of payments deficits once again emerged as a major problem. By then, societal actors with vested interests in ISI, which had been in place since the beginning of the decade, were created. This large coalition of societal actors that supported or did not oppose ISI during the 1960s and 1970s included interests ranging from agricultural sectors to organized labor, from industrialists to traders. A shift away from the status quo to more liberal policies was certainly going to influence their pocketbooks.

Despite an increase in the share of the industry in Turkey’s GDP and in the proportion of those employed in the secondary sector, agricultural sector was still the group with the greatest voting power and thus, whose preferences could not be disregarded by democratic governments. Consequently, elections were the most effective institutional mechanism of access that privileged agricultural interests.

With the introduction of the 1961 Turkish Constitution, which expanded the basic rights and liberties including the freedom to form associations, group lobbying became more prevalent. For instance, the 1961-1980 period was one of increased organizational activity in the agricultural sector. Türkiye Ziraat Odalari Birligi (Turkish Union of Chambers of Agriculture) was the peak association organized as a public professional
organization to facilitate control and management of agricultural affairs by the state. During this period, neither the Union nor the voluntary associations founded by various agricultural interests used their organizational and electoral clout to influence government's trade policy. They focused their attention on questions closer to home, such as, land reform, agricultural income taxation, as well as support prices and agricultural subsidies. This, once again, reveals the naivety of those who rely on neoclassical economics to explain trade policy outcomes. Rational actors do not necessarily target government's trade policy when there are more effective and efficient ways of redistributing income.

Moreover, alongside those licensed by the state, some autonomous interest organizations came into being starting from late 1960s. Namely, the foundation of the Türkiye Dewrimci Isci Sendikalari Dernegi (DISK, Confederation of Revolutionary Trade Unions), as an organizational alternative to Türk-I's in 1967, was the first move by more radical trade unionists to break their ties with the peak association. In the 1970s, several other politically autonomous and class-based unions that rejected the representational monopoly of Türk-I's were established. However, instead of strengthening the labor movement, these divisions further weakened it. As Türk-I's, which was still the only officially recognized labor organization, failed to achieve organizational cohesiveness, it continued to be subjected to government-imposed constraints on its demand-making, leadership selection, and internal governance.

18 See Ait, et.al. (1996) for an argument regarding the ineffectiveness and inefficiency of trade policy as a redistributive instrument.
19 See Sakallioglu (1991) and Bianchi (1984) for more on this.
Turning to the condition of relations between the government and business during the 1960s and 1970s, one significant development was the increasing economic prowess of the industry in Turkey's economic structure. Under the protection of ISI policies, sectoral share of industry in the country's GDP went up from 17.1% in 1960 to 21.4% in 1970, and 25.3% in 1980 while the proportion of those employed in manufacturing industries reached 11% from its 5.7% level in 1950 (Özmucur and Esmer 1988). These changes were accompanied by a differentiation and diversification within the underlying economic structure of Turkish business, making it more difficult for the TOBB to simultaneously represent the interests of all industrial and commercial sectors. The growing cleavages within the Union between industrialists and importers and between the Anatolian chambers representing the numerous small-scale enterprises and the Istanbul and Izmir chambers encompassing the industrial and commercial companies gave rise to the creation of voluntary business associations outside of TOBB. Among these associations, particularly Türkiye Sanayiciler ve Isadamları Derneği (TÜSİAD, Turkish Industrialists' and Businessmen's Association), founded in 1971 by the owner/managers of twelve large multi-activity companies, i.e. holding companies, became a prominent societal actor in Turkish economic life.

At this point, a word of caution is in order. The observations evidencing increased organized activity during the 1960s and 1970s should not lead us to exaggerate the impact of lobbying on policy outcomes. The ability of aforementioned organized interests to access decision making was still under the control of governments. For instance,

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20 For more on Turkish holding companies, see Bugra (1994).
during the second episode between 1970 and 1971, the AP government held summit meetings with chambers only when it knew that no opposition would be forthcoming. It consulted the chambers only because they were semi-official bodies established for this purpose and paid no attention to their views when they clashed with its own. As a result of this attitude, not only during this episode but also all through the 1960s and 1970s, “individual members of the private sector often by-passed their interest group associations and attempted establishing clientala relations with government officials” (Heper 1991, 17). This has been confirmed by an interviewee who now works at Turkey’s Undersecretariat for Foreign Trade. He especially emphasized the particularistic nature of relations between these officials and individual businessmen, including industrialists and traders. In an institutional setting where interest group organizations had an insignificant impact on economic decision making unless governments were responsive to them, individual lobbying remained as a more effective way of obtaining favors from the government in the trade policy domain. Because this institutional mechanism of access could be utilized only by certain societal actors, such as businessmen and trader, but not others, such as workers, it privileged a small group of individuals.

As it has been mentioned above, in Turkey, there was a large coalition of societal actors favoring the status quo, that is, ISI during the 1960s and 1970s. First of all, since food sufficiency was one of the main objectives of ISI (Ulusan 1980), agricultural sector had an inward orientation even though it was the primary exporting sector in Turkey. As

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21 See Saybasili (1975) and Ayberk and Boduroglu (1989).
long as they received high support prices and subsidies and the trade regime taxed exporters by high-priced inputs and overvalued exchange rates, the agricultural sectors had no incentive to vote and/or lobby against protectionism and ISI. Their demands concentrated on investments in rural infrastructure, support prices, and subsidies for agricultural inputs, rather than on foreign trade policy.

Being employed by high wage manufacturing industries which were protected and nurtured against international competition, organized labor greatly benefited from the status quo, i.e. ISI. In addition to organized labor, industrialists constituted the second group targeted by ISI. The preferential treatment granted to this group became a cause of contention between commercial interests and industrialists who were brought together under the roof of TOBB. Commercial interests responded to the incentives created by the trade regime by starting domestic manufacturing of formerly imported goods without generally abandoning their import business. Hence, a new group, namely, importer-industrialists, came into being as a beneficiary of protectionism. Despite conflicts over the distribution of quotas between the commercial and industrial sectors, both groups profited from the quota system. As the former collected rents, the industrialists gained from the protective element of the quota. Consequently, neither group questioned protectionism or ISI up until the second half of the 1970s.

When trade policy came to the AP government’s agenda during the second Turkish episode, it had to face the described set of preferences. All major societal actors

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22 These large scale manufacturing concerns included consumer durables and automotive sectors which used modern technology and in which there was generally some foreign investment as well as state owned sectors producing capital and intermediary goods such as steel, paper in addition to oil refineries.
strongly resisted even the smallest step towards trade liberalization, that is, devaluation, which was advocated by the AP leadership. Even the industrialists who were among the key supporters of AP opposed devaluation and regarded devaluation as a destabilizing factor leading to a reduction in growth rate (*Cumhuriyet*, 2 March 1971). Only group that voiced neither criticism nor open support was the agricultural sector which was another major group the AP relied on for political support. Given the trade policy preferences of the AP government, which were discussed in some more detail in the previous chapter, and those of the societal actors and the AP’s electoral concerns, only a “low” degree of trade liberalization involving significant concessions on the part of the governing party could be introduced during this episode.

C. Turkey 3: 1978-1979

Just as it had all national economies, the expansion of world trade after the end of the Second World War had increased the sensitivity of the Turkish economy to external shocks. Hence, the oil crisis of 1973 was followed by a significant deterioration of Turkey’s economy as discussed in Chapter 3. Diverse interests ranging from producers of import-competing goods who relied on imports of capital and intermediate goods for production to producers of exports who remained incompetent in international markets were hit hard even in a protected economy shaped by ISI strategies. Since the governments that came to power between 1973 and 1978 failed to take action these societal actors were still suffering from the economic difficulties generated by the first oil crisis when the CHP-led coalition government took office at the beginning of the third

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23 In the summer of 1969, there were demands by both the commercial and industrial sectors for the creation of their separate unions. See *Cumhuriyet*, 6-9 June 1969.
Turkish episode in 1978. Thus, these societal actors had interest in the new government’s trade policy response to changes in the global economy.

During the third Turkish episode, the majority of societal actors carried on their interaction with the government in a “business as usual” fashion using the institutional mechanisms of access discussed in the previous section. Among these societal actors, only one, TÜSİAD, finding all the channels of access to the CHP-led government’s decision making structure closed to the demands of big business, resorted to other ways of influence that were not common in Turkish politics. It initiated an unprecedented anti-government campaign to mobilize support. In four full page advertisements published in seven daily newspapers and a weekly journal during a period of four weeks in May and June of 1979, TÜSİAD publicized its views and policy prescriptions. Furthermore, again in 1979, members of TÜSİAD directly contacted the officials of IMF, the World Bank, the U.S. administration, and members of the U.S. private banking community and following these contacts, a confidential report that integrated the views of these international actors was presented to the director of the Devlet Planlama Teskilati (DPT, State Planning Organization) in order that he might pass it to the prime minister, Ecevit (Krueger and Turan 1993). In addition to these efforts, TÜSİAD tried to reach the Turkish policy makers through numerous publications, annual reports, conferences, and lectures aiming to mobilize support behind its demands. Yet, none provided the Association access to governmental decision making. Nevertheless, when CHP suffered a major setback at the polls in the by-elections and the partial elections for the Turkish

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24 See Arat (1991) for a more detailed discussion of this campaign.
Senate in the fall of 1979 and Ecevit resigned, the perception of TÜSİAD as “the Association that toppled the government” gained ground (Arat 1991).

Due to their dependence on imports for production, the members of TÜSİAD, that is, big industrialists, had undergone a major setback after the first oil price shock. Increasing costs coupled with insufficient exchange especially led to a deterioration of their economic situation. Thus, they emerged as a major societal actor pushing for trade liberalization. However, they were not able to access and influence the CHP-led coalition government, which did not depend on their political support. The trade policy preferences of societal actors who exerted more voting power than a small number of big industrialists and who constituted the electorate base of the CHP and its coalition partners were weighed more heavily in the decision making process.

The trade policy preferences of the coalition government have been discussed at some length in the previous chapter. In brief, this government was for the maintenance of protectionist policies. Its achievement of this outcome was facilitated by the fact that the societal actors with numerical strength, i.e. voting power, also supported the status quo. The majority of landed groups were against trade liberalization because it would involve the removal of price support and subsidies. Organized labor was still another group opposing attempts at trade liberalization which was likely to introduce wage controls (Amelung 1988). On the other hand, during this episode, divisions within the business community regarding preferred trade policies surfaced, as evidenced by the demands of TÜSİAD. Unlike big industrialists, the representatives of small enterprises who comprised the majority in the chambers of TOBB continued to extend their support for
Consequently, the convergence of the trade policy preferences of the government and the societal actors who had access to decision making and whose support was needed by the government can account for the low degree of trade liberalization obtained during the third Turkish episode between 1978 and 1979.

**D. Turkey 4: 1979-1980**

Before the Turkish economy could recuperate from its ills aggravated by the first oil crisis, the OPEC decided to increase oil prices once again in 1979. By then, Turkey had utilized all sources of foreign credit. As the country’s balance of payments deficits soared, the growth rate of GNP went down to the negative side and inflation reached an unprecedentedly high rate in 1979. The performance of all sectors of the economy declined and shortages of essential goods as well as rising prices affected the daily life of the “median voter”. Policy solutions which would improve the prevailing economic conditions were in high demand. Thus, a sense of urgency surrounded the trade policy making environment during the fourth Turkish episode.

Elections were still an effective institutional channel through which societal actors could influence policy outcomes. At the end of the third episode, the Turkish electorate had revealed its discontent with the economic and political situation by voting the CHP-led coalition government out of office, but did not give any single party a majority backing. The minority government of AP which came to power in 1979 was

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25 The conflict between large and small firms became more evident when changes in the value of the Turkish currency was considered. TÜSİAD was for a more realistic exchange rate. On the other hand, Istanbul Chamber of Industry was opposed to any kind of devaluation while others, such as the Eskisehir Chamber of Industry, conceded to it on the condition that a steady flow of foreign exchange in the form of aid and loans was obtained (Eskisehir Sanayi Odası 1981, 316-317).

26 See Chapter 3 for figures.
aware of the fact that it would not be able to hold onto power for long. It had a major dilemma. It knew that a major trade reform would not be popular among many segments of the Turkish population\(^{27}\). Yet, adhering to the status quo and doing nothing would not bring in any additional support, either. Against all existing political odds, emphasizing the aggregate welfare effects of policy changes, their expected positive impact on Turkey’s economic performance, and thus, potential to increase electoral support for the AP in the next elections, Prime Minister, Demirel gave his approval for trade liberalization. The AP government’s call for elections as early as the summer of 1980 signified its desire to acquire the majority electoral backing which it thought would be forthcoming after the anticipated improvements in the Turkish economy took place owing to the government’s policy decisions during this episode\(^{28}\).

When he was selected by the Prime Minister as the main architect of Turkey’s economic policy at the outset of this episode, Turgut Özal strongly urged that all private sector groups, whether they be industrialists, commercial or agricultural interests, be completely ignored in the introduction of the economic reform package including a major transformation in the country’s foreign trade policy (Colasan 1984). Institutional channels of access to decision making available to these groups and their individual members should be closed. In other words, the impact of group and individual lobbying on policy outcomes had to be minimized. Subsequently, the AP government moved to distance itself from the organizations of interest representation which had had access to

\(^{27}\) Prime Minister, Süleyman Demirel often questioned Turgut Özal about the distributional effects and political consequences of the economic reform (Colasan 1984).
\(^{28}\) See Colasan (1984) for more on the decision making process.
decision making in the past. Yet, there was one exception. The rise of Turgut Özal, who used to be a member of TÜSİAD and who had published an article recommending the adoption of freely determined exchange rates in one of the Association’s publications in 1978, as the main architect of Turkey’s economic policy, opened channels of influence for TÜSİAD. In spite of his efforts to isolate the decision making process from the effects of private interests, his affinity with TÜSİAD gave the Association an advantage over others. Besides, big industrialists represented in the Association were among the main supporters of AP and their advocacy of trade liberalization strengthened the AP government’s trade policy stance.

The trade policy preferences of the societal actors which were introduced in the analyses of previous episodes and which were temporarily disregarded by the AP government with the hope of gaining support in the future did not go through a big transformation during the fourth and even fifth Turkish episodes. Except for big banks and industrialists comprising TÜSİAD and a small group of agricultural producers whose products were distributed and exported by the private sector, major societal actors maintained their preference for a protectionist trade regime. As mentioned before, even the vast majority of landed interests that produced most of Turkey’s exportable goods resisted trade liberalization because it involved a removal of price supports and subsidies (Amelung 1988).

As underlined by the President of the Istanbul Chamber of Industry, Gezgin, the small industrialists were still unprepared for a lowering of trade barriers: “Owing to the
industrialization strategy that has been followed for years, the majority of our industries
do not have a structure ready for the opening of the economy. Changing the experience of
thirty years in two years would not be a realistic expectation. On the other hand, as
they increased their pressures for the end of ISI, the members of TÜSİAD, whose
multiactivity companies encompassed both exporting and IS industries, also had their
limits in terms of the desirable degree of trade liberalization. According to one leading
member of the Association, it was too early for Turkey to consider a completely liberal
system and that would be very costly for sacrificed industries (Cumhuriyet, 7 January
1983).

Despite minimal change in the societal actors’ trade policy preferences between
the third and subsequent two episodes there was a significant difference between those of
the CHP-led coalition government of the 1978-1979 period and the two governments that
followed it. Namely, as soon as it took office towards the end of 1979, the minority
government of AP declared its preference for trade liberalization. The technocrats who
designed the economic policy of the AP government believed that Turkey’s economic
problems could not be resolved within the framework of ISI and hence, favored an
outward-oriented strategy.

There was a close resemblance between the trade policy measures advocated and
implemented by the AP government and those which had been proposed by TÜSİAD
(Cumhuriyet, 26 January 1980). As the big industrialists’ support for the opening up of
the Turkish economy facilitated the abandonment of ISI at the first place, their

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29 This speech made by Gezgin on 12 March 1980 at the Prime Ministry is cited by Ulagay (1983, 45) and
translated by the author of this dissertation.
unwillingness to go beyond a certain degree of trade liberalization limited the AP government’s ability to proceed with its reform program. As Ulagay put it,

24 January decisions and the Özal program faced obstacles at points where it clashed with the strategic interests [of big holding companies which had been established with a domestic market orientation and were also involved in the banking system]. Thus, [the AP government] had to step back and its efforts to open the economy and especially the industrial sector to domestic and international competition remained incomplete (1984, 38; Translated by the author).

Despite their pro-liberalization attitude, the members of TÜSİAD who headed multi-activity companies had stakes in selective protection. For instance, during the early years of Turkey’s shift away from ISI and when the Association seemed to be the most influential societal actor in the decision making process, there was a systematic bias in the structure of protection in favor of the former assembly industries in the consumer durables sector which was well represented in TÜSİAD (Amelung 1988, 104).

In summary, the AP government could, at least temporarily, disregard the fact that the trade policy preferences of the majority of the Turkish population deviated from its own. Yet, it can be argued that increasing distance between the preferences of the government and those of its leading supporters had an impact on the attainable degree of trade liberalization during the fourth Turkish episode. The “moderate” degree of trade liberalization can be interpreted as a reflection of a compromise between these two players.
E. Turkey 5: 1980-1982

While the societal actors identified in previous sections continued to be the ones with an interest in Turkey’s foreign trade policy during the fifth episode between 1980 and 1982, the military coup of 1980 brought about significant changes in the institutional mechanisms through which the societal actors could access decision making. The military’s suspension of democratic practices not only brought all organizational activities of interest groups to a halt, but also pushed those who, during the democratic period, had been able to affect decision making owing to their voting power, such as, agricultural sectors, workers, and small industrialists, out of this process. Having depoliticization of the Turkish society high on its agenda, the military government approached all interests connected with pre-intervention political parties with suspicion. For instance, Türk-İs, TOBB and its member chambers, which had always been in close contact with politicians, were isolated from the process of economic decision making. Since it was never allied with a particular party, TÜSİAD was the only societal actor that could adjust to the new circumstances. Once a voluntary organization, it was even conferred with legal standing and legitimacy by the military rulers in 1981. Besides, its members were the only ones who could keep their personal ties with the new government during this pisode. Özal, who remained in charge of economic policy as the deputy prime minister until 1982, even took members of TÜSİAD with him in his visits overseas.

Granted that elections were abolished and group as well as individual lobbying were limited to a small group of big industrialists, the next step is to determine whether the trade policy preferences of the military government were in agreement with those of
this privileged group. In order to have a better grasp of the trade policy preferences of the military government during the fifth Turkish episode, they should be examined in connection with the military’s position in the country’s economic structure. During the 1960s and 1970s, military was among those who wholeheartedly supported ISI. By its involvement in Turkey’s economic life through the Ordu Yardimlasma Kurumu (OYAK, Army Mutual Assistance Association) with investments in numerous large-scale enterprises featuring production of machinery, transport equipment, chemicals, and tourism, the military benefited from ISI. OYAK eventually became a large holding company with a prominence of IS over export-oriented industries. In a 1981 analysis of capital concentration in Turkish holding companies, OYAK was ranked fourth among 34 such enterprises (Ariman 1981). Thus, its economic standing was very much like that of the members of TÜSİAD.

Although the military leaders were predisposed against trade liberalization up until late 1970s, they showed their flexibility under post-oil crises conditions of the world economy. By delegating economic policy making to Özal and his technocrats who had prepared the liberalization program of the pre-coup government, they gave their consent to whatever was on the technocrats agenda. In spite of some conflicts between the members of the Cabinet with military background and technocrats over domestic economic policy, in the absence of a better option, they agreed on the general trade policy approach until Özal’s resignation in 1982.

As it had been the case during the previous episode, there was a significant overlap between the trade policy preferences of the military government and those of the
TÜSIAD during the fifth episode. For instance, even though the military government did not need the support of the Association to remain in power, Amelung observes that

[a]s far as economic reforms were concerned, [it] depended on the technocrats and the large holding companies. Hence, it was more than coincidence that the military ... government’s liberalization policies fitted TÜSIAD’s and the technocrat’s attitude (1988, 103).

Even when the relations between the military leaders and technocrats soured towards the end of this episode, the members of TÜSIAD maintained their ties with the military leadership whose reservations about a “high” degree of trade liberalization coincided with those of their own. The interpretation of Özal’s resignation as a victory for the two largest companies with vested interests in selected protection, namely, Koç and Sabancı Groups, which exerted a great deal of pressure on the military and the fact that a “moderate” degree of trade liberalization could be obtained during this episode can be connected to this agreement between the preferences of the military and the big industrialists.

F. Turkey 6: 1982-1986

Trade policy continued to have widespread effects on the Turkish populace during the last episode covered in this study. After the country’s return to democracy in 1983, elections once again became an institutional mechanism of access to decision making. Yet, between 1982 and 1986, before victory in upcoming elections of 1987 gained salience in its political agenda, the majority government of ANAP, led by Özal, who was credited for the rapid recovery of the Turkish economy in the early 1980s, could overlook societal pressures against its trade policy program. During this episode, the
ANAP government exploited the absence of an alternative economic plan and the improvement of Turkey’s economic performance owing to the policies introduced since 1980 to attract the support of the median voter. Furthermore, the introduction of populist measures, such as high interest rates, privatization of state economic enterprises through the sale of revenue-share certificates, and an extensive housing program, helped appease some of the societal actors who had lost during the trade liberalization process and win advocates for the government’s economic policies. It was not until 1987, i.e. after the end of this episode, that the ANAP government really felt the electoral pressures on its trade policy decisions.

In post-1983 Turkey, the ability of organized interests to influence policy outcomes through group lobbying was hampered by serious institutional constraints. Before they left office in 1983, the military rulers made sure that they put into effect a constitution that would be less prone to polarization and politicization of societal groups by restricting individual liberties and acceptable forms of political participation. Hence, the 1982 Constitution significantly diminished the role of interest group associations in commercial policy making and implementation by banning their “political activities”. Furthermore, it created an institutional environment that “allowed for the emergence of new constellations of power within the private sector which [had] a genuine stake in maintaining the export drive and the new political economic direction” (Barkey 1990, 190) as it imposed high restrictions on the political involvement of those with vested interests in ISI.
During the sixth Turkish episode, workers and agricultural sectors were largely excluded from the economic decision making process. Within the institutional framework established by the new Constitution and Labor Code, labor was de-politicized, de-mobilized, de-radicalized, and de-unionized. For instance, Türk-İs, the main spokesman for labor, could not function effectively due to continuous government interference in the rights and freedoms of unions, absence of internal democracy, and dependence on the government for economic favors for its members in return for political restraint (Sakallioglu 1991). As it isolated labor from the political sphere, the ANAP government did not make any efforts to establish links with the agricultural sector. As Ergüder (1991) underlines, during this episode, complaints by the representatives of this sector about being excluded from the policy formulation process were rather common.

On the other hand, the ANAP government stayed close to TÜSİAD. Out of the twenty ministers of the new cabinet, sixteen had worked in the private sector. Above all, the new prime minister was Özlü, a former TÜSİAD member. Despite its “organic links” with TÜSİAD, the ANAP government was reluctant to enter into an institutionalized dialogue with the Association. As this approach curtailed group lobbying, it encouraged individual contacts among businessmen, bureaucrats, and politicians, including the Prime Minister himself and his ministers. In Önis and Webb’s opinion, all gained from this system of individual contacts: “businessmen got favors, bureaucrats got options for moving into top private sector jobs, and politicians got political support and also freedom

In 1985, the share of TÜSİAD members in production and employment within the top hundred industrial organizations in Turkey reached about 80% (Arat 1991).
from having to deal with a unified and powerful business lobby" (1994, 144-145). As such, individual lobbying became a more effective institutional mechanism of access to decision making.

During the analyzed episode, the trade policy preferences of the ANAP government were shaped by its determination to further integrate Turkey into the world economy. Thus, it sought to achieve a higher degree of trade liberalization than that could be attained during the previous two episodes. On the other hand, in post-1983 Turkey, societal actors were as divided on the issue of foreign trade as ever. Although they could not generate an alternative to the Özal project, they increasingly became critical of his policies.

Agricultural sectors, a favorite of pre-1980 parties, was adversely affected by Turkey's transition to a more liberal trade regime. They could no longer enjoy subsidized prices for fertilizers, insecticides, and fuel, and high support prices. Devaluations helped stimulate exports of fruit and a few other products; yet, many were not exported and faced some competition from imports, including wheat. Loudly criticizing what it considered to be the obvious pro-urban bias of the ANAP government, the agricultural community expressed its reservations about the trade policy preferences of the government (Önis and Webb 1994).

On the other hand, government's emphasis on promotion of exports by restraining nominal wages made labor unions a loser in Turkey's trade liberalization process. However, since the ANAP government completely excluded labor from the policy

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31 Another reason for restraints of wages was, of course, government's objective of holding the rate of inflation low.
making process, especially during the first half of the 1980s, its policy preferences did not have much impact on government’s choices.

Finally, within the business community, conflicts between industrialists and exporters were added to the existing cleavages between big and small firms. Yet, the former seems more rhetorical than real. Under the new incentive structure, some TÜSİAD member holding companies extended their activities to exports by establishing their own trading firms and received most of the government incentives aiming to promote exports (*Cumhuriyet*, 12 June 1987). In 1983, these big trading companies collected 91% of the export credits provided by the Export Promotion Fund (*Cumhuriyet*, 13 March 1984) and gained at the expense of small exporters.

As size continued to be a factor behind the divisions among the members of the business community, differences also arose among the members of TÜSİAD, particularly between outward-oriented firms and those with a predominantly inward orientation. For instance, the textile sector as an area where such conflict was acute.

Given this wide range of interests within the business community that was organized around TOBB and TÜSİAD, neither of these organizations could come up with a unique and consistent set of trade policy preferences during the 1980s. One point everyone seemed to agree on was that the question was no longer a choice between ISI and trade liberalization, but the desirable degree and distribution of each which, in an environment where representative organizations could not generate well-defined preferences, were determined by individual firms’ ability to direct government policy towards their preferred outcomes. This was acknowledged even by some industrialists,
such as Bodur, the President of the TOBB Council of Industry, who complained that the government incentives were not allocated at the level of sectors or industries, but firms (Hürriyet, 30 August 1986).

To conclude, during the sixth Turkish episode, although the trade policy preferences of some societal actors diverged from those of the ANAP government, their inability to access decision making provided the government with a room for maneuver. Using the divisions among interest group organizations and among the members of each organization to its advantage, the ANAP government could introduce tariff cuts as well as continuous devaluations, reductions in quantitative restrictions, and increases in export incentives, making this episode one of "high" trade liberalization.

IV. Evaluation: The Impact of Societal Actors on Trade Liberalization

In this chapter, I have first developed a road map for empirical research on the process through which societal actors influence foreign trade policy outcomes 32. This road map has proved to be useful instrument in dissecting a complex web of interactions among interests, preferences, and institutions. During all episodes included in this study, a diverse group of societal actors would be affected by a change in trade policy; yet, their ability to access decision making varied across countries and over time. Only during the second half of the second Spanish and the sixth Turkish episodes, the governments could impede the permeation of societal concerns into their trade policy making process. Thus, the low degree of trade liberalization obtained at the end of the second Spanish episode

32 See Figure 5.1.
and the high degree of trade liberalization achieved during the sixth Turkish episode were a reflection of the governments' preferences. The trade policy making process during six out of ten episodes followed the path that led to trade policy outcomes as a reflection of the shared preferences of the government and the societal actors who had access to decision making and whose support was solicited by the government. These episodes were, namely, the first, third, and fourth Spanish and the third as well as the fifth Turkish episodes. On the other hand, the degrees of trade liberalization introduced during the second and fourth Turkish episodes were the outcomes of a compromise between the government and the societal actors whose trade policy preferences were not in complete agreement with those of the government. The only unaccounted for episode is the one which took place in Turkey between 1958 and 1960. Since available evidence is not sufficient to clearly differentiate the actual trade policy preferences of the DP government during this period a definite conclusion regarding whose preferences the trade policy outcomes of this episode reflected cannot be reached.

Secondly, in this chapter, I have sought to differentiate some of the favorable conditions for trade liberalization by addressing several key questions: Are there any societal actors who advocate the liberalization of foreign trade policy? Do these pro-liberalization societal actors have access to decision making? Does the government seek their political support? How do the trade policy preferences of the government compare with those of the societal actors who have access to decision making and whose political support is solicited by the government? By answering these questions based on observations from the ten episodes selected from Spain and Turkey, the extent to which
the hypothesis that expansion of world trade and involvement of international actors in
domestic policy making will lead to a higher degree of trade liberalization when there are
pro-liberalization societal actors who have access to decision making and whose support
is sought by the government holds against empirical evidence can be determined.

As summarized in Table 5.1, evidence from studied episodes support a significant
correlation between the presence of pro-liberalization societal actors and the
liberalization of foreign trade policy. In all episodes of “high” trade liberalization (Spain
3, Spain 4, Turkey 6) and three out of four episodes of “moderate” trade liberalization
(Spain 2, Turkey 4, Turkey 5), a shift towards more liberal trade policies was advocated
by at least one societal actor. In the absence of any pro-liberalization societal actor,
despite its desire to move away from the status quo, that is, ISI, the AP government could
not go beyond a “low” degree of trade liberalization during the second Turkish episode.
On the other hand, even though the DP government could introduce a “moderate” degree
of trade liberalization during the first Turkish episode without the support of any societal
actor, Turkey reversion to protectionist policies after the end of this episode points to the
importance of societal actors for foreign trade policy outcomes.

The patterns emerging from Table 5.1 suggest that the presence of societal actors
supporting trade liberalization may be a necessary condition for the opening up of the
national economy. Yet, it is not sufficient. Institutional mechanisms through which these
societal actors can access and influence decision making should be also available. For
instance, during the third Turkish episode, which resulted in the maintenance of the
status quo with minor changes, TÜSİAD emerged as a societal actor pushing for the
<table>
<thead>
<tr>
<th>Country, Episode</th>
<th>Are there pro-liberalization societal actors?</th>
<th>Do the pro-liberalization societal actors have access to decision making?</th>
<th>Does the government seek the support of the pro-liberalization societal actors?</th>
<th>Does the government advocate trade liberalization?</th>
<th>Degree of Trade Liberalization</th>
</tr>
</thead>
<tbody>
<tr>
<td>Spain, Episode 1 1957-1960</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Moderate</td>
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<tr>
<td>Spain, Episode 2 1972-1975</td>
<td>Yes</td>
<td>Yes (1972-73)</td>
<td>Yes</td>
<td>Yes (1972-73)</td>
<td>Low</td>
</tr>
<tr>
<td>Spain, Episode 3 1977-1980</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>High</td>
</tr>
<tr>
<td>Spain, Episode 4 1982-1986</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>High</td>
</tr>
<tr>
<td>Turkey, Episode 1 1958-1960</td>
<td>No</td>
<td>-</td>
<td>-</td>
<td>Indeterminable</td>
<td>Moderate</td>
</tr>
<tr>
<td>Turkey, Episode 2 1970-1971</td>
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<td>-</td>
<td>-</td>
<td>Yes</td>
<td>Low</td>
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<tr>
<td>Turkey, Episode 3 1978-1979</td>
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<td>No</td>
<td>-</td>
<td>No</td>
<td>Low</td>
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<tr>
<td>Turkey, Episode 4 1979-1980</td>
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<td>Yes</td>
<td>Yes</td>
<td>Moderate</td>
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<tr>
<td>Turkey, Episode 5 1980-1982</td>
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<td>Yes</td>
<td>No</td>
<td>Yes</td>
<td>Moderate</td>
</tr>
<tr>
<td>Turkey, Episode 6 1983-1986</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>High</td>
</tr>
</tbody>
</table>

Table 5.1: The Impact of Societal Actors on Trade Liberalization
abandonment of ISI, but could not access decision making by the CHP-led coalition government. Consequently, trade policy outcomes generated by this government were a reflection of its trade policy preferences as well as those of the societal actors with access to decision making. The second half of the second Spanish episode ("low" trade liberalization), during which the measures of trade liberalization introduced earlier in the episode were reversed, was also characterized by the closing down of the access channels to liberalizing societal forces. Dissimilarly, in all episodes of "moderate" or "high" trade liberalization, pro-liberalization societal actors, where present, could find a mechanism to communicate their trade policy preferences and demands to the government.

Thirdly, the argument that governments are going to be more responsive to the preferences and demands of the societal actors whose political support they seek to retain or gain may be highly relevant especially when there are differences between the trade policy preferences of the government and societal actors. As it has been the case during the third Turkish episode and the final year of the second Spanish episode, if the government does not seek the political support of pro-liberalization societal actors, it cannot only disregard their preferences, but also deny them access to decision making. However, if the trade policy preferences of the government are in agreement with those of the pro-liberalization societal actors, it may keep open the channels of access available to them even if it does not need their political support in order to remain in power. The fifth Turkish episode during which the big industrialists' support was not critical for the survival of the military government constitutes an example to this.
Moreover, the extent to which the government sees the political support of the societal actor indispensable may have an impact on the degree of trade liberalization that can be achieved. For instance, during the fifth Turkish episode, the minority government of AP could not surpass a "moderate" degree of trade liberalization against pressures from big industrialists who were among the major supporters of the party and the only group that wholeheartedly sympathized with the government’s efforts to abandon ISI and introduce a more liberal trade regime at the first place. What the AP government could not obtain, that is, a "high" degree of trade liberalization between 1979 and 1980, was attained by the majority government of ANAP during the sixth Turkish episode. As the big industrialists came to comprise one of the main constituencies of this government, its electoral victory in the 1983 elections and the amelioration of economic conditions in Turkey gave the ANAP government more room for maneuver than enjoyed by the minority government of AP during the fourth episode. Especially during its honeymoon years between 1983 and 1986, the ANAP government was not as vulnerable to societal pressures, including those from its own constituencies, as pre-coup governments. Thus, up until 1987, when electoral calculations gained more salience in its political agenda, the ANAP government’s trade policy decisions, leading to a "high" degree of trade liberalization, reflected less of a compromise with societal actors than its own preferences.

In sum, the findings from seven out of ten episodes match the predictions summarized in Figure 5.2. However, the framework on which the analysis presented in this chapter was built has not produced a satisfactory explanation for the degree of trade
liberalization introduced during the second Spanish and the first as well as the fifth Turkish episodes. While the indeterminable nature of the trade policy preferences of the DP government during the first Turkish episode has prevented making a clear prediction, the anticipated degrees of trade liberalization were not attained during the second Spanish and fifth Turkish episodes. During the second half of this Spanish episode, the Franquist government slowed down the trade liberalization process despite the presence of proliberalization actors who had access to decision making and whose support was sought by the government. Conversely, although the military leadership of the fifth Turkish episode did not depend on the support of the proliberalization societal actors with access to decision making in order to survive, a moderate degree of trade liberalization was obtained at the end of this episode. Nevertheless, the ability of the developed framework to explicate the rest of the ten episodes renders it a useful tool that can and should be applied to studies of trade liberalization in different political settings.

V. Conclusion

Empirical evidence from the ten episodes included in this study has shown that the framework presented in this chapter can generate a satisfactory explanation for the variance in the degree of trade liberalization attained in different political contexts. This conclusion suggests that studies which trace the interaction of interest-based preferences and institutions can better capture the dynamics of trade policy making than the structural and trade-theoretic perspectives which rely solely on interests and preferences to explain policy outcomes. Societal actors' interest-based preferences specified by the economic
models, on which trade-theoretic analyses are built, are rarely, if ever, translated directly into policy. Institutional and non-institutional political factors influence not only the processes through which these preferences are translated into policy, but also policy outcomes. Furthermore, by more effectively showing how institutions matter than the deductive method of rational choice institutionalism that was applied in the previous chapter, the inductive method employed in this chapter has proved to offer better analytical tools to be utilized in studying institutions.

Aside from serving the objective of testing the hypothesis that expansion of world trade and involvement of international actors in domestic policy making will lead to a higher degree of trade liberalization when there are proliberalization actors who have access to decision making and whose support is sought by the government, the empirical findings of this chapter can also be used to draw inductive lessons with implications for future research. One of the lessons concerns the formation of trade policy coalitions.

First of all, neither in Spain nor in Turkey, conflicts over trade policy developed along class lines as predicted by the Stolper-Samuelson Theorem and advocated by Rogowski (1989). This may be attributed to the conditions surrounding the societal actors in the specified political settings. As Alt and Gilligan (1994) contend, the kinds of coalitions Rogowski (1989) mentions requires low factor specificity, low collective action costs, and domestic political institutions that reward mass movements. Especially the latter two factors are highly relevant to the institutionalist agenda. For instance, in addition to being a function of the intrinsic characteristics of societal groups, costs of collective action are also affected by government action. In Spain under Franco and
Turkey under both authoritarian and democratic governments, the ideology of the state was against the division of the society along class lines. Therefore, costs of collective action were kept high so as to discourage class movements, especially those of labor. While the authoritarian governments in both Spain and Turkey banned them, democratic Turkish governments exerted strict controls over the organizational activities based on class interests.

Furthermore, domestic political institutions, namely, the institutional mechanisms of access to decision making available to societal actors, can have an impact on coalition formation. In the making of trade policy, if the government is more responsive to demands expressed through individual lobbying, like it has been the case during some of the Spanish and Turkish episodes discussed above, this will create strong disincentives for collective action by large societal groups or classes. As such, by shaping the institutional channels of access to decision making, governments can hinder, retard or facilitate coalition formation.

Evidence from Spain and Turkey suggests that an approach that focuses on sectoral divisions as well as differences among firms can be the foundation of a more fruitful research agenda than one that emphasizes class conflict. In Spain, the divisions between the less efficient, previously protected industries and those that had become more efficient and competitive by incorporating into their production processes new and more sophisticated technologies during the 1960s and 1970s reveal the prominence of inter-sectoral conflicts of interest. Similarly, starting from the early 1970s, conflicts between the industrial and commercial interests within the Turkish business community
were common occurrences. However, although inter-sectoral cleavages were a factor that influenced the dynamics of trade policy making in Spain and Turkey, the search for the most active societal actors involved in these countries’ trade liberalization efforts should not be limited to sectors. While big businessmen and bankers were the major societal actors that solicited the end of autarky in Franco’s Spain, owners of big, multi-activity firms were the societal actors that advocated trade liberalization in Turkey during the second half of the 1970s when no other societal actor did. That is to say, in both Spain and Turkey, big firms with international contacts were the first to realize the limits of expansion and growth in protected, yet import-dependent economies and consequently, pushed for trade liberalization. This observation is in line with the contention of the third trade-theoretic approach, the Economies of Scale Perspective, that the active agents in politics are more often firms than sectors because it is the firms, not the industries, that develop international ties, anticipate costs of protection, and formulate trade policy preferences. Yet, some of the distinct features of the big firms in Spain and Turkey present an anomaly for the Economies of Scale Perspective. In both countries, these firms were operating in many sectors of the economy, most of which were not characterized by economies of scale. I believe this constitutes a puzzle that should be addressed both theoretically and empirically in future studies of coalition formation.

There are still other interesting questions that emerge out of my analysis of the impact of societal actors on trade liberalization. For instance, it was neither abundant labor nor the major tradables sector, that is, the agriculture that first demanded the opening up of the economy to international competition in authoritarian Spain. Similarly,
in Turkey, even though the agricultural sectors were the major producers of exportables, they were also among the most fervent supporters of ISI. The evidence once again points to the necessity of approaching the trade-theoretic models with a critical view. Generally, societal actors do not consider the implications of trade policy outcomes in isolation, but together with other economic policies that also affect their economic welfare. As rational actors, societal actors may lobby for policies that can more effectively and efficiently redistribute income to themselves, rather than targeting trade policy, which as Alt, et al. underscore, “is a tremendously ineffective and inefficient tool for redistributing income in any society” (1996, 709). Governments’ past practices may also create incentives for action along this line. Namely, starting from the 1950s, Turkish governments used support prices and subsidies to gain the favors of the agricultural sectors and created strong vested interests around these policies. As a result, instead of pre-calculating the benefits of trade liberalization for themselves as the primary producers of Turkish exportables, the agricultural sectors became concerned with the fact that trade liberalization would lead to reduction or elimination of support prices and agricultural subsidies. In brief, since societal actors define their economic interests in relation to a set of economic policies, rather than to trade policy alone models that are more comprehensive than those adopted by trade-theoretic analysts are needed.

To conclude, the analysis presented in this chapter has generated not only a plausible explanation for the degree of trade liberalization, but also a set of inductive lessons for future research. Moreover, by adopting a different approach to the study of institutions, this analysis has complemented the one presented in the previous chapter.
that concentrated on state-level institutional variables. Both chapters have investigated
the effects of selected domestic political institutions in conjunction with the trade policy
preferences of the players involved in decision making on trade policy outcomes during
the identified episodes. The next step is to find out if and when changes in trade policy
are accompanied by changes in institutions at the national level. Based on the premise
that governments will have preferences about institutions as well as foreign trade
policies, next chapter will focus on trade-related institutional changes.
CHAPTER 6

EXPLAINING INSTITUTIONAL CHANGE

In the two preceding chapters, the effects of selected domestic political institutions on foreign trade policy outcomes during ten episodes from Spain and Turkey have been examined. However, when trade policy gains salience in a government's agenda, as it did during these episodes, it is not only the policies, but also the trade-related institutions that may be re-evaluated. Thus, in this chapter, I examine endogenous institutional modifications that are expected to accompany changes in trade policy. I argue that governments that favor a redefinition of trade policy objectives, that is, the ends of policy, are more likely to go beyond changes in policy and introduce trade-related institutional change involving centralization of trade policy decision making, modification of the identity and composition of institutions involved in the making of trade policy, and redistribution of power among societal actors.

As it has been discussed in Chapter 2, in order to achieve their trade policy objectives, governments utilize policy instruments, such as licenses, tariffs, quotas, exchange controls, export insurances as well as institutional measures including the creation of new institutions and a shift of power between institutions. I argue that while
changes in the first set of instruments can be introduced without a transformation of objectives, institutional change is more likely to be employed when these objectives are redefined. Under changing international and domestic conditions leading to a reconsideration of trade policy, governments may favor modifications in non-institutional instruments as short term remedies. Such governments which believe that their countries' economic problems can be resolved by once and for all policy changes are not likely to be cognizant of the institutional factors behind these problems. When, on the other hand, changes in policy are carried out in an environment where the trade policy objectives are redefined, it is more likely that institutional change will go hand in hand with policy change. In such an environment, existing institutions with their status quo bias will be viewed as impediments to the fulfillment of the government's newly formulated trade policy objectives. Hence, in order to reduce or eliminate this bias, the government will resort to institutional transformation.

An analysis of the hypothesis that a government favors a redefinition of trade policy objectives is more likely to introduce institutional changes should begin with a specification of trade policy objectives and expected changes in domestic institutions. First, an inventory of trade policy objectives or ends of policy should include autarky or self-sufficiency, general regulation of imports, selective protection to import-competing industries, liberalization of imports, export drive to meet import needs, export orientation, and export-led growth. Although it covers the most common objectives, this inventory is not exhaustive and should be traced inductively (Katzenstein 1978). In this

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1 See Katzenstein (1978) for more on this.
chapter, taking this inventory as a baseline, I differentiate the government's trade policy objectives during each episode and determine whether they have constituted a redefinition of pre-existing trade policy objectives. If they have, I anticipate that the government is more likely to engage in institutional change as well as policy change.

Moreover, in this study, by differentiating the kind of institutional changes that are more likely to take place, I aim to go beyond analyses that attempt to explain institutional change at a high level of abstraction. First of all, as it has been demonstrated in Chapter 4, variance in macro-level institutions of the state, namely, the regime type and the number of institutional veto players do not sufficiently account for the variance in the degree of trade liberalization. This implies that it may actually be the differences in micro-level state institutional variables that matter. Therefore, the expectation is that governments that seek to enhance the long term viability of their trade policies formulated around new trade policy objectives are more likely to attempt changes in such institutions.

Secondly, acknowledging that governments are strategic actors motivated to minimize the political costs of their actions, I contend that they will shy away from changes in macro-level institutions, such as those in the number of institutional veto players and the electoral system, because of the high political costs of making such changes. Rather, governments which see institutional transformation essential for the realization of their trade policy objectives will prefer to carry out micro-level changes in the institutional structure. Such adjustments do not touch the fundamental institutions of
the state, e.g. constitution, but the more peripheral institutional aspects that have an impact on the trade policy decision making environment. This type of institutional change may involve modifications in informal practices and issue-specific institutions of the state, such as the planning organizations, the treasury, and the central bank. Although it would not be accurate to assume that they do not entail any political costs and are not controversial, the modifications of this type are generally less costly than macro-level changes which require a larger support base. Besides, a government that has departed from the status quo by putting the achievement of a newly reformulated set of trade policy objectives on its agenda is already somewhat risk-acceptant. Hence, it is likely to consider the benefits of introducing strategic changes in the institutional structure that will facilitate the fulfillment of these objectives as outweighing its costs.

The institutional changes that are expected to be made by a government committed to the implementation of its preferred policies in line with its trade policy objectives include centralization of actual decision making, modification of the identity and composition of institutions within the trade policy decision making structure, and redistribution of power among societal actors. The objective is to create an institutional environment favorable to the implementation and sustainability of these policies.

In addition to the institutional changes that are introduced for this purpose, other institutional variables that are not directly shaped by the executive in its attempt to accomplish its policy goals may also have an impact on the decision making process in the trade policy domain. For instance, the centralization of decision making powers in a single person or group in an authoritarian regime, a constitution that gives the executive
supremacy over the legislature as well as the majority status of a centralized political party in the parliament in parliamentary systems may facilitate the execution of trade policies advocated by the government. These institutional factors will be included in my discussion below as they become relevant. Yet, the main focus will be on the institutional changes made by the executive with the intention of furthering its trade policy agenda.

The first section of this chapter will discuss the trade policy objectives of governments during the selected episodes. Subsequently, the type of institutional modifications which are hypothesized to be undertaken by governments that advocate a redefinition of trade policy objectives will be examined in the light of empirical evidence from these episodes. Finally, an overvaluation of the hypotheses linking trade policy objectives to institutional change will be presented.

I. Trade Policy Objectives

A. Spanish Episodes

From the end of the Civil War until the beginning of the first episode in 1957, the Franquist governments' trade policy objectives were defined by autarky which "was presented and defended as a political ideal; the recipe for a stable society and a suitable policy for an imperial military state" (Carr and Fusi 1981, 51). In order to achieve economic sufficiency and independence for purposes of national power, these governments utilized high tariffs, direct controls, including a system individual licensing of all imports and exports that was linked to a network of bilateral trade agreements establishing quotas for trade with specific countries, and multiple exchange rates as
policy instruments. Moreover, in order to promote industrial self-sufficiency with an emphasis on import substitution and national defense industries, new institutions, such as the Instituto Nacional de Industria (INI, National Institute of Industry) were created².

Due to international and domestic economic factors that have been discussed in previous chapters, the Spanish economy structured around the objective of autarky was faced with a severe crisis during the 1950s. Hence, the new government which came to power in 1957 at the outset of the first Spanish episode put the resolution of Spain’s economic problems high on its agenda. Realizing that this could not be accomplished through the pursuit of self-sufficiency in a world economy characterized by an expansion of world trade, this government was compelled to re-evaluate the trade policy objectives that had guided the selection of policy instruments since the end of the Civil war. Upon reconsideration, the conclusion reached by the government was that autarky had to be abandoned and replaced by a new set of trade policy objectives. International liberalization which became the main goal in the trade policy domain was viewed as being interconnected with the other newly formulated objectives of economic policy, namely, balance of payments equilibrium, internal equilibrium and sustained growth, domestic liberalization, and the coordination and control of the public sector. As it was implicit in the statements of the Spanish policy makers, the achievement of these other objectives through a stabilization program would contribute to the success of international liberalization by remedying the problems of excess demand and non-competitive exports (Anderson 1970).

² See, for instance, Anderson (1970) for more on these policy instruments.
While it was the general trade policy objective specified by the Spanish government during the first episode, international liberalization did not entail a complete opening up of the Spanish economy to international competition. Selective protection of domestic industries was deemed necessary in a country that was still trying to catch up with the rest of Western Europe in industrialization. To this end, except for the commodities in the free list, quotas, licenses, and state trading as well as tariffs remained as policy instruments to restrict imports. Also in the trade policy domain, export expansion emerged as the second component of the Spanish trade policy objectives. The government could command exchange rates in addition to export promotion schemes as primary means of boosting exports. In sum, the first Spanish episode signified a redefinition of trade policy objectives underlying the policy and institutional choices of the government.

During the second episode, the Franquist governments did not formulate a new systematic approach to trade policy. In a politically unstable environment, rather than introducing policy instruments which would facilitate the achievement of specific trade policy objectives, these governments preferred to generate short term solutions to the problems of the day. For instance, as de la Dehesa, et.al. emphasize, "it seems more probable that the Spanish authorities intended to reduce trade restrictions when inflationary pressures mounted and to raise them when pressures by local manufacturers intensified or when inflation receded" (1991, 178). The fact that there was no inclination on the part of the governments to adopt a new set of trade policy objectives which would substitute for those defined during the first episode was also evident from the temporary
nature of the policy measures planned during this episode. Their duration was conditioned on “the continuation of present economic conditions” (Ibid., 178), instead of their ability to further government’s trade policy objectives.

After Spain’s transition to democracy, the UCD government, which took power after the 1977 elections at the beginning of the third episode, issued declarations underscoring its intention to foster external competition and the integration of the Spanish economy into world markets in general and into the EEC in particular. The difference between the trade policy objectives of the UCD government and the Franquist government during the first episode was one of degree and pace, rather than direction. Both aimed at liberalizing imports while continuing to selectively protect industries and promoting exports. Furthermore, for the UCD government, the achievement of other economic objectives, such as, stabilization and structural adjustment, was a means of increasing the international competitiveness of Spanish industry and thus, the success of trade liberalization. Being designed by the well-known economist Enrique Fuentes Quintana, who had been a junior member of the team that launched the 1959 Stabilization Program, the UCD’s economic program specifying its goals resembled that of 1959. In brief, the UCD government’s economic policy objectives were very much in line with those advocated, but could not be sufficiently implemented by the Spanish economists after 1959 and did not go through a major transformation during the third episode (Bermeo and García-Durán 1994).

During the subsequent episode, rather than defining its trade policy objectives as the liberalization of imports and export promotion in the short run, the PSOE government
focused on Spain’s full integration into the EEC in the medium term. The preparation of the Spanish economy for entry into the Community became the ultimate goal. As summarized by Holman (1996), the central objectives of the Socialist economic policy included the correction of macro-economic imbalances, e.g. inflation, trade deficit, the restructuring of the production process and improving the competitiveness of Spanish industry through structural reforms, and the acceleration of negotiations with the EEC in order to conclude the Treaty of Accession as soon as possible.

It was this sequence of macro-economic adjustment and industrial reconversion - full membership to the EC - and reindustrialization and sustained economic growth that the newly elected government had in mind. Managing the ‘supply side crisis’ was not an end in itself, but a necessary step in the process of economic modernization, on the one hand, and a logical consequence of the European vocation of Spain, on the other (Ibid., 127)

The PSOE’s economic approach did not contradict that of the UCD during the previous episode. There were actually considerable continuities which found expression in the socialists’ announcement that one of their priorities would be to complete the general reforms set out by Fuentes Quintana in 1977. Yet, the definition of economic policy objectives in general and trade policy objectives in particular within the framework of, what Holman calls, a “hegemonic project” comprising “an interpretation of national, economic problems from a global, transnational vantage point (global interdependence determining the specific content of the crisis management pursued)” and “full integration into the Common Market, with an attempt to play a dominant role in the construction of a European Political Union, which is interpreted in the light of a
transnational, European counter-offensive against global neo-liberalism” (1996, 82) signified a departure from earlier formulations of these objectives. In sum, it can be concluded that the PSOE’s comprehensive internationalist strategy geared towards Spain’s future position and role within the EEC involved a reformulation of trade policy objectives.

**B. Turkish Episodes**

As revealed by their quick transitions between relatively liberal and highly protectionist policies, the DP governments of the 1950s did not have well-defined trade policy objectives. During the first Turkish episode, the DP government did not specify any trade policy objectives which would be fulfilled through the implementation of a systematic program in the years to come. Changes in trade policy were not regarded as instruments to help attain trade policy objectives per se, but as means to another economic goal, that is, the correction of balance of payments disequilibria through the acquisition of foreign credits (Mortan and Cakmakli 1987). Hence, just as it has not been possible, in previous chapters, to differentiate the DP government’s trade policy preferences with the empirical evidence available, it will be unfounded to conclude that the DP government had a deliberately formulated set of trade policy objectives.

Even though the DP government did not have definite trade policy objectives, its policy and institutional choices constituted the building blocks of the trade regime which was put in place after 1960. During the 1960s and 1970s, the Turkish governments defined their trade policy objectives in relation to their development policy goals, the most important component of which was import-substitution industrialization (ISI).
Within the framework of ISI, general regulation of imports with an emphasis on selective protection of import-competing industries became the primary trade policy objective. Despite the recognition that foreign exchange earnings had to be increased to enable the importation of capital goods and inputs needed by import-competing industries, relatively little attention was devoted to ways and means of promoting exports in part because import demands were expected to be covered by anticipated export earnings and aid flows (Krueger 1974). That is to say, export-related trade policy objectives remained underdeveloped and insignificant in an economy based on ISI.

During the second Turkish episode between 1970 and 1971, the AP government realized the necessity of reducing the anti-export bias of the existing trade regime. However, even this government did not question the fundamental philosophy of import substitution. Hence, there was no attempt to redefine trade policy objectives (Baysan and Blitzer 1991; Krueger and Turan 1993). Neither did the CHP-led coalition government which was in power during the subsequent episode between 1978 and 1979 formulate a new set of trade policy objectives as a response to the mounting economic difficulties of the 1970s (Barkey 1990; Krueger and Aktan 1992).

The fourth episode during which the AP government announced its decision to abandon ISI and move towards a strategy of export-led growth was a turning point in the history of Turkish political economy. The government defined its trade policy objectives as the gradual liberalization of imports and promotion of exports which would be accomplished through a sequence of changes in policy and institutions. What the government proposed was a long term project aiming to restructure the Turkish economy
around an outward-oriented strategy. However, before the AP government could put into
effect all the policy and institutional changes deemed necessary for the accomplishment
of its trade policy objectives, the military intervened in 1980. During the fifth Turkish
episode, keeping trade policy high on the agenda, the military government also advocated
the trade policy objectives that were originally formulated by the AP government during
the previous episode. Subsequently, the ANAP government, which was formed following
the 1983 national elections after the end of the military rule, shared the same trade policy
objectives. Since the AP government’s long term project had not yet been completed by
the time the ANAP government came to power it continued with the introduction of
policy and institutional changes in a step-by-step fashion. In sum, the last three Turkish
episodes can be considered as stages in a long term project of replacing deep-rooted trade
policies and institutions commanded in pursuit of trade policy objectives defined within
the framework of ISI with those expected to facilitate the achievement of a new set of
trade policy objectives.

II. Institutional Change

A. Spanish Episodes

1. Late 1950s: The End of Autarky

The *Opus Dei* team of economic leaders that came to power at the outset of the
first episode believed that economic policy should be primarily a matter of expert
judgment and that political considerations should not interfere with technical issues
(Anderson 1970). According to López Rodo, an *Opus Dei* technocrat,
One of the urgent necessities of our time is political stability, without which the government cannot comply with its commitment, each day more complex, of directing state action, above all in what bears on socio-economic development. For this it is convenient that the government not be at the mercy of parliamentary debates (Cited in Pike 1974, 197).

Hence, from the very beginning, in order to be able to realize their policy agenda, the Opus Dei ministers sought to concentrate decision making in economic affairs by narrowing the range of those involved in economic choice. To this end, they removed economic policy debate from the full cabinet and centralized it in the hands of the economic ministers by establishing the cabinet committee on economic affairs (Anderson 1970). In addition to the organization of this committee, one of the main objectives of which was to bring coordination to policy making, the Oficina de Coordinación y Programación Económica (OCYPE, Office of Economic Coordination and Programming) and the committee of technical secretaries were formed for better coordination of economic policies. Finally, after the creation of the Comisaría del Plan de Desarrollo in 1962, development plans emerged as new instruments of centralized policy making in Franco’s Spain.

As they centralized economic decision making through the creation of new institutions within the state apparatus, the Opus Dei ministers recruited individuals who shared their policy preferences into the Spanish bureaucracy. As organizations Opus Dei and Acción Católica Nacional de Propagandistas (ACNP, National Association of Catholic Propagandists), both of which were staunch supporters of the Opus Dei members of the government, served as “a nursery of elites” for the system” (Linz 1981,
392). Besides, the government's recruits into the bureaucracy were individuals with similar social, economic, and educational backgrounds and a bias in favor of upper-middle and upper class economic interests, particularly the business community (Lancester 1989). Given that this group was the one that pushed hardest for trade reform, such re-composition of the bureaucracy by the Opus Dei ministers was along the lines hypothesized in Chapter 2.

During the 1957-1960 period, institutional changes did not comprise a significant redistribution of power among societal actors since those that favored the government's trade policy approach, namely, big bankers and businessmen, were already the societal actors with the most impact on decision making. Their close connections with the Opus Dei leadership further reinforced their hold on this process. Among the groups that constituted the Franquist oligarchy, only the landowners' relative power in the decision making process was somewhat diminished as the technocrats prioritized industrial development at all costs (Grugel and Rees 1997). In any case, big landowners who were in a position to take advantage of trade liberalization were not among the opponents of policy change. Societal groups who were excluded from the political system, e.g. labor, remained excluded. The only indirect representation they could formally obtain through the syndical organizations lost its value even more as the Opus Dei leaders systematically de-emphasized them.
2. 1970s: Political Instability and Economic Crisis

The second Spanish episode coincided with the time period during which the Franquist regime was in a crisis. According to Carr and Fusi, this crisis had begun with debates over political associations in 1967-1969, a crisis of contradictions.

Spain was officially a Catholic state; yet the Church was at odds with the regime. Strikes were illegal but there were hundreds of them every year. Spain was an anti-liberal state yet desperately searching for some form of democratic legitimacy... "In Spain," the ultra right-winger Blas Piñar said in October 1972, "we are suffering from a crisis of identity of our own state" (1979, 194).

In an environment where the basic institutions of the authoritarian regime were under scrutiny, the main question that occupied the Franquist leadership’s political agenda became whether and how to introduce some degree of political liberalization without endangering the survival of the regime, rather than further centralize the economic decision making process. Unlike it had been the case during the first episode, the institutional changes considered by the governments appointed between 1972 and 1975 were no longer dictated by their economic policy concerns. As these governments focused on searching for institutional remedies for a disintegrating regime, they left the economic decision making structures established during the previous episode intact. Neither is there evidence of attempts to redistribute power among political institutions within the state apparatus as well as among societal actors in order to create an institutional context favorable to the governments’ introduction and implementation of their preferred trade policies during the final three years of the Franquist regime.
When the UCD came to power at the beginning of the subsequent episode, the basic institutions of the Spanish democracy were still being formed. The institutional issues facing the new government were as fundamental as the drawing up a democratic constitution. Hence, "the design and implementation of the party’s economic policies were greatly affected by the desire to forge a democratic constitution and to preserve a nascent democracy in the face of high levels of mobilization and sporadic but serious acts of terrorism" (Bermeo and García-Durán 1994, 96). In other words, the governmental concerns about the establishment of a stable institutional structure dominated its approach to economic policy, rather than the other way around.

During these early years of the Spanish democracy, the decision making process regarding the creation of new institutions and introduction of economic policies emphasized negotiation and compromise among major political players. The signing of the Moncloa Pacts in 1977 by the political parties with parliamentary representation was one of the vindications of the significance tied to consensual politics by the UCD government. The UCD leadership was aware that if economic changes were introduced by government action alone, this would have rendered the preservation of order difficult and threatened the survival of Spain’s democracy (Ibid.) Furthermore, its being a minority government and a party with internal factions would not allow UCD to achieve a centralization of decision making powers without causing a turbulence which it could not afford.

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1 The UCD was a coalition of fourteen small parties centered around a diverse range of views.
Despite the existence of serious institutional constraints on its implementation of domestic economic policies, the UCD government had more room for maneuver in the introduction of changes in foreign trade policy owing to the 1978 Constitution and the general agreement of both political parties and the Spanish society on the country’s foreign trade policy. First of all, according to the Articles 97 and 98.2 of the 1978 Constitution, the government and especially its prime minister, i.e. president, conducted foreign policy. The prime minister’s control over external affairs was facilitated by his specialized policy staff. The decision to call a referendum was the preserve of the prime minister and the executive retained considerable discretionary powers over how or when to ratify treaties. Thus, Suárez, the president of the UCD government, could pursue a style of presidential, i.e. prime ministerial, government in external relations. Also, given the widespread support of the idea of Spain’s integration into the world economy enjoyed at the time, the UCD government could implement its preferred trade policies without having to centralize decision making powers.

Although the UCD leadership made some changes in the composition of bureaucracy during the second Spanish episode, the primary intention was not to strengthen the hold of those in favor of their trade policy approach. They used appointments to the bureaucracy to placate various factions within the party and thus, hold prime minister Suárez’s coalition together. However, rather than bringing people with similar policy preferences together, these appointments contributed to the fragmentation of governmental policy by incorporating representatives of contending factions within the state apparatus.
Between 1977 and 1980, changes in the distribution of power over decision making among societal groups were a part of Spain's democratization process. Viewing such changes as governmental efforts to redistribute power in favor of those likely to support a certain set of policies would not be an accurate depiction. Since all major societal groups advocated an open trade regime, the government did not have any incentive to engage in such efforts, either.

3. 1980s: Towards EEC Membership

The "high" degree of trade liberalization was one of the few economic achievements of the UCD government which had to subordinate its economic objectives to the general political goal of consolidating democracy and hence, postpone the structural adjustment measures necessary for the amelioration of the Spanish economy after two oil crises. These adjustments were also essential for Spain's competitiveness in international markets and preparation for EEC membership. The economic policy approach of the PSOE government, which came to power in 1982, was framed around Spain's entry into the EEC, i.e. economic integration involving a "high" degree of trade liberalization. The party leadership was committed to fulfilling all the requirements of membership before the end of its first term in office. Recognizing the institutional factors that had prevented the UCD leadership from implementing the required structural adjustments, the PSOE government was motivated to introduce some institutional modifications in order to ensure that it could more effectively advance its policy agenda.

The PSOE government had certain advantages over its UCD counterpart from the very beginning. First of all, the 1982 elections, which had resulted in PSOE's victory,
marked the consolidation of Spain’s new democracy. A constitutional structure giving the
core executive exceptional powers was already in place. Moreover, PSOE’s acquisition
of an absolute majority in the parliament, which was an electoral outcome unanticipated
by the framers of the 1978 Constitution, further strengthened PSOE’s ability to introduce
its preferred policies. With its overwhelming majority in both chambers of the
parliament, the governing party could ignore their search for consensus. Under majority
governments, including those of the PSOE, the parliament in Spain, more than any other
European country, followed the government in a docile manner, unable to exercise its
control function (Muñoz Alonso 1988). Investigative commissions were rarely
established and parliament ceased to serve as a public forum in which the national
problems were debated. Within this institutional context, the Spanish executive faced
fewer formal limits on its power than did the President of the U.S.A (Heywood 1995).

The degree of control enjoyed by the majority PSOE government over the
decision making process within the existing institutional structure was not rendered
sufficient by the party’s leadership. Actual decision making was further centralized at the
top echelons of the party. A careful look at the organization of PSOE shows the
“authoritarian” leadership of prime minister, González, and his deputy prime minister,
Guerra, who were PSOE’s secretary general and vice-secretary general, respectively, as a
defining element (Holman 1996). They were often criticized for practicing a form of
democratic centralism (Heywood 1995, 93-94). In cabinet meetings, González took no
votes and made the final cabinet decisions himself (Bar 1988). The almost complete
control of the party organization and the government by these two leaders and the
Guerristas (named after Alfonso Guerra) within the party elite signified the degree to which decision making was centralized during the fourth Spanish episode. By centralizing executive power in this manner, González and Guerra could minimize the impact of not only the parliament, but also the lower echelons of the party on policy outcomes.

Still another move by the PSOE government towards centralization of economic decision making that can also be considered as a redistribution of the decision making power was its concentration in the hands of the Minister of Economy and Finance. Also known as the “superministry”, the Ministry of Economy and Finance grouped together in one department responsibility for the Treasury, elaboration of the state budget, fiscal policy, foreign trade, and investment policy. Besides, the Ministry of Economy and Finance not only established broad macroeconomic priorities, but also had control over budget allocations to other government departments.

In addition to centralization of decision making powers, the PSOE leadership also introduced changes in the Spanish bureaucracy. When they came to power, the politicians of the PSOE were well aware that a modern, technologically advanced, and efficient bureaucracy which Spain lacked at the time was essential for Spain’s successful integration into the EC. Reform of the country’s administrative structure was also identified as crucial to the consolidation of democracy. Hence, during the 1980s, successive reform laws were brought into effect. One of the main objectives of the changes was to combat the corporativism of the traditional cuerpos that tended to promote the particularistic interests of their own members and engage in self-regulation

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Criticisms resulted from the opening of all posts to public competition which, as Beltrán Villalva (1990) underscores, promoted a new spoils system by politicizing appointments and distributing favors to the PSOE sympathizers. These criticisms were not totally unwarranted as the PSOE did actually employ a strategy consisting of a societal embedding of the party by using the state apparatus. In other words, the PSOE attempted to use its power in formal public institutions to enhance the stability of the party and its policy agenda. This strategy of "bureaucratic clientelism" was carried through by the Guerristas within the party elite who almost completely controlled the party executive.

More specifically, the top levels of economic bureaucracy were controlled by the Ministry of Economy and Finance. In order to facilitate the implementation of PSOE leadership's preferred policies, intermediate posts in the administrative service came to be occupied by political appointees. In 1983, thirty administrators, three of which had been ministers under Franco, were fired from state enterprises (Cambio 16, 17 January 1983). The establishment of a cohesive economic bureaucracy was regarded as a way to insulate the PSOE government from societal demands and pressures.

While the PSOE politicians tried to restructure the bureaucratic structure, they brought economic technocrats to the center stage of decision making. This was not a completely new phenomenon in Spanish political economy. Even under Franco's

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4 "Bureaucratic clientelism ... consists of systematic infiltration of the state machine by party devotees and the allocation of favors through it. It is characterized by an organized expansion of existing posts and departments in the public sector and the addition of new ones in an attempt to secure power and maintain a party's electoral base" (Lyrintzis 1984, 103-104).

5 After Spain's entry into the EC, efforts were made to separate politics from administration, i.e., bureaucracy. Among the key reform measures proposed was a change in administrative culture from a
dictatorship, the economic reforms were primarily sponsored by “Técnicos Comerciales y Economistas del Estado,” who were high level bureaucrats trained in economics. During the 1980s, such technocrats, also called the “beautiful people of the PSOE” occupied leading posts in administration. Boyer, an orthodox economist from the Bank of Spain and the Minister of Economy and Finance between 1982 and 1985 was one of those “beautiful people.” So were his successor in the Socialist government, Solchaga and the governor of the Bank of Spain, Rubio. They were very much behind the economic policies advocated and implemented by the PSOE governments during the 1980s. The influence of this group on government's economic policy was enhanced after Spain’s entry into the EC, which granted an external source of legitimacy to their policy agenda.

Finally, as rational actors who want to be reelected, politicians in government have to be concerned about the voters. They would like to make sure that they have sufficient support for reelection. As it has been mentioned before, under Franco’s regime, the Spanish society had gone through a significant social and economic transformation. The shrinking of the agricultural sector, the growth of tertiary sector, and a drastic increase in the size of the middle class were some of the developments that influenced party strategies during the post-Franco era. No single social group, by itself, was able to provide a sufficiently large bloc of voters to allow a party to play a major role. Furthermore, the depolitization and depolarization that had occurred during Franco’s rule led to the creation of a less ideologically divided electorate marked by moderation. Therefore, all the parties that participated in elections after Spain’s transition to
democracy adopted catch-all strategies and the PSOE was no exception. Although it was closely associated with the trade union organization, UGT, the PSOE targeted large sectors of the Spanish electorate, conventionally defined as middle class social groups (Gunther, et al. 1988). Based on the strong appeal of its economic policies for the new middle classes and the legitimation provided by EC membership in 1986, the PSOE could present its policy agenda as serving the general interest despite its de facto exclusion of all workers in the traditional sectors. Relying on its historic links with the UGT and the broad agreement on entry into the EC with its promise of a brighter future in which workers would be awarded for the short term pain of economic adjustment, the PSOE could keep conflict between government and unions to a minimum between 1982 and 1986.

While the unions were weakened and gradually marginalized from the policy process during the 1980s, the PSOE sought to garner support for its policies through an emphasis on dialogue and cooperation with bankers, industrialists, and employers' organizations. A coalition based on "a common adherence to the Socialists' project of integrating Spain into "the Lockeian heartland of transnational production" was formed (Holman 1996, 213). Those included in this coalition were the members of the *siete grandes*, that is, the largest private banks most closely linked to the PSOE; the group of public companies which were controlled by affiliates or sympathizers of the PSOE and were organized into an employers' organization, called *Club de Empresarios*; and

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6 After entry into the Community and the second victory of the PSOE in the 1986 elections, the relationship between the Socialist government and the UGT soured rapidly as the broad outlines of economic policy remained unaltered. Finally, in December 1988, a one-day general strike which won massive support resulted in a formal break between the PSOE and the union federation it had created one hundred years earlier.
foreign capital. The so called “beautiful people of the PSOE” were also a part of the coalition. All these forces were interconnected through a complex network of personal friendships, party interests, partisan appointments, interlocking directorates, and financial ties (Ibid.). In brief, as the PSOE alienated its more traditional support base, that is, the workers, it modified the institutional structure so as to bring those who embraced its policies to the center of economic decision making.

B. Turkish Episodes

1. Late 1950s: A First Attempt at Trade Liberalization

During the first Turkish episode, the DP government’s policy response to the balance of payments crisis of the post-1954 period had been the introduction of a Stabilization Program on 4 August 1958. On the same day, the government also announced the establishment of a Ministry of Coordination, which set out to prepare a ten-year plan for the Turkish economy. Although the DP leadership and especially the prime minister, Menderes, had originally been hostile towards the idea of planning, he could finally be persuaded to take steps toward the preparation of a development program by the OEEC officials, who were concerned with the chaotic development of the Turkish economy. In addition to the Ministry of Coordination, an Investment and Coordination Committee, whose members were personally appointed by Menderes, was formed in 1960 and became the center in which the ten-year plan would be shaped (Mortan and Cakmakli 1987). Even though the 1960 military intervention brought an end to the DP government, these planning institutions constituted the seeds of the State
Planning Organization, which would be responsible for the planning of social and economic development after 1961.\footnote{The State Planning Organization was founded as the planning organ of the state by the 1961 Constitution. See Krueger (1974) for more on this.}

Another institutional change included in the 1958 stabilization package was the creation of a trade regime based on detailed annual import programs fixing import quotas by users and products. The establishment of planning institutions and the new trade regime were part of an attempt by the DP government to liberalize Turkey’s international trade, but they could not be materialized by the Menderes government, which was ousted from office by the military intervention of 1960. Subsequently, these institutions provided the basic mechanisms for ISI that became the dominant strategy of post-1961 democratic governments up until 1980. That is to say, institutional transformation initiated by the DP government during the first episode in order to centralize economic decision making became the pillars of the post-1961 protectionist regime rather than the liberal one envisaged by the 1958 Stabilization Program.\footnote{It should be noted that from the day the first DP government came to power in 1950, it sought to weaken bureaucracy that had been one of the pillars of the CHP, the party which had single-handedly governed}

Since the DP government did not stay in power long enough to consider any other institutional modifications after the introduction of a moderately liberal trade regime in 1958 it is not possible to make further judgments about the impact of changes in the international economy on the government’s redistribution of power among institutions within the state apparatus and among societal actors as well as re-composition of political institutions in order to facilitate the implementation of policies included in the Stabilization Program.
2. 1970s: Crisis and Paralysis

During the two consecutive episodes of “low” trade liberalization, that is, the second and third episodes, neither the AP government nor the CHP-led coalition government could advance a project of systematic institutional transformation in an effort to realize their trade policy objectives. Nevertheless, during the preparation stage of the 1970 stabilization measures, the AP government seemed to have recognized the importance of isolating decision making from pressures from various interests within the state and the society. During that stage, economic bureaucracy was put under the control of one person, namely, Özal, who had become an undersecretary of the State Planning Organization when AP had come to power in 1966. Moreover, in the preparation of the 1970 Stabilization Program, the AP government chose secrecy over prior consultation with representatives of different institutions of the state and interest group organizations.

On the other hand, the CHP-led coalition of the 1978-1979 period did not resort to any institutional measures which would centralize economic decision making and thus, facilitate the execution of the stabilization programs introduced during the third episode. On the contrary, as evidenced by the establishment of an Export Council in which the private sector representatives would play a significant role, the coalition government was even willing to decentralize economic decision making under societal pressures.

Both the AP government and the CHP-led coalition government sought to use bureaucratic appointments and leadership elections of major interest group organizations...
for political ends\textsuperscript{10}. However, such institutional involvements cannot be directly tied to these governments’ intention to create a favorable institutional environment for the implementation of more effective policy responses to changes in the international and domestic economy.

3. 1980s: Towards a More Outward-Oriented Trade Policy

AP’s coming to power at the beginning of the fourth Turkish episode in 1979 and announcement of 24 January 1980 decisions marked Turkey’s transition from ISI to outward-oriented trade policy approach. The government’s inclination to insulate economic decision making was evident as early as the preparation stage of the 1980 reforms, which were formulated by Özal, who was initially the chief of the State Planning Organization and was later appointed as the undersecretary of the prime minister, and a few technocrats close to him. Özal believed that in order to guarantee the implementation of the new reforms, the Ministry of Finance, the Ministry of Commerce, the State Planning Organization, and the Central Bank had to be controlled by one person (Cölaşan 1984, 46). Hence, when the prime minister Demirel announced the Stabilization Program, he also indicated that several organizational changes would be made in order to bring about the first steps in Turkey’s shift to a new trade regime.

First of all, two new committees, namely, the Coordination Committee and the Money and Credit Committee, were established. The former would coordinate policies related to development plans, annual programs, import and export regimes as well as relations with other countries and international organizations. On the other hand, the

\textsuperscript{10} See Bianchi (1984) and Barkey (1990) for examples of specific cases.
latter would coordinate money and credit policies and ensure that credit allocations were consistent with general policies. Both committees were to be chaired by the undersecretary of the prime minister. Having been appointed to this post in December 1979, Özal would be at the center of economic decision making. The membership of the Coordination Committee included senior officials from the Ministries of Finance, Industry and Technology, Energy, Foreign Affairs, and the Central Bank while the Money and Credit Committee was composed of the undersecretaries of the Ministries of Finance and Commerce, and the governor of the Central Bank. This meant that Özal as the undersecretary of the prime minister would be in a position to control the actions of these institutions within the state apparatus. In discussing why these institutional changes were necessary, Krueger and Turan assert that

by centralizing powers in the prime ministry, the need to consult to other ministers were reduced. The prime minister was less accessible than other ministers and he also had more political power. Therefore, as reactions developed to the stabilization program among those whose interests were negatively affected, they would find it more difficult to exercise influence to change policy because decisions were made only at the top (1993, 355).

Still another attempt to concentrate economic decision making in fewer institutional actors was the creation of two new departments, a Department of Foreign Investment and an Investment and Export Promotion and Implementation Department. The former was designed to provide one bureaucratic location for the application of foreign investment applications, which had previously been dealt with by a variety of ministries. The other new department was to simplify governmental regulations on
investment incentives and exports by replacing a number of scattered agencies involved in these activities.

In addition to the institutional changes aiming to centralize economic decision making, Özal also brought individuals who would support his policies to key positions in the economic decision making structure. After dismissing some of those associated with the old administration and other political parties, he started a major operation of appointing the supporters of his policies to high posts in the Central Bank, the State Planning Organization, the Treasury, and the Ministries of Finance, Commerce, and Foreign Affairs. Those who were left in their positions were kept out in the dark when major economic decisions were made and implemented (Cölasan 1984).

During this episode which lasted less than a year, Özal’s short term approach to the role the societal actors should play in decision making was that they had to be disregarded. This did not mean that Özal and the AP leadership did not have any electoral concerns. They believed that being a minority government, the AP would not be able to hold onto power very long. If it could introduce economic policies that would solve the country’s economic problems, the AP would have a good chance of winning a majority in the next national elections. Thus, as soon as they came to power, the AP leadership demanded the scheduling of early elections sometime during the summer of 1980. However, an agreement with the other political parties could not be reached before the military intervention on 12 September 1980. Neither was the AP government able to introduce institutional changes which would redistribute power among societal actors so as to widen its support base in the ten-month period it was in office.
The military takeover of 1980 signified the concentration of decision making powers in all policy areas in the National Security (NSC), composed of five generals, and a government appointed by them. When the military leaders declared that they would continue implementing the 24 January 1980 measures, they also appointed Özal as the deputy prime minister in charge of economic affairs. In order to maintain his single-handed control over economic decision making, he had originally demanded that in addition to this position he should be given the titles of both the Minister of Finance and the Minister of Commerce. Yet, this request was refused by the military rulers on the grounds that it would be unconstitutional. That is to say, the degree of centralization Özal had appealed for was much greater than they were willing to concede. The prime minister of the military government, Ulusu, openly questioned why a single person should have so much authority over economic decisions (Côlasan 1989, 85). The formation of issue-specific NSC commissions consisting of military and civilian experts and an Economic Affairs High Coordination Council headed by the prime minister, two deputy prime ministers, the ministers of foreign affairs, finance, trade, agriculture and forestry, industry and technology, as well as energy in 1981 were attempts by the rest of the military government to introduce “checks” on Özal and his technocrats. In sum, under the military regime, Özal could never obtain the level of control on economic decision making which he enjoyed during the previous episode.

Özal was a strategic actor who adjusted his ways to the institutional environment. For instance, when the Economic Affairs High Coordination Council was established and the Coordination Committee, which was formed during the previous episode was put under its control, Özal avoided using this Committee to introduce policy change and started to utilize the Money and Credit Committee, which was not put under the jurisdiction of the Economic Affairs High Coordination Council, to further his agenda.

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By the time the military came to power, Özal, under the authority given to him by the prime minister of the AP government, Demirel, had already carried out a shuffle of economic bureaucrats in the key institutions of the state. Therefore, military takeover did not coincide with a major re-composition of economic bureaucracy. Only those who were known to be party militants were dismissed as a part of the military’s efforts to eradicate politicization and polarization that had afflicted the institutions of the state and the society during the pre-coup period (Ibid.).

The military’s project of restructuring the Turkish polity in order to avoid the pitfalls of the pre-coup period also involved a redistribution of power and influence among major societal actors. During the 1970s, unionized workers had been among the most fervent opponents of stabilization programs. Using slowdowns, work stoppages, and strikes, as well as their voting power, they had been able to influence government policy and obtain high wages despite low levels of productivity. The goals of the stabilization programs, however, favored a reduction in the real wages of workers. In order to enhance the competitiveness of Turkish products in the international markets and decrease the deficits of state economic enterprises, wages had to be lowered. Therefore, when the military assumed power in 1980, it took various measures which led to the diminution of the political power and bargaining stance of labor unions. These measures included a ban on strikes and suspension of wage negotiations under collective bargaining. Moreover, the military closed down the second largest, but politically the strongest confederation of labor (DISK) in the country.
The military leaders' attempts to diminish the economic and political power of labor did not remain limited to the time period they were in power. The 1982 Constitution, which was framed under military rule and would be effective after Turkey's transition to democracy in 1983, not only prohibited the political activities of labor unions, but also imposed strict restrictions on how they can collect and spend money and gave the government extensive powers to postpone strikes or submit them to mandatory arbitration (Krueger and Turan 1993). Consequently, when ANAP came to power after the 1983 elections, it found Turkish labor permanently weakened in its relations with employers.

During the sixth episode, acknowledging the necessity of being a part of the global orthodoxy and relying on economic performance as its major source of legitimacy, the ANAP government took the initiative in restructuring not only economic policy, but also institutions. As soon as he was elected, Özal set out to create a highly centralized and insulated policy apparatus which helped initiate and sustain reform through its early stages. By concentrating power at the center and setting the pattern of a strong executive and weak parliament, the 1982 Constitution had already opened the way for an insulated decision making process. In no time, a concentrated decision making structure, with the responsibility for key economic decisions being confined to the Prime Minister, the inner or core Cabinet, and a small group of top-level bureaucrats became a central feature of the governments formed by the ANAP, a party which was already characterized by a hierarchical structure dominated by a strong leader. The establishment of new ministries of state with specific responsibilities, such as the Ministry of State for Economic Affairs,
also became an effective means of diminishing the powers of the legislature vis-à-vis the executive and of the Cabinet itself relative to the office of the Prime Minister.

The dominance of the executive over the parliament and even over the peripheral Cabinet was further reflected in the emergence of government decrees as the major instrument of introducing policy changes (Önis and Webb 1994, 137). These so called "decrees in force of law" (Kanun Hükmünde Kararnameler), which were often preferred over legislation, offered the core executive the autonomy, flexibility, and speed it needed in order to pursue its policy agenda.

In addition to the wide use of decrees, the creation of extrabudgetary funds (EBFs) with the purpose of generating non-tax revenues that could be spent without parliamentary approval further indicated the relative decline of the parliament and the parallel expansion of executive power. This innovation provided considerable discretionary powers to the central government and notably to the Prime Minister in the allocation of economic resources since the largest of EBFs, the Mass Housing Fund and the Public Participation Fund, were under his direct control. The EBFs had implications beyond their impact on the distribution of power between the executive and the legislature. Not only did they remove economic decision making from the possibility of democratic oversight through the parliament, but also they built a mechanism which did not require going through the normal bureaucratic routines. Consequently, they served to diminish the influence of bureaucracy in economic decision making. As it will be further

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12 Between 1980 and 1990, seventy two EBFs were created. As of 1991, the largest funds were the Public Participation Fund, the Mass Housing Fund, the Support Price Stabilization Fund, and the Defense Industries Support Fund.

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discussed below, they were only one of the strategies used to this end. Thirdly, the expenditures of the EBFs became useful political tools for ANAP to reward its supporters as they were often channeled to municipalities that voted for ANAP. In this regard, they were a part of the ANAP politicians' strategy of strengthening those who supported their agenda.

Besides the centralization of executive power, altering the role and influence of bureaucracy in policy formation and implementation has been differentiated as a second major strategy that politicians advocating major economic reforms would employ in order to smooth their implementation. Restructuring the bureaucracy and instituting a top-down management structure were also among the tactics utilized by the ANAP politicians during the 1980s. The Özal government undertook two major reorganizations of the economic bureaucracy. As Önis and Webb assert, the government had three objectives: to deal with the problem of coordination; to reward political friends and punish enemies; and to take power away from the parts of the bureaucracy opposed to Özal's economic program (1994, 148). During the early 1980s, the third objective took precedence. Taking power away from the old bureaucrats who had been closely associated with the tradition of a strong patrimonial state in Turkey was regarded essential. Rather than trying to reform the traditional bureaucrats, Özal chose to create an Undersecretariat for Treasury and Foreign Trade (the Treasury) in the Prime Ministers' office. This new agency which combined the Treasury Department of the Ministry of Finance and the Foreign Trade Department of the Ministry of Commerce was put under a new Ministry of State for Economic Affairs.
Moreover, the Central Bank of the Republic and the State Planning Organization (in a weaker role) both of which had existed before but had not been the most influential institutions for economic policy making were brought to its core. The Ministry of Finance and the Ministry of Commerce which were the principal agencies for economic policy before 1980 were kept intact, but relegated to less crucial functions. Having lost its control over the Treasury, the Ministry of Finance turned into a general directorate of customs and taxation similar to a department of internal revenue. The detachment of foreign trade from the Ministry of Commerce meant that it would have a very limited role to play in the new period of outward-oriented growth. In addition to the redistribution of powers over economic policy among the institutions of the state, top economic policy makers who did not represent the views of their agencies and who held the positions to be a part of the economic team were appointed as heads of the old agencies in order to control the traditional elements in these institutions.

Still another strategy used by Özal was the appointment to top positions within the economic bureaucracy of a select group of young U.S.-educated technocrats with a strong commitment to the neoliberal model. Popularly known as the “princes”, these technocrats were dependent on and loyal to the Prime Minister himself and became key figures in the implementation of the economic program. Just like the “beautiful people of the PSOE,” ANAP’s “princes” could carry out a reform program the way the political leaders wanted it. In Turkey, political appointments expanded into the middle levels, especially in the Central Bank and the Treasury. Promotions from within the agencies
became less common. The growing prevalence of top-down appointments severely reduced the autonomy and collective identity of the bureaucracy (Heper 1989).

Changes in one of the prominent economic policy making institutions, namely, the Central Bank were noteworthy. Its 1983 reorganization moved the Central Bank out of the Ministry of Finance and put it under the Ministry of State for Economic Affairs. During the 1980s, the Central Bank gained some independence from this Ministry; yet, it came at the expense of becoming more dependent on the Prime Minister. Especially after the appointment of one of Özal's "princes", Rüstür Saraçoğlu, as the governor in 1986, the Central Bank turned to be the principal point of entry into the government for economic technocrats supporting Özal's neoliberal policy agenda. In brief, the restructuring of the Bank served his objectives both by reinforcing the power of the core executive and by shuffling the distribution of power within the bureaucratic structure in favor of those who backed Özal's economic approach.

Like all politicians who want to be reelected, the ANAP leadership also had to consider its popularity among the electorate. The closing down of all pre-1980 political parties and the bans imposed on their leaders' political involvement by the military had contributed to ANAP's victory in the 1983 elections. During the first half of the 1980s, the success of economic reforms in making the Turkish economy more efficient and much more outward oriented, coupled with the absence of an alternative economic program helped engender general political support for them. The fact that organized interests, such as trade unions and employers' associations, had historically been weak in Turkey and further weakened by the limits imposed on their political activity by the 1982
Constitution prevented the emergence of an effective opposition to Özal’s reforms. Nevertheless, in order to make sure that there was sufficient support for his policies, Özal strategically attempted to create societal groups with vested interests in the new economic structure he established.

First, by achieving positive real rates of interest on bank deposits, he facilitated the formation of a new group of middle-income rentiers who directly benefited from his economic program and added to ANAP’s base of support. His privatization program which involved the sale of revenue-share certificates to middle- and lower-income groups was still another support-seeking strategy.

Besides populist measures, the ANAP leadership also resorted to an institutional innovation, that is, the establishment of foreign trade companies, in an attempt to generate additional support for its program. The intention was to create a highly concentrated export sector based on a limited number of large-scale companies. In mid-1983, these companies organized themselves into an interest group association, called the Exporters Association. In accordance with relevant legal changes, its name was changed to Foreign Trade Association in 1984 and Turkish Foreign Trade Association (Türk-Trade) in 1986. As an interest group whose existence directly depended on a special set of incentives provided by the government, this group of companies had strong vested interests in the continuation of the ANAP government’s trade policies. Thus, the leaders of the mentioned associations of foreign trade established rather close relations with the government through their visits to the relevant ministries, undersecretaries, and directors-general. The emergence of foreign trade companies and their associations as influential
societal actors in the post-1983 period is evidenced by Ilkin’s (1991) findings which reveal significant parallels between the demands of Türk-Trade and the decisions of the government. This is a good example showing that governments committed to the successful execution of their trade policies are likely to employ a strategy of strengthening and/or creating economic interests that are going to gain from and thus, support their policies.

The ANAP government, in its effort to increase the influence of those who supported its policies within the existing interest group organization, also used its political power to change the organizational structure of the TOBB in 1986 without taking the views of its members into account (Milliyet, 9 April 1986). Within the new organizational structure, five sectors, represented by the Union, would set up thirty-member expert councils which would not only attend the problems of their respective sectors, but also elect the fifteen-member executive board of the Union. Moreover, the chairman of the Union could no longer serve in that position for more than a total of ten years (Cumhuriyet, 30 March 1986 and 11 April 1986). According to Heper (1991), the apparent rationale was to further de-politicize the Union. The reactions of the organization leaders clearly showed their discontent with these institutional changes. As the then chairman of the Union, Faralyali, protested by saying “I do not intend to be a civil servant”, the chairman of the Ankara Chamber of Commerce underlined that these changes reflected the government’s philosophy of divide and rule (Milliyet, 9 April 1986). Finally, the finding that only 31% of company owners/managers preferred the chambers within the TOBB structure to represent their sectoral interests as opposed to 59...
who favored voluntary associations for the same purpose (Kalaycioglu 1991) demonstrated the declining power and prestige of TOBB even among its own membership after the introduction of organizational changes by the ANAP government.

To sum up, in the post-1983 period, ANAP leadership realized the most comprehensive restructuration of Turkey's trade-related institutional framework under a democratic government. In order to secure a smooth implementation of its economic policy agenda, this government carried out an institutional project involving a centralization of economic decision making, modification of the bureaucratic makeup as well as redistribution of power and influence among societal actors.

III. Evaluation: Trade Policy Objectives and Institutional Change

Governments that seek to uproot deep-seated trade policy objectives as a response to changes in international and domestic economic conditions are expected to introduce changes not only in policies, but also in trade-related institutions that carry a status quo bias. On the other hand, when trade policy comes to their agenda, governments that continue to adhere to the status quo objectives are likely to limit their considerations to policy change as a short term remedy without questioning the underlying institutional structure. Based on this line of argument, it has been hypothesized that governments which favor a redefinition of trade policy objectives are more likely to initiate institutional change. In the previous sections of this chapter, I have examined the trade policy objectives of governments and anticipated micro-level institutional modifications during each of ten selected episodes. Subsequently, in this section, I will focus on the
question of whether a redefinition of trade policy objectives correlates with centralization of decision making, redistribution of decision making powers among the institutions of the state, recomposition of the institutions of the state, and redistribution of power among societal actors.

As summarized in Table 6.1, all episodes during the which the government favored a redefinition of trade policy objectives resulted in at least three out of the four expected institutional modifications including changes in existing institutions and creation of new institutions. On the other hand, during the episodes in which governments did not come up with a new set of trade policy objectives to be achieved through a systematic use of policy instruments, institutional change related to trade policy remained minimal. This evidence provides support for the general proposition that governments aspiring to accomplish trade policy objectives that depart from the status quo are more likely to introduce changes not only in policies, but also in trade-related institutions. Moving from this general proposition to specific hypotheses incorporating the kinds of institutional change to be expected, the question of how these hypotheses fare against evidence from the identified episodes should be also addressed.

First, it has been hypothesized that governments that favor a redefinition of trade policy objectives are more likely to centralize actual trade policy decision making than those that do not. In this study, it has been found that during the second and third Spanish and the first, second, and third Turkish episodes, governments did not engage in a systematic reformulation of trade policy objectives. Among these governments, only two made an attempt to centralize decision making. One of them was the DP government of
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Table 6.1: Trade Policy Objectives and Institutional Change
the 1958-1960 period in Turkey. Being often criticized for its uncoordinated initiatives by both domestic and international actors, this government established a Ministry of Coordination and an Investment Coordination Committee, both of which would be responsible for central planning of the Turkish economy. During the second Turkish episode, the AP government’s decisions towards a centralization of decision making involved temporarily putting the economic bureaucracy under the control of one person and choosing secrecy over prior consultation with representatives of different institutions of the state and interest group organizations.

During the episodes characterized by efforts to introduce and implement trade policies based on newly formulated trade policy objectives, namely, the first and fourth Spanish and the fourth, fifth, and sixth Turkish episodes, centralization of decision making became a major strategy for governments that sought to guarantee the long term sustainability of their trade policies. The concentration of economic decision making in a small number of technocrat-ministers and foundation of the Office of Economic Coordination and Programming during the first Spanish episode and the dominant role the prime minister, the deputy prime minister, and the Minister of Economy and Finance came to play in the decision making structure in post-1982 Spain reveal the importance granted to centralization of decision making by governments eager to advance a new trade policy agenda. Similarly, after the adoption of a new set of trade policy objectives by the AP government of the 1879-1980 period in Turkey, isolation through centralization became a strategy employed by successive governments aiming to move forwards towards a more outward-oriented trade regime. Turgut Özal occupied a central
position in the key institutions of economic decision making during post-1979 episodes. As the undersecretary of prime minister between 1979 and 1980, he chaired the two newly established bodies, namely, the Coordination Committee and the Money and Credit Committee which consisted of senior officials from various ministries and institutions of the state. This meant the centralization of powers in the prime ministry. In the subsequent episode, Özal was appointed as the deputy prime minister in charge of economic affairs by the military leadership and continued to shape Turkey’s new trade policy regime. When ANAP came to power in 1983, at the outset of the sixth episode, Özal, as the prime minister, together with his core cabinet and a small group of top level bureaucrats went onto further his trade policy agenda in a highly centralized decision making structure.

The second kind of anticipated institutional change, that is, the redistribution of trade policy making powers among the institutions of the state is closely related to the centralization of decision making. Especially, in cases where most of the existing institutions carry a status quo bias, governments with a new set of trade policy objectives may initially choose to shift decision making powers to a few actors, as exemplified by cases discussed above. Yet, redistribution of decision making powers may also involve the creation of new institutions around the newly formulated trade policy objectives and equipped with trade policy making powers. Namely, the establishment of planning institutions during the first Spanish episode, the committees during the fourth Turkish episode, the Undersecretariat for Treasury and Foreign Trade in the prime minister’s office and the Ministry of State for Economic Affairs during the last Turkish episode.
supports the expectation that governments that favor a redefinition of trade policy objectives are more likely to introduce institutional changes aiming to redistribute decision-making powers than those that do not. It was only one (Turkey 1, 1958-1960) of five episodes during which no redefinition of trade policy objectives occurred that the government was engaged in a similar attempt.

Thirdly, the evidence from the identified episodes strongly supports the hypothesis that a government that favors a redefinition of trade policy objectives is more likely to change the composition of the institutions within the state apparatus in favor of those who are likely to share its preferred trade policy than one that does not. During none of the episodes characterized by an absence of efforts to redefine trade policy objectives, the government attempted a re-composition of the trade-related institutions of the state while in all, but one (Turkey 5, 1980-1982), of the episodes where the government favored a reformulation of trade policy objectives such re-composition became a major strategy. In these cases, namely, the first and fourth Spanish episodes and the fourth and sixth Turkish episodes, governments became particularly concerned with the make-up of the economic bureaucracy. During all four episodes, the governments appointed economic technocrats sharing their trade policy objectives to top positions within the economic bureaucracy and relied significantly less on promotions within state agencies.

Finally, as shown in Table 6.1, redistribution of political power and wealth among societal actors in order to create a domestic support base for governmental trade policy decisions did not emerge as a strategy used by governments that did not advocate a
redefinition of trade policy objectives. On the other hand, in three out of five episodes characterized by a reformulation of these objectives, the governments attempted to redistribute political power and wealth in favor of those likely to support their preferred trade policies. During the first Spanish episode, the Franquist government did not initiate such an attempt because those advocating trade liberalization were already in a politically and economically powerful position. The AP government of the 1979-1980 period could not do so since it did not stay in power long enough to initiate such social engineering. The governments that tried to redistribute power and wealth among societal actors, i.e. the PSOE government of the 1982-1986 period in Spain, the military government of the 1980-1982 period and the ANAP government of the last episode in Turkey, all took measures to weaken organized labor. In addition, the reorganization of the TOBB where the protectionist small industrialists were heavily represented and the foundation of foreign trade companies so as to create a highly concentrated export sector with vested interests in ANAP’s export-led growth strategy constituted the other redistributional initiatives taken by the ANAP government during the sixth Turkish episode. The implication is that governments advocating a departure from the status quo trade policy objectives recognize the necessity of building a sufficient domestic political support base for their policies in order to enhance their political viability and long term sustainability. Redistributing political power and wealth among societal actors through changes in the institutional structure is simply a means to this end.
IV. Conclusion

My examination of institutional change has demonstrated that when trade policy comes to a government’s agenda, it is not only policies, but also trade-related institutions that are re-evaluated. In this reconsideration process, governments that favor a redefinition of trade policy objectives introduce changes in institutions more often than governments that either support the status quo or view a once and for all policy change as a remedy for the economic difficulties their country is in. Moreover, governments that see institutional change as a means to the accomplishment of their newly reformulated goals in the trade policy domain tend to opt for micro-level modifications. Despite their seemingly incremental nature, modifications of this kind may have a significant impact on the introduction and implementation of trade policy. This is consistent with my finding in Chapter 4 that macro-level institutional variables, such as the regime type and the number of institutional veto players, do not have a decisive effect on the degree of trade liberalization that can be achieved. Given this finding and the high costs of altering macro-level institutions, it is rational for governments to focus on changes in lower level institutions. The inductive lesson that may be drawn from this is that future analyses of the mediating effects of a given set of institutions should pay more attention to micro-level and not necessarily formal institutions that affect the distribution of power and influence in trade policy decision making.

Furthermore, granted that the redefinition of trade policy objectives have been established as inducing institutional change, more studies on why, when, and how these objectives are redefined are needed. Although these questions have not been tackled in
this study, the argument that has been advanced at the end of Chapter 4 regarding the possible impact of ideas on political outcomes may constitute a starting point. A redefinition of trade policy objectives usually involves a change in the economic ideology shaping the way political actors approach international trade relations. A framework that can capture the dynamics of the relationship between policy-relevant ideas, policy objectives, and domestic political institutions over time promises to be one that may offer a satisfactory explanation for change in policy and institutions.

Finally, in a nutshell, this project has been a first cut at developing useful theoretical and analytical tools to study trade liberalization and accompanying institutional changes in a world economy characterized by expanding international trade and increasing involvement of international actors in domestic trade policy making. In the first stage, I have investigated the impact of the interaction between selected domestic political institutions and interest-based preferences on trade policy outcomes. Subsequently, this chapter, comprising the second stage of my study has concentrated on the relationship between the definition of trade policy objectives and trade-related institutional change at the national level. Having presented my findings and the inferences that can be drawn from them, the next and the last step is to provide an overall evaluation of this project in a concluding chapter.
CHAPTER 7

CONCLUSION

Focusing on the foreign trade policy domain, the primary objective of this study has been the development of theoretical and analytical tools that can be used to explain the variation in foreign trade policy and institutional outcomes generated under different national governments in an international economy characterized by expanding international trade and increasing involvement of international actors in domestic trade policy making. Although it does not claim to provide an all-encompassing explanation of domestic political outcomes in the trade policy domain, this small-n comparative analysis can contribute to the advancement of this general research agenda by differentiating and systematically examining some of the theoretically and empirically most relevant linkages in a complex web of causal processes in the foreign trade policy domain.

The findings of this project can be evaluated under three headings. The first one covers the relationship between the external pressures emanating from expansion of world trade and involvement of international actors in domestic trade policy making and the liberalization of trade policy. The other two sets of findings show whether the hypotheses proposed in Chapter 2 hold against empirical evidence from the ten episodes
during which trade policy gained salience in the Spanish and Turkish governments' agenda between late 1950s and mid-1980s. One group of hypotheses concentrates on the impact of selected institutional variables, namely, the regime type, the number of institutional veto players, the distance between the trade policy preferences of the executive and the institutional players, and institutional mechanisms of access to decision making available to societal actors, on the degree of trade liberalization. While my examination of the effects of the first three, which are categorized as “state-level” institutional variables in this study, is based on the deductive logic of rational choice institutionalism, the role institutional mechanisms of access to decision making available to societal actors play in channeling their preferences into the policy making process is investigated by applying the more inductive logic of historical institutionalism. Thirdly, an attempt has been made to explain trade-related institutional change. In this concluding chapter, after the discussion of the major findings as well as the successes and limitations of this project in contributing to a better understanding of these three questions, I will briefly introduce some alternative or complementary explanations and make suggestions about venues for further research.

I. External Pressures and Trade Liberalization

Today, the ability of international economic factors to shape domestic political choices is a phenomenon that is often assumed, rather than questioned. Within what may be called “the second image reversed” tradition, this study has started as an attempt to find out about the impact of external pressures on foreign trade policy outcomes. In this
policy domain, expansion of world trade and involvement of international actors in domestic trade policy making have been major sources of pressure on national governments especially since the end of the Second World War. Since then, despite some fluctuations, in general, world trade has been expanding at a rate higher than the growth rate of world output and consequently, raising the costs of closure for national economies. In addition, the creation of international economic institutions, such as the GATT, the IMF, the World Bank, the OEEC, and the EEC, having the liberalization of international trade among their primary objectives and the increase in the involvement of these institutions in domestic politics have also been imposing additional constraints on the trade policy decisions of national governments. Yet, domestic political responses to external pressures generated by expansion of world trade and by international actors have not been uniform across countries and over time.

The empirical evidence presented in Chapter 3 does not support a one-to-one relationship between external pressures and the degree of trade liberalization introduced by the Spanish and Turkish governments during the identified episodes. However, this does not mean that expansion of world trade and international actors did not play a role in the liberalization of foreign trade policy in Spain and Turkey between late 1950s and mid-1980s. Although they were not the major determinants of the degree of trade liberalization, external pressures penetrated into the trade policy making process in various ways.

First of all, by increasing the impact of international economy on national politics, expansion of world trade has contributed to the increasing political salience of
foreign trade policy and hence, played a role in the outset of episodes. The Spanish and Turkish economies gradually became more sensitive to international trends and shocks with expanding international trade. This is evidenced by the rising frequency of episodes after the two oil crises. Moreover, the finding that all three episodes of high trade liberalization occurred during this period reveals the declining resistance of the Spanish and Turkish governments to pressures generated by expanding world trade. In addition, Turkey’s shift from low degrees of trade liberalization during the second and third episodes to moderate degrees during the fourth and fifth episodes and finally to a high degree of trade liberalization during the last episode shows how the gradually accumulating effects of expansion of world trade compels governments of even closed economies to reconsider their trade policy approach and ultimately, open up their national markets to international competition. In brief, for how long world trade has been expanding matters in accounting for trade policy outcomes in different political contexts.

In regards to the distributional effects of expansion of world trade, one observation is critical. Namely, the emergence of proliberalization societal actors in Spain as early as the 1950s and in Turkey during the second half of the 1970s reveals the ability of pressures emanating from a world economy characterized by an easing of international trade to permeate even closed economies and lead to the rise of societal actors who view liberalization of trade policy as furthering their interests. Since the empirical evidence presented in Chapter 5 points to the existence of proliberalization actors in a polity as a necessary condition for the introduction of moderate and high
degrees of trade liberalization, the link between expansion of world trade and trade liberalization should not be underestimated.

Even after a discussion of how pressures engendered by expansion of world trade affect trade policy outcomes, the variance in when and how national governments respond to these pressures still begs for an answer. One may claim that this variance can be accounted for without going into an institutionalist analysis of the domestic politics of trade liberalization during specific episodes. For instance, it may be argued that the expansion of world trade has not influenced all national economies equally mainly due to the past practices of national governments. Level of openness which is heavily a function of former trade policies can influence the degree to which national economies are affected by international trends and shocks. Open economies are expected to feel the pressure of these trends and shocks more immediately and at a larger scale than closed economies. Moreover, government policies, such as those formulated to subsidize various sectors of the economy, may block relative price signals from the international economy from entering the domestic one and hence, disintensify the effects of expansion of world trade on the national economy. However, government policies virtually always find expression in the institutional structure. Namely, interventionist economic policies usually go together with central planning institutions. Therefore, even this promising argument that expansion of world trade did not lead to the same degree of trade liberalization in various countries and at various points in time because its effects were

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1 See Keohane and Milner’s 1996 edited volume for empirical analyses substantiating these arguments.
not equally felt everywhere need to consider domestic political institutions in order to present an accurate picture.

During the episodes covered in this study, international actors became involved in domestic trade policy making through conditional provision of international funding, dissemination of policy-relevant knowledge, and promise of long term economic and political benefits. In evaluating the effectiveness of international actors in persuading governments to introduce more liberal trade policies, let me first concentrate on episodes of high trade liberalization. During all three such episodes, governments already favoring trade liberalization were in power. In the case of Spain, the long term economic and political benefits of EC membership became a major motivating force for both the UCD and the Socialist governments during the third and fourth episodes. When the ANAP government introduced substantial changes in Turkey's foreign trade policy between 1983 and 1986, the country had already received large sums of funds from the OECD, the IMF, and the World Bank and thus, the economic situation was not so desperate as to make this government acquiesce into conditions involving a high degree of trade liberalization if it were not already tended towards that direction. The prospects of obtaining more loans could have reinforced the government's belief in the merits of trade liberalization.

During other episodes in which international actors were involved in domestic trade policy making through conditionality negotiations and policy consultations with the Spanish and Turkish governments, the ability of these international actors to push for trade liberalization remained more limited. Even though these governments consulted
with and received policy advice from the representatives of international economic institutions, evidence from the first Spanish and the first through the fifth Turkish episodes suggests that in liberalizing trade policy, these governments went as far as their own trade policy predilections and domestic political conditions allowed. For instance, even under desperate economic circumstances, the protectionist coalition government of the third Turkish episode could resist the coercive power of IMF conditionality and chose not to go beyond a low degree of trade liberalization. The only episode during which international actors seemed to have made a government do what it would otherwise not do was the first Turkish episode. In brief, it can be concluded that external pressures from international actors have been associated with high degrees of trade liberalization when such pressures involved carrots rather than sticks.

Regarding the absence of a one-to-one relationship between the involvement of international actors in domestic trade policy making and the degree of trade liberalization, a possible explanation that marginalizes domestic political factors would be one focusing on the variation in the behavior of these actors over time and towards different countries. For example, as exemplified by the difference between those in agreements with Turkey during the 1970s and 1980s, the conditionality requirements of the IMF became much stricter during the 1980s than they were during earlier decades. In the case of Spain, the EC prerequisites involving substantial trade liberalization may have facilitated the achievement of a high degree of trade liberalization during the democratic period. However, since governments have to play two-level games when signing agreements with international organizations, such as the IMF and the EC, analyses
concentrating only on relations between these agencies and governments and ignoring domestic political factors can capture only half the story.

Still another non-institutional explanation for the differences in government responses to external pressures can be built on around an economic variable, that is, the severity of the crisis the country is in. It may be contended that as this severity increases, governments are more likely to introduce policy change along the lines recommended by international actors. The evidence from identified episodes do not support this claim. For instance, there was not a significant difference between Turkey's economic situation during the third and fourth episodes. Yet, during the former, the government did not go beyond a low degree of trade liberalization while during the latter, a moderate degree of trade liberalization could be achieved. Besides, as Turkey's economic situation improved during the two subsequent episodes, the governments' efforts towards trade liberalization intensified. Regardless, further studies of the relationship between domestic economic conditions and the ability of international actors to pressure governments into initiating policy change can be a significant contribution to the scholarship.

Finally, the finding that external pressures did not determine the degree of trade liberalization during the selected episodes reveals the limitations of open polity analyses which disregard the mediating effects of domestic political factors on this relationship. The models adopted by such analyses assume that the changing preferences of societal actors under external pressures are quickly and faithfully reflected in trade policy outcomes. By overlooking the politics of this process shaped around existing political institutions, open polity analyses remain of limited value not only in explaining the
process of trade policy making, but also its outcomes. Consequently, we should turn to the institutionalist approaches to the same question.

II. Domestic Political Institutions and Trade Liberalization

In the first step of my institutionalist analysis, I have taken the institutional environment in which governments operate as given and examined the effects of selected institutional variables in connection with the trade policy preferences of relevant political actors by adopting two different approaches to the study of institutions. The institutional variables included in this project are the regime type, the number of institutional veto players, the distance between the trade policy preferences of the executive and the institutional veto players, and the institutional mechanisms of access to decision making available to societal actors. Even though the findings of my analysis have been mixed, this has been a useful exercise towards the development of the institutionalist agenda.

A. The Impact of “State-Level” Institutional Variables on the Degree of Trade Liberalization

Within the tradition of rational choice institutionalism, a deductive approach has been employed in analyzing the impact of “state-level” institutions on the degree of trade liberalization. First, the hypothesis that external pressures will lead to a higher degree of trade liberalization in democracies than in authoritarian regimes is not supported by evidence from the selected episodes. Of the ten episodes included in this study, three took place under authoritarian regimes. These are, namely, the first (1957-1960) and second (1972-1975) episodes in the Spanish case and the fifth (1980-1982) episode in the
Turkish case. The degree of trade policy liberalization during these episodes have been classified as "moderate", "low", and "moderate", respectively, as it has ranged from "low" to "high" during episodes when a democratic government was in power. In other words, in terms of degree of trade liberalization, there was as much variance among democracies as between democratic and authoritarian systems. One striking observation is that while authoritarian regimes have been able to liberalize their foreign trade policies, a "high" degree of trade liberalization has not characterized the policy outcomes they generated. How can we account for this observation?

Not unlike democratically elected governments, the main objective of authoritarian leaders is to stay in power, that is, to survive. To this end, "modern autocracies and authoritarian regimes seek popular legitimacy and support" (Perlmutter 1981, 10). Given that democratic political participation is not an acceptable instrument to acquire legitimacy and support, the executive in authoritarian regimes needs to rely on other means. Both the Franquist regime in Spain during the first episodes and the military regime in Turkey between 1980 and 1983 emphasized maintenance of political stability and social peace as well as improvement of economic conditions in order to legitimize authoritarianism. As long as the political stability of the political system was not threatened, but reinforced by economic reform, both the Franquist governments and the Turkish military leaders were willing to adopt to new circumstances. However, it can be argued that their concerns with the impact of high trade liberalization on political stability have not allowed them to go beyond a moderate degree of trade liberalization.
Thus, it was during only three episodes that took place under democratic governments that a high degree of trade liberalization could be attained.

With respect to the impact of number of institutional veto players, the observations from identified episodes demonstrate that while the presence of institutional veto players may directly, through the actual use of veto power, or indirectly, through government’s anticipation of the institutional veto player’s reaction, limit the executive’s ability to introduce change, the number of veto players cannot by itself explain the direction and degree of change.

An analysis of episodes during which there were no institutional veto players in the political system, namely, the first and second Spanish and the fifth Turkish episodes, shows the ease in which the governments introduced the policy changes they deemed necessary although the degree of trade liberalization they achieved did not reach “high” levels. On the other hand, contrary to the expectation, during three out of seven episodes during which the legislature’s approval was required for a policy change, a “high” degree of trade liberalization was achieved. Namely, during the third Spanish episode (1977-1980), the UCD government, despite its lack of a majority in the parliament, could introduce changes in all policy areas included in this study. Subsequently, the PSOE leadership, which came to power at the beginning of the fourth Spanish episode (1982-1986), got Spain’s Treaty of Accession to the EC easily ratified. Thirdly, after assuming office in 1983, the ANAP government in Turkey established a new foreign trade regime based on significant changes in tariffs, NTBs as well as exchange rate policies during the sixth Turkish episode (1983-1986).
The other four episodes, during which the legislature was an institutional veto player, were classified as those of either "low" or "moderate" trade liberalization. Two of these episodes, namely, the second and third Turkish episodes between 1970 and 1971 and between 1978 and 1979, respectively, were characterized by a "low" degree of trade liberalization while a "moderate" degree of trade liberalization was introduced during the remaining two (Turkey 1: 1958-1960; Turkey 4: 1979-1980).

These mixed results concerning the constraining effects of the number of institutional veto players on the degree of trade liberalization suggests that the absence or presence of institutional veto players was not the most significant variable determining the degree of change in trade policy. The observation that the presence of institutional veto players did not necessarily preclude "high" trade liberalization reveals the necessity of examining the impact of the number of institutional veto players on trade policy outcomes in relation to preferences and other institutional variables. Thus, the third "state-level" variable I bring into my analysis is the distance between the trade policy preferences of the government and the institutional veto players.

During all three episodes of "high" trade liberalization, there was not a considerable distance between the trade policy preferences of the executive and the institutional veto player. The third (1977-1980) and fourth (1982-1986) Spanish episodes were characterized by a congruence of preferences between the governing party and other parties having seats in the Spanish parliament. They all agreed on a liberal trade policy which would prepare Spain for EC membership and make the signing of the membership treaty possible. On the other hand, although they did not grant the ANAP government's
trade policies the same wholehearted support given to those of the UCD and PSOE
governments by other parties in Spain, the parliamentary parties during the sixth (1983-
1986) Turkish episode gave their tacit consent in a time period when trade policy
liberalization seemed to be the only alternative capable of improving Turkey’s economic
situation. Yet, the absence of any notable disagreement between the trade policy
preferences of the executive and the institutional veto players does not guarantee a
liberalizing change in trade policy. Convergence of trade policy preferences around the
status quo contributes to policy stability. Namely, during the third Turkish episode (1978-
1979) the trade policy preferences of coalition government and the majority in the
parliament did not diverge from the existing set of protectionist policies and hence, no
considerable attempt to liberalize Turkey’s foreign trade policy was observed during this
episode.

In sum, when all the findings about the relationship between the selected “state-
level” institutional variables and trade policy outcomes are brought together, a set of
conditions under which a high degree of trade liberalization can be obtained. In all
episodes of high trade liberalization, a democratic government was in power, the distance
between the trade policy preferences of the executive and the institutional veto player
was low, and both favored trade liberalization. This suggests regime type as a critical
variable determining whether governments can go beyond a moderate degree of trade
liberalization. In addition, based on the evidence from identified episodes, it can be
concluded that the impact of the number of institutional veto players is closely connected
with the distance between the trade policy preferences of the executive and the
institutional veto players. When the executive and the institutional veto players converge around a common trade policy approach, the number of institutional veto players does not emerge as a factor constraining the degree of trade liberalization that can be achieved. Only when they disagree over whether and/or how much trade policy should be liberalized, the number of institutional veto players seems to matter.

As it led to some limited conclusions, the deductive approach applied in this step of my study has not been able to capture the real dynamics of trade policy making due to its highly aggregated treatment of institutions. By relying on a dichotomy between authoritarian and democratic regimes and narrow conceptualizations, such as Tsebelis' notion of institutional veto players, this approach has not provided sufficient analytical leverage in disentangling the trade policy making process. Given the limitations of this method, I adopt a different approach in the second step of my analysis regarding the impact of domestic political institutions on trade policy outcomes. Even though historical institutionalism is often criticized for being inelegant and atheoretical and sometimes even dismissed as storytelling by rational choice theorists, its inductive approach can capture the complexity of real political situations better than the deductive method of rational choice institutionalism.

B. The Impact of Societal Actors on the Degree of Trade Liberalization

The more inductive approach of historical institutionalism has been used to examine the impact of societal actors on foreign trade policy outcomes. Owing to its multidimensional treatment of institutions and ability to trace the interactions between interests, preferences, and institutions more effectively than rational choice
institutionalism, historical institutionalism offers a methodology more suitable for the
analysis of intricate political processes. As such, it has been able to generate more a more
accurate model of the trade policy making process during the episodes covered in this
project. Consequently, it has presented a more satisfactory explanation of the variance in
the degree of trade liberalization.

The model, which was developed in Chapter 5, of the process through which the
preferences of societal actors are channeled into the decision making structure has been
found to be a rather accurate one. Moreover, my findings from the ten episodes covered
in this study have revealed that the most favorable condition for the achievement of a
considerable, that is, from moderate to high, degree of trade liberalization was
characterized by the presence of at least one proliterationsal societal actor who had
access to decision making and whose support was deemed essential by a government that
also sought to go beyond a low degree of trade liberalization. In this story, institutional
mechanisms of access to decision making available to societal actors played a key part.
Regardless of their trade policy position, societal actors with no access to decision
making were unable to influence trade policy outcomes. That is to say, by privileging
certain societal actors' preferences over others, the institutional mechanisms of access to
decision making determined whose preferences would have an impact on policy
outcomes.
III. Trade-Related Institutional Change

In studying the impact of domestic institutions on trade policy outcomes, the institutional environment in which governments operate has been assumed to be fixed and the mediating effects of the selected institutional variables within this environment has been examined. In the next stage, this assumption has been relaxed to allow for the possibility that governments can change institutions in addition to policy. The contention is that in order to enhance the viability and sustainability of their policies, governments may resort to institutional change. Yet, not all governments that favor a change in policy are equally likely to initiate institutional modifications. It is at critical junctures, when international and domestic economic conditions compel them to redefine their trade policy objectives, that governments attempt to introduce institutional change. For example, in both Spain and Turkey, trade-related institutions that were established in late 1950s and early 1960s and kept in place up until late 1970s and early 1980s structured the environment in which trade policy decisions were made and hence, bound the hands of the governments which came to power during this period.

Empirical evidence from the ten episodes included in this study support the argument that governments advocating a redefinition of trade policy objectives or the ends of policy are more likely to recognize the institutional constraints on policy change and engage in a restructuring of institutions. The type of institutional change attempted by such governments is one that involves micro-level alterations. That is to say, rather than trying to reshape macro-level institutions, these governments opt for politically less costly micro-level changes so as to create an institutional environment more favorable to
the achievement of newly reformulated goals in the trade policy domain. Centralization of actual decision making, redistribution of trade policy decision making powers among the institutions of the state, recomposition of the make-up of these institutions, and redistribution of power among societal actors through changes within existing institutions and creation of new institutions are the key ingredients in the governments’ project of institutional restructuring.

IV. “Ideas” for Further Research

Having shown that the analytical tools of historical institutionalism are more capable of unfolding the effects of state-level institutions on policy outcomes, I argue that these tools can be also used to go beyond what has been presented in this study. One of the main differences between rational choice and historical institutionalists is that while the former treats preferences as exogenous, the latter takes them as something to be explained, i.e. endogenous. This allows them to go beyond the rational choice assumption about interest-based preferences and into the realm of ideas as sources of preferences. In other words, “rather than bracketing the realm of ideas, or treating ideas and material interests as separate and unrelated variables (or as competing explanatory factors), they explore how the two interact within specified institutional contexts to produce policy change” (Thelen and Steinmo 1992, 23). Based on the empirical evidence from the episodes covered in this study, I contend that such an approach can open up promising venues for research on the impact of state-level institutions on policy outcomes.
As Gourevitch underscores, "there is considerable ambiguity about economic reality and ambiguity permits different interpretations (1986, 62). Ideas or ideologies shape actors' cognition and values, and consequently, their interpretations of where their interests lie and which policy and institutional outcomes are more likely to benefit them most. However, ideas "do not acquire political force independently of the constellation of institutions and interests already present there" (Hall 1989, 390). Evidence from the Spanish and Turkish episodes also suggests that it is when ideas in favor of trade liberalization gain political force that the governments of protected economies depart from status quo trade policies and can obtain moderate or high degrees of liberalization likely to be sustained over time. Since institutions have a significant impact on which ideas gain political access, focusing on state-level institutional variables can help explain if and when ideas about trade liberalization permeate into the domestic trade policy making process and are adopted by national governments.

From the late 1930s till the beginning of the first Spanish episode in 1957, the Franquist governments relied on autarkic policies to regulate their international trade relations. Yet, the official position was that these policies were a matter of economic necessity born out of the post-war ostracism of Spain, rather than ideological predilection or intention. As most observers seem to agree, "Franco was guided by no rigid economic orthodoxy and ... his approach to economic problems was flexible, adaptive, and

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2 One of the most prominent works on the impact of economic ideas on political outcomes is Hall (1989). Haggard and Kaufman (1992) underline the importance of ideas and social learning on economic policy reform and consolidation. Also see Goldstein and Keohane's (1993) edited volume the impact of ideas on political outcomes in various issue areas. Examples of studies on the interaction between ideas and institutions and its impact on political outcomes include Weir (1989), Sikkink (1991), Weir (1989), and Goldstein (1993).
pragmatic" (Anderson 1970, 27) and hence, allowed the development and expression of economic ideas at a technical level. In Spain, the 1950s were years of lively debate over economic policy. When the first signals of policy reconsideration entered the process in late 1955 and early 1956, the Spanish policy makers were already cognizant of the problems facing the Spanish economy and the requirements of creating a decision making structure capable of generating more effective economic policies.

In the absence of political parties, the Franquist governments depended heavily on civil servants for information and advice concerning the formulation of policy (Medhurst 1973). After 1955, the experts and technocrats working in the government bureaucracies and banks became the prime suppliers of such economic information and advice. This, for the most part young, group included individuals who had assimilated the perspective, language, and techniques of modern economic analysis (Anderson 1970). The decision to replace traditional bureaucrats with these technocrats as sources of information and policy-relevant knowledge reveals the potential of the Franquist institutions to adjust to new economic circumstances.

It is not public knowledge with whom Franco consulted in making his decisions. Nevertheless, his appointment to influential economic ministerial positions of members of the Opus Dei, an organization known for soliciting trade liberalization, indicates Franco's ability to allow the entry of new economic ideas into the decision making process, especially when the economic conditions deem it necessary. Similarly, during the fifth Turkish episode, despite their traditionally protectionist position, the military leaders did not close the doors to the influence of liberal technocrats whose ideas had
started to permeate Turkey's economic policy making structure during the previous episode.

During the second and third Turkish episodes, the Turkish governments received their economic and policy advice from bureaucrats operating within a structure put into place during the early 1960s. Namely, the State Planning Organization had become a citadel of protectionist trade policies. In general, the Turkish central bureaucracy fostered ISI all through the 1960s and 1970s (Amelung 1988). Within this institutional context, even though the AP government of the 1970-1971 period talked about reducing the anti-export bias of the country's trade regime, it did not question the fundamental philosophy of ISI underlying the regime. The CHP-led coalition of the third Turkish episode was even more tied up to the policy prescriptions of the Turkish bureaucrats since they were among the longtime supporters of the party leading the coalition. Only by isolating the bureaucracy from decision making and concentrating it in the hands of a few could the AP government of the 1979-1980 period turn pro-liberalization ideas into policy and the ANAP government of the last Turkish episode attain a high degree of trade liberalization. Then the interesting question is why pro-liberalization ideas could not gain sufficient ground in the Turkish bureaucracy? This is a question that opens up a venue for further research on state-level variables that affect the permeability of national bureaucracies, such as the patterns of recruitment to administrative positions and procedures governing advancement\(^3\).

\(^3\) See Weir (1989) for more on these variables.
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