

PROTECTING ECONOMIC REFORM  
BY SEEKING MEMBERSHIP  
IN LIBERAL INTERNATIONAL ORGANIZATIONS

DISSERTATION

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## ABSTRACT

Domestic leaders use international institutions to increase their domestic political power and protect favored policies. During economic transformation, governments can protect reform policies by seeking membership in an international organization with specific liberal membership requirements. The accession process into such an organization binds governments to reform policies and increases their ability to withstand attempts by reform opponents to weaken the reform process. Two approaches from the literature on economic transformation yield competing hypotheses predicting when governments will use the accession process to protect economic reform. The dominant J-curve approach predicts that reforming governments seek outside help during economic transformation when short-term losers threaten reform success. Short-term losers pose this threat when they are able to hold the government highly accountable to the general public, act as veto-players, or use mass uprisings against reform policies. According to the partial reform approach, reforming governments seek outside help during economic transformation when short-term winners, not losers, threaten reform success. Short-term winners pose this threat when public officials prevent reform policies from being implemented or the government is not accountable to the general populace.

The competing hypotheses are tested using duration analysis and six comparative case studies. The results indicate that the J-curve approach explains the majority of cases when seeking occurs, but that the partial reform approach accurately explains a small subset of cases. Regardless of who reform opponents are, governments can use seeking membership in a liberal international organization to protect economic reform. More often the opponents are short-term losers, but short-term winners can also drive governments to seek external assistance during economic transformation. In this way, international organizations are a crucial tool that domestic leaders deliberately use to increase their domestic power and protect favored policies such as economic reform.

Dedicated to my husband  
for his loving support  
and my mother and father  
for their endless encouragement

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## CHAPTER 1

### INTRODUCTION: WHY STATES JOIN IOs

During economic transformation, reforming governments face severe credibility problems that often lack domestic solutions because the structure of domestic institutions exacerbates the credibility problems. To make their commitment to economic reform more credible, government leaders can seek membership in international organizations (IOs) to bind themselves and successors to reform. This relationship between domestic reform and international solutions for domestic credibility problems is not well understood for three reasons. First, studies thus far have focused on how being a member of an IO can aid *political* reform in member states (Pevehouse 2000; Russett, Oneal, and Davis 1998). They do not consider whether IOs can aid *economic* reform, nor how IOs can play this role in potential members. To understand how the entire accession process can provide credible commitments for liberalization policies, I attempt to explain why states seek membership in IOs that severely limit their sovereignty. Second, existing work looks at how international actors aid domestic reform rather than how domestic actors can actively seek outside help to stabilize the reform process. Rather than using a top-down approach, this dissertation begins with the realization that domestic leaders can seek international mechanisms that strengthen their favored policies. Finally, the literature on economic transformation includes two opposing arguments that explain

when reforms will suffer credibility problems. These arguments lead to contradictory hypotheses predicting when reforming governments will need external help during economic transformation. In this dissertation, I test the two competing arguments to study when reforming governments will seek membership in IOs to protect domestic economic reform.

When considering how IOs can foster domestic liberalization, most existing studies focus on democratization. While this is an important relationship, cases where only economic liberalization occurs are usually ignored. For instance, Vietnam used the ASEAN accession process to stabilize its economic reforms while maintaining strict control of the political sphere. To understand the relationship between IOs and domestic liberalization, economic reform also needs to be considered. Current studies of the relationship between IOs and domestic reforms also neglect how the accession process can aid reform. Many international policymakers posit that the process of IO membership negotiation itself can foster economic reform. That process begins long before states accede to the IO, and includes negotiations that usually last years.

I argue that during this process the IO provides credible commitments for economic reform even if membership is not obtained. During the negotiation process, government leaders form international agreements that bind themselves and future governments long before an accession treaty is signed. IOs especially suited for this task are those with highly restrictive membership criteria that require future members to enact specific economic or political reforms. By constructing a dataset including only IOs with

liberal membership criteria, I focus on IOs dedicated to fostering economic and political openness rather than including IOs that may have goals opposed to economic or political openness, such as the Organization of Petroleum Exporting States (OPEC).

If governments can seek membership in liberal IOs in order to stabilize economic reforms, the central question becomes when is it likely for states to do so. When will the process of membership accession improve governments' ability to reform? In the following chapters, I present two opposing arguments that explain when reforming governments are most likely to suffer from high levels of opposition to economic reform that will threaten the stability of economic transformation. I then derive several hypotheses from each approach that predict when reforming governments are likely to seek membership in a liberal IO to counter this threat. Using both duration analysis and comparative case studies, the contradictory predictions are tested.

According to the dominant J-curve approach to economic transformation, reforms suffer from a temporal problem where the potential gains from reform are diffuse and long-term while the losses are concentrated and immediate. Thus, the short-term losers are highly motivated to oppose the reform process while the future winners are not. The short-term losers pressure the government to halt reforms, whip up support against the reforming government, or veto the reform process. When faced with such obstacles, governments are unable to provide credible promises to domestic and international audiences that economic reform will continue unless they can successfully insulate themselves from the short-term losers. If domestic institutions are unable to provide this protection, governments facing the threat posed by short-term losers may seek

membership in a liberal IO to provide an international solution to this domestic problem and insulate themselves from dissent. When governments face traditional short-term losers such as labor, pensioners, and state sector employees, they are more likely to seek an international solution to bind themselves and successors to the reform process.

This dominant view of economic transformation has come under attack by the partial reform view developed by Hellmann (1998). According to this approach, economic reform stalls because the state becomes stuck in a partial reform equilibrium where the short-term winners prevent the completion of economic transformation. Short-term winners rather than short-term losers pose the threat to successful economic reform because policies have different time horizons (for example, prices are liberalized much quicker than monopolies can be broken up), resulting in market distortions where short-term winners gain large windfalls. If economic reforms continue, these distortions would end, causing their profits to fall. Hellmann (1998) likens their payoff structure to a reversed J-curve, where the initial benefit from reform is large and gradually tapers off as the reform process continues. To prevent this tapering off of profits, short-term winners actively subvert further economic reform. Reforming governments are less likely to be captured by these short-term winners if they are more responsive to the general public rather than the specific, concentrated interests of the short-term winners. Simply put, the more democratic the state, the better able governments are to avoid the threats posed by short-term winners. If governments are unable to provide this domestic solution to problems of economic transformation, they are more likely to seek membership in a

liberal IO for an international solution. If the IO demands continued economic reform, governments can use the IO as a rationale for continuing reform that even the short-term winners may bow to.

Both of these approaches purport to explain when governments will be unable to provide a credible commitment to economic reform. If governments are able to find domestic solutions to reform woes, they will not need to seek membership in a liberal IO to stabilize economic transformation. However, if governments are unable to find a domestic solution, they may seek an international solution. According to the logic of the J-curve approach, on the one hand, the international solution is more likely to be sought when governments cannot structure domestic institutions to insulate themselves from short-term losers. On the other hand, the logic of the partial reform approach suggests that when governments are too insulated from public pressures, they are more likely to be captured by the interests of short-term winners. Seeking membership in a liberal IO can provide governments with the ability to prevent this partial reform equilibrium.

Thus, the two approaches lead to contradicting hypotheses about the conditions under which states will be more likely to need an international solution to domestic credibility problems. For instance, frequent elections are a sure sign that economic reform is threatened according to the first approach. To prevent a dissatisfied public from electing a reactionary government which would slow or halt reform, reforming governments can find an international solution to bind successor governments to economic reform. The second approach takes the opposite view and argues that infrequent elections allow governments to become the pawns of the specific economic

actors, resulting in slowing or even halting economic reform. Governments facing this threat can seek an international solution to prevent their capture by the opponents of continued economic reform. The two approaches share only one prediction. They both expect that states undergoing a democratic transition are more likely to have reform efforts weakened by reform opponents. During this time, political certainty is extremely low, and it is very difficult for governments to make credible commitments to economic transformation, regardless of who opposes reform.

When reforming governments are faced with domestic conditions that increase the power of reform opponents, either short-term losers or short-term winners, governments are more likely to seek membership in liberal IOs to counteract this threat to economic transformation. Dedicated reformers will search for ways to stabilize the reform process. Although IOs will not have a significant influence when opposition to reform is strong or when there is no opposition, they may become the deciding factor where support for and opposition to reform are more evenly balanced. An IO's conditional support can bolster the standing of reform policies within governments when the opposition exists but is not all-powerful (see Haggard and Webb 1994: 25). The existence of reform opponents who could slow or conceivably halt further reform, rather than the existence of powerful opponents who can prevent reform from beginning, makes economic transformation possible but by no means a certainty. Thus, it is in states where economic transformation is both not a certainty yet not an impossible development that liberal IOs can significantly aid economic reform.



After summarizing the literature on IOs and economic reform, I consider how IOs can provide an external commitment mechanism for reforming governments. When governments are threatened by reform opponents and the success of economic reform is questionable, they can seek outside help to protect reform policies. The focus for this dissertation then becomes the consideration of what domestic conditions can drive reforming governments to seek membership in a liberal IO. In short, when are governments' reform policies sufficiently threatened that outside help is sought? In chapter two, I present the two approaches that purport to explain when governments face this severe threat and derive hypotheses from them concerning seeking IO membership. The hypotheses are then tested using both statistical analysis and comparative case studies, and the results are summarized below.

### ***WHY STATES JOIN IOs***

Certain international institutions can provide reforming governments with the means to make the governments' commitment to economic reform credible. While it has long been posited that international institutions can foster liberalization, this relationship has not been studied rigorously (Russett, Oneal, and Davis 1998). In part this inadequacy in international relations stems from the recent dominance of structural realism. Domestic politics were considered significant in international relations during the 1960s (Allison 1971; Rosenau 1966; Snyder, Bruck and Sapin 1962), but the popularity of structural realism (Waltz 1979) in the 1980s obscured how domestic politics can influence international relations. As a result of this neglect, the current study of

international relations lacks an understanding of how domestic variables matter (Martin 2000; Axelrod and Keohane 1986; Keohane 1993; Dillon, Ilgen and Willett 1993; Pahre and Papayouanou 1997), and how they can influence state preferences concerning international cooperation (Haggard and Simmons 1987; Jervis 1998; Keohane 1989; Snidal 1986). More recent efforts have been made to overcome this deficiency in our knowledge, and the importance of internal institutional structures on the decision to go to war is widely recognized (Maoz and Russett 1993; Morgan and Campbell 1991), but internal variables can also influence other foreign policy choices (Leeds and Davis 1999). Specifically for this dissertation, domestic factors can drive governments to seek membership in IOs.

The literature currently focuses on the broader topic of how domestic politics influence international cooperation, and is similar to the approach used by public choice economists (Dillon, Ilgen and Willett 1993: 87). While neoliberal institutionalist studies often neglect how domestic factors can lead states to cooperate, political economy studies consider these factors but usually focus on ruling coalitions rather than on domestic opposition (Milner 1988; Rogowski 1989; Snyder 1991; Solingen 1998; Katzenstein 1978). Rather than unitary governments acting in the public's interest, individuals within ruling coalitions work to maximize their political and economic well-being, and policies are the outcome from combined preferences of egotistical individuals (Josling and Moyer 1993: 287).<sup>1</sup> Additionally, according to this statesperson-centered approach, state

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<sup>1</sup> Generally, this research focuses on how domestic politics interferes with cooperation, rather than aids cooperation (see Knopf 1998: 14-17; Hagan 1993: 6-7). Knopf (1998) refers to this as statesperson-centered literature while Hagan (1993) calls this the

leaders seek greater cooperation to retain political power at home. While elite opposition within the state may be significant, “the decision to seek cooperation always comes from the top” (Knopf 1998: 24).

Putnam (1988) furthers the stateperson-centered approach by introducing the concept of two-level games to explain how domestic constraints significantly influence what international agreement is reached during negotiations. State actors sit at two games, a domestic board and an international board, and moves on one board influence what occurs on the other. Specifically in international negotiations, the range of treaties or agreements that domestic actors are willing to ratify restricts what deals diplomats can make at the international negotiations. As Putnam observes, international negotiations allow diplomats to use domestic constraints to gain a more favorable deal at the negotiation table during international institution creation. Putnam’s (1988) insights concerning the relationship between international and domestic politics have been applied (Evans, et al 1993), expanded to include other games (Knopf 1993), and used in areas other than international negotiations (Kaufman 1994). Since 1988, more attention has been given to how domestic politics influence the decision to cooperate at the international level. Whether these works explicitly draw on insights from Putnam (1988) or Gourvetich’s (1978) similar argument, they all recognize the importance domestic variables, including domestic opposition, have on whether states cooperate.

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bargaining and controversy avoidance literature and includes Putnam’s (1988) two-level games in this grouping.

From these more recent efforts, four broad groupings emerge that explain different ways domestic leaders use international institutions. According to the hypotheses derived from the J-curve and partial reform approach and some existing institutional research, domestic actors can use the existence of international institutions to gain political power at home. Domestic actors also react to losses incurred by remaining outside of international institutions, and therefore the existence of these institutions drives domestic actors to change their foreign policy preferences. A third way domestic actors use international institutions is by strengthening their bargaining position within the institution based on the domestic division of power. Finally, domestic actors can respond to international institutions' agendas by changing the structure of domestic institutions. Of these four relationships, the hypotheses from the J-curve and partial reform approach focus on the first, although all four can explain why states seek membership in IOs.

Faced with a strong opposition to favored policies, governments can use international institutions to prevent opponents from blocking said policies. In a study of how the U.S. reached the 1988 decision to form the Canadian-U.S. Free Trade Agreement (FTA), Goldstein (1996) concludes that the FTA was an international solution to a domestic problem as the president increased his political clout at home. While the president supported free trade, other domestic actors supported a more protectionist stance, and to overcome this domestic obstacle, the president pursued the FTA to lock the U.S. into a pro-free trade stance. Through the FTA, President Reagan obtained a preferred policy situation where the U.S. bureaucracy, Congress, and import-competing

interest groups were unable to make foreign policy decisions against his interests.

Reagan maintained his domestic authority and, at the same time, increased free trade (Goldstein 1996: 559-560).

Thus, President Reagan was able to construct an international agreement that permanently locked domestic opponents and successor presidents into a free trade stance.

“It was an agreement that blocked the abilities of losers to erode support for an agreement supported by a majority coalition, demonstrating what institutionalists have repeatedly argued: institutional arrangements do not have neutral distributional consequences. Nations that are constrained by domestic institutions may not only have an international bargaining edge but, as well, international bargains can be a means of empowering particular domestic actors” (Goldstein 1996: 562).

This example illustrates the broader trend that international institutions not only constrain domestic actors by limiting the choices available to opponents and future leaders but also further the policy interests of specific actors within states. Policies that were at best unlikely to be supported without the existence of international institutions can be enacted and sustained for years by participating in international institutions. The policy choice made in 1988 constrained all subsequent governments, and became the new status quo creating vested interests that fought to maintain the FTA and even expand it.

U.S. officials have used this tactic in the past to ensure that their favored policies are enacted and sustained by tying them to international agreements. For instance, in the early 1960s the U.S. position on trade preferences was based on the “Ball position,” reflecting Under-Secretary of State George W. Ball’s views. Trade preferences were opposed for three reasons: first, they were viewed as harmful for economic development in the third world; second, the U.S. was unwilling to cave in to third world demands for fear of the precedent this would establish; and finally, the domestic political

consequences would be widespread if trade preferences were enacted (Meltzer 1976: 654). The general consensus in Washington supported the maintenance of non-discriminatory trade practices for these reasons rather than forming trade preferences as most third world states desired. However, in the mid-1960s a new Assistant Secretary for Economic Affairs, Anthony Solomon, overpowered opponents of free trade by tying trade to a legitimate IO.

Solomon recognized that the existing forum for trade preferences, the United Nations Conference on Trade and Development (UNCTAD I), was viewed with suspicion and distrust, ensuring that trade preference would never be enacted under UNCTAD I talks. Therefore, he shifted the U.S. focus to the OECD, a forum with more trust and legitimacy in the eyes of U.S. officials (Meltzer 1976: 657-659). By moving the consideration of trade preferences to a more legitimate international organization, Solomon was able to create a forum where trade preferences were seriously considered by some U.S. officials for the first time because the issue was framed as acceptable and feasible among other western governments. In this situation, actors in one political setting, the domestic U.S., used actors and instruments of another setting, the OECD rather than UNCTAD I, to create bargaining advantages influencing their own policy making outcomes (Meltzer 1976: 651). Thus, domestic officials can select key international organizations to further their own interests and favored policies as Solomon

did.<sup>2</sup> In this way, international cooperation allows government leaders to confront political opposition and mobilize support for favored foreign policies (Hagan 1993: 7).

The U.S. has also used this tactic when government officials appeal to international norms to influence policy making at home. For example, Cortell and Davis (1996) study President Bush's use of the collective security norm following the Iraqi invasion of Kuwait. Once Bush turned to an international norm to further his policies, Congress was able to use the same norm "in an effort to exercise oversight over the president's ability to make foreign policy independently" (Cortell and Davis 1996: 471). Both actors turned to the norm of international security to further their own interests. Bush wanted broad support for a military effort abroad while Congress wanted to maintain some control over the president's use of force. The overall result was that the norm of collective security became more salient in domestic politics after two powerful actors cited it as a source of legitimate policies. The international norm became even more powerful for future governments to use (Cortell and Davis 1996: 472). The now-legitimate norm must be addressed in future domestic debates about foreign policy because subsequent leaders are confined by the actions of President Bush and the Congress.

Gurowitz's (1999) analysis of how the Japanese treat immigrants also rests on the use of international norms to aid policies when domestic resources are limited. In Japan, supporters of immigration have been able to use international norms regarding human

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<sup>2</sup> Domestic officials can also form transgovernmental ties independently of international organizations to further their own interests. Officials from various states can jointly use resources to influence governmental decisions (Keohane and Nye 1974: 46-47).

rights and the treatment of minorities and migrant workers to further their cause. This has been possible largely because the Japanese are concerned with the state's image in international relations.

“Debates over internationalization have changed the context in which immigrants are discussed (from a perspective of domestic isolation to a more global and regional context) and they have empowered new actors to contest and challenge state identity and policy with an arsenal of international norms that would not be useful if the government were not already highly sensitive to international criticism and if immigrant issues were seen as purely domestic matters” (Gurowitz 1999: 443).

Additional actors such as lawyers and local governments have entered the debate on immigration by appealing to international norms. These pro-immigration actors are able to pressure the government to change its policies regarding immigration and the treatment of migrant workers because they use international norms to show the government's existing policies are inappropriate in the eyes of the international community (Gurowitz 1999: 445). Thus, actors other than the government can appeal to international institutions to strengthen their policy position.

Each of the above examples illustrates how domestic actors use international institutions to increase their political power at home. When governments are unable to enact or sustain favored policies, or when other domestic actors wish to pressure the government to change policies, domestic actors can appeal to international institutions to make their preferred outcome more likely. This is the reason governments committed to economic reform who face strong reform opponents seek outside help. Reforming governments in this position require external assistance to increase their political power over opponents, making reform success more likely.



Domestic actors can change their foreign policy preferences in response to losses incurred from not being part of existing international institutions. This second use of international institutions focuses on how the institutions protect economic interests. Domestic actors beyond government officials can demand international organization membership to further their interests when sectors of the domestic society are suffering losses from remaining outside institutions. While some states prefer the pre-institution world without cooperative agreements, once the institution has been founded, the costs of exclusion are too high (Gruber 2000; Baldwin 1997). Overall though, there is a net loss in welfare even if membership is attained.

Using a free trade example, Mexico preferred the days when there was no free trade agreement in North America, but once Canada and the U.S. formed a free trade area, Mexico suffered acute losses from trade diversion. In order to regain some of its lost economic benefits, Mexico sought membership in a larger North American free trade area.<sup>3</sup> Baldwin (1997) refers to this as domino effect. Integration causes trade diversion from non-members states (Viner 1950; Yeung et al 1994; Gruber 2000), where firms then pressure governments to seek membership. The firms feel the losses from trade liberalization acutely while gains are more diffuse (Yeung et al 1994: 22). These “losers” favored the world where no regional organization existed, but now that an IO exists, they prefer to be members rather than isolated from the IO (Gruber 2000). Therefore, firms use their highly organized abilities to pressure their governments to join

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<sup>3</sup> For a more comprehensive discussion of Mexico’s response to the U.S.-Canadian Free Trade Agreement, see Gruber (2000) and Martin (1999).

existing international institutions. Just as Mexico suffered from trade diversion when the U.S. and Canada formed a free trade agreement, Caribbean states are now suffering from a loss of investment as capital increasingly moves into Mexico from the U.S. and Canada (Martin 1999: 95) and pressuring their governments to join a larger free trade area.

Popular pressures can also drive states to join international institutions because states are unable to maximize social welfare on their own (Long and Ashworth 1999: 6; Riggs and Mykletun 1979). States join existing IOs because citizens demand an increase in living standards that governments realize international collaboration can aid them in achieving. By working with other states, governments can gain technology and advice that improve the lives of citizens (Jacobson, Reisinger, and Mathers 1986). By seeking membership in an IO, governments can increase the economic welfare of the state.

More generally, states create international institutions to improve international economic relations. According to institutionalists, states create international institutions because they reduce transaction costs, information costs, and uncertainty (Keohane 1984). Increased interdependence causes an increase in policy issue density, which results in a greater demand for international institutions because *ad hoc* agreements are less efficient when multiple issues are related. The costs of *ad hoc* agreements can be greatly reduced by international institutions because states' policies can be coordinated and mutual expectations of future actions provided.<sup>4</sup> Joining a centralized decision

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<sup>4</sup> Many scholars agree that international institutions provide mutual expectations and reduce certain costs that characterize the international system. See Tarzi (1998); Meltzer (1976); Keohane (1983; 1984).

making mechanism allows states to deal with related issues simultaneously, and allows states to link additional issues together, which further increases efficiency (Keohane 1984).

When states consider joining an existing institution, they assess the ability of the institution to reduce costs that may prevent states from achieving their goals.

“[I]nformation costs may prevent mutually beneficial agreements, and the presence of these costs will provide incentives for states to demand international regimes (either new regimes or the maintenance of existing ones) that will ameliorate problems of uncertainty and risk” (Keohane 1983: 161). Because states exist in a trading system,<sup>5</sup> they rely on other states to obtain necessary goods, but the anarchic international system leads to fears that other states will defect or break international agreements. International institutions can provide a more stable atmosphere for international agreements, and therefore offer substantial benefits to member states.<sup>6</sup> According to institutionalists, potential members are drawn to existing institutions to partake of the collective goods that make necessary international agreements easier and more sustainable. These incentives provided by membership make the institution attractive to outsiders (Keohane 1984: 103), but institutionalists tend to focus on international factors that lead states to demand membership in international organizations rather than domestic reasons (Haggard and

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<sup>5</sup> For a discussion of this point, see Rosecrance (1986).

<sup>6</sup> While it is true that repeated interactions between states will generally reduce the potential for states to defect from international agreements due to reputational costs, the existence of international institutions can provide a forum that enhances this effect. Thus, international institutions are beneficial in a world of repeated interactions because they can provide a mechanism for reputational costs to be felt.

Simmons 1987: 506-508). However, this second relationship between governments and IO membership suggests that states create and join IOs to improve domestic economic standards and/or international economic relations.

Third, domestic actors can use domestic constraints to strengthen their international bargaining position as envisioned by Putnam (1988; Taylor 1993: 31-32). In a recent study of this relationship, Martin (2000) finds that while cooperation within the EU has become more difficult as members face criticism at home, compliance with EU agreements has actually increased. The strengthening of domestic institutions that constrain EU negotiators has on the whole enhanced international cooperation within the EU. Domestic constraints have, on the one hand, made negotiations more difficult, but, on the other hand, they have limited the problems of reneging and renegotiation.

Although agreements are more difficult to reach when government policies face a high level of opposition at home through parliamentary mechanisms, once a consensus has been reached these governments are unlikely to back away from cooperation (Martin 2000: 189). For example, although Denmark has great difficulty in obtaining parliamentary or even mass approval for domestic changes, once approval has been obtained, Denmark is the best implementer of EU policies. Almost 90 percent of EU directives have been implemented (compared to the EU average of under 75 percent); Denmark is rarely taken to court; the European Court of Justice (ECJ) rarely makes judgments against Denmark (Martin 2000: 173-175).<sup>7</sup> Thus, states that face domestic

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<sup>7</sup> Pahre (1997) addresses the same issue and finds that domestic institutions can permanently and credibly tie executives' hands in international negotiations, which then provide bargaining leverage in the negotiations.

constraints at home such as parliamentary oversight are more likely to make credible international commitments.<sup>8</sup> In short, this third relationship between IOs and domestic actors indicates that governments constrained by domestic opposition and institutional structures can use these very impediments to strengthen their commitment to international agreements. Rather than using IOs to overcome domestic opposition as envisioned by the first relationship discussed above, governments use domestic opposition to aid international cooperation.

Finally, domestic actors may restructure domestic institutions to follow the agendas laid out by international institutions. In the case of scientific research, Finnemore (1993) finds that domestic actors did not demand international organization membership as occurred in the FTA and trade preferences cases. Instead, the international organization, the United Nations Educational, Scientific, and Cultural Organization (UNESCO), helped states begin to value and use science policy organizations. Rather than UNESCO being a mechanism for rational domestic actors to use in furthering their own interests, UNESCO acted as the principle and changed the interests of state actors (Finnemore 1993: 583-584). By focusing its central science mission on teaching states how to coordinate and direct science, UNESCO was able to aid states as they developed domestic agencies necessary for carrying out state science policies.

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<sup>8</sup> Young (1991: 291-292) suggests that legislative oversight such as U.S. Senate approval of any treaty the president signs can provide bargaining leverage as in the Danish case but also impede negotiations as U.S. credibility is questioned.

Finnemore (1993: 592) recognizes that the first states interested in coordinating and directing science, such as the U.S. and the United Kingdom, had domestic actors demanding international organizations to aid these efforts. However, once international organizations such as UNESCO were created, they took on an independent life and began to spread the value of science policy rather than waiting for additional states to demand aid. The result has been that states often end up with coordinative science bureaucracies even when they have no science to coordinate (Finnemore 1993: 593). Thus, “forces external to states can shape choices about internal state structure” (Finnemore 1993: 592).

Pevehouse (2000) argues a similar position to Finnemore (1993), where the IO can pressure states to change their behavior. More specifically, democratic IOs can pressure autocratic members through economic tactics such as the suspension of trade or public condemnation (Pevehouse 2000: 14). With these tools, democratic IOs can aid member states in either a transition to democracy or the consolidation of a democratic regime. Additionally, young democracies can use membership in IOs to make democratic reforms credible. By being a member in a democratic IO, new democracies can bind themselves to reforms and receive an external validation of their new regime (Pevehouse 2000: 45).

Although Pevehouse (2000) considers how IOs can make democratic reforms credible, he focuses on this relationship when states are members in democratic IOs or become members in democratic IOs. By looking at actual membership (old or new), the importance of seeking membership is missed. Although Pevehouse (2000) mentions in

passing that some states may consider future IO memberships in their decision making as with Turkey and the EU, his argument focuses on cases where states are already members of IOs. For instance, in his analysis of Hungary the focus is on existing membership in IOs such as NATO. The case study I select from the former Warsaw Pact countries, Slovakia, shares many similarities with Hungary including their communist history, but I focus on Slovakia's decision to seek membership in the EU. Many of the policymakers in today's world posit that this process of IO membership negotiation itself can foster domestic reform. That process begins long before states accede to the IO, and includes negotiations that usually last years. During this process, I argue that the IO can provide credible commitments for reform even if membership is not obtained. To study this relationship, I attempt to predict when states will seek membership in an IO. I argue that states facing a variety of commitment problems during liberalization are more likely to seek membership in IOs. During the negotiation process, seekers form international agreements that bind themselves and future governments long before an accession treaty is signed.

To understand how the entire accession process can provide credible commitments for economic liberalization policies, I attempt to explain when states seek membership in IOs that severely limit their sovereignty. Although there is a deep understanding of the international rationales for forming international institutions (Keohane 1984), the domestic rationales for joining international institutions are not as well studied, nor is the influence IOs can have on *economic* reform rather than political reform. Additionally, the fundamental difference between forming a new international

institution and joining an existing institution is often missed. This project moves beyond the existing studies of international institution influence by analyzing how *potential* members can deliberately use international institutions to aid economic reform.

Membership criteria are a powerful tool for institutions and government leaders to use in an effort to protect economic reform. Only when governments meet the criteria the institutions establish will they gain the benefits of membership. While governments seeking membership may be able to use negotiations to arrive at a timeline for policy changes, the IO membership criteria must be met.

Finally, I focus on IOs that are restrictive rather than constructing a measure for IO democratic density, reflecting the liberal ideals of member states. Pevehouse (2000) measures the democratic level of an IO by calculating the average level of democracy among the various members of a given IO. However, to understand the relationship between IOs and states seeking to become members, a basic component of the IO separate from its various members must be understood. How powerful is the IO in determining who becomes a member? How powerful is the IO in determining who remains a member? I argue that the concept of IO restrictiveness captures the ability of an IO to influence the policies of states seeking to become members and current members. An IO that is open to any interested state has very little ability to coerce interested states or current members to act a specific way, but an IO that limits its membership to states that meet specific criteria has a significant ability to coerce interested states or current members. When liberal membership criteria are laid out in detail in IO treaties or agreements, the IO can elucidate specific violations that threaten



accession or even current membership. For instance, the EU has been able to explain to Turkey that membership is impossible due to various human rights violations, and the Council of Europe was able to suspend Greece from the IO during the period of military rule. IOs with this type of power are more capable of fostering economic liberalization during accession talks than various IOs with a high level of democratic members. While the latter type of IO may create a club mentality where democracy is valued, the former type of IO is given specific powers that enable it to have more coercive power over interested states and current members.

The literature is currently dominated by four mechanisms that explain the relationship between domestic actors and international institutions. First, domestic actors can use the existence of international institutions to gain political power at home as Reagan did with the creation of the FTA. Second, domestic actors react to economic losses incurred by remaining outside of international institutions, and therefore the existence of these institutions drives domestic actors to change their foreign policy preferences as the Mexico case shows. Third, the domestic division of power can influence how leaders negotiate within international institutions as illustrated by Denmark. Finally, the agendas of international institutions can determine the structure of domestic institutions as the UNESCO case indicates. Although the first mechanism is the focus of this dissertation, the others will be considered and controlled for when applicable. According to the two arguments presented in this dissertation, governments deliberately turn to IOs to improve their political clout and force other domestic actors to

accept the favored policies. Specifically, governments use seeking membership in a liberal IO to protect economic reform from the threats posed by reform opponents.

### ***CREDIBLY COMMITTING TO ECONOMIC REFORM***

Economic reform is often threatened by reform opponents who are sometimes able to halt or slow economic reform in part because the reform process is rife with commitment problems. After defining what economic reform means in this study, the ability of reform opponents to harm the reform process is considered. The two competing arguments from the J-curve and partial reform approach often result in contradictory expectations of when reform opponents threaten reform success. Regardless of who reform opponents are, governments dedicated to reform policies will seek domestic solutions to protect the reform process. However, domestic solutions are not always successful in ensuring reform success.

For the purposes of this study, *reforming governments* are those governments that are limiting the role of the state in the economy and opening their economy to international economic transactions (Nelson 1989: 3). These two factors form the basis for most definitions of economic liberalization. First, reforming governments decrease state intervention into the economy. This aspect of the reform process “usually involves a major adjustment of the extent to which the state interferes with market forces, which in turn entails institutional and administrative change, stabilization efforts, and removal or relaxation of controls and greater reliance on market mechanisms for allocation of resources” (Bates and Krueger 1993a: 9). Put more simply, governments limit their own

powers and allow safe property rights, free markets, and low taxes (Bernholz 1997). Sometimes called structural adjustment, this portion of economic liberalization includes industrial restructuring, reordering public expenditures, financial liberalization, privatization, and deregulation (Williamson 1990: 402; Bermeo 1994: 602). The second aspect of economic liberalization is the opening of the domestic economy to international economic transactions. This occurs under various regime types when the domestic economy is opened to global markets, capital, investments, and technology (Solingen 1998).

Together, the two aspects comprise economic liberalization where major policy instruments that are changed include the rate of government spending, financing of government expenditures, foreign trade and payments regime, regulations of private firms (such as pricing and employment), and policies of state enterprises (Bates and Krueger 1993a: 6). The overall process of economic liberalization involves a reduction in the direct involvement of the state in economic activities (i.e., less state enterprises), a reduction of state control of economic processes and activity (i.e., prices, production directives, etc.), giving leeway and encouragement to the private sector, and liberalizing foreign trade. When reforming governments liberalize, foreign trade barriers for imports are reduced and policies that favor import substitution over production for export are halted (Nonneman 1996a: 4).

The pace of economic reform can influence its success. Because economic reform or liberalization is comprised of many specific policies, the time horizon varies from policy to policy. Some changes such as exchange rate control can be made quickly

without public discussion while others such as tax reform are time consuming and usually require the approval of additional actors within the state (Bates and Krueger 1993a: 8). According to Haggard and Webb (1994), reforming governments should follow the economically optimal pace of reform, which varies by policy area. The economically optimum pace of reform is fast for exchange rate corrections, stabilization, and most domestic price reforms because delay causes high economic costs and questions about the government's dedication to reform. For other reforms, such as privatization and financial sector reform, the optimal speed is slower because institutional changes are needed for the policy adjustments to be effective (Haggard and Webb 1994: 20).

The overall pace of reform can follow the 'shock therapy' path or a slower, incremental path. Rapid reform can be beneficial for three main reasons: first, rapid reform policies often do not have high political costs, and even improve support for the government; second, governments can use their "honeymoon" to silence opposition to rapid reform; and third, rapid reform can weaken interest groups tied to the status quo or make significant policies changes (Haggard and Webb 1994). Slower reform can allow governments to disperse the cost of reform over a longer time period, but raises questions about the government's commitment to continued reform. The choice of which path to follow may also have implications on what type of opposition reforming governments face (see below).

Governments liberalizing their economy suffer from credibility problems because the state leaders are often tempted to desert reform policies. By abandoning reform policies, leaders gain short-term profits because their private incentives do not match

their policy obligations, making the most difficult part of liberalization sustaining economic reforms until they generate political support from potential beneficiaries (J. Williamson 1994: 20-21; Nelson 1993). Until a strong constituency emerges to support continued reform, leaders will be tempted to slow or even halt reform policies for several reasons. First, reforms are often inconsistent with other policies. Rather than initiating sweeping reforms across different sectors of the economy, officials may reform the economy in a piecemeal fashion leading to inconsistencies the private sector fears will remain. Second, officials are tempted to change reforms in the midst of liberalization to obtain output gains. Authorities often have an ex-post incentive to renege on their promises, and the private sector, aware of this, views any reform promises with suspicion. Finally, the private sector lacks information to understand how serious the government is about reform (Rodrik 1989: 757-758). The third problem is closely related to the other two because domestic and international audiences recognize that reforming governments will be tempted by short-term gains and policy inconsistencies to renege on reform policies. Overall, the result is that domestic and international audiences doubt economic reform will continue and therefore fail to invest in newly profitable endeavors. In turn, this failure to invest prevents potential economic gains and lends additional credence to reform opponents (Bates and Krueger 1993a: 10; Rodrik 1989).

Commitment problems further intensify when there are deep splits among decision making elites (Nelson 1990b) because domestic and international audiences doubt the ability of governments to sustain reform measures. For instance, any reform that involves changing domestic laws gives actors such as legislatures the ability to block

reform (see Martin 2000). Governments must be able to overcome political opposition to enacting and implementing reform policies, and at the same time signal to audiences that they are dedicated reformers. This task is made more difficult because the audiences realize that governments often face internal opposition to reform; some actors may even be able to subvert reform policies that were enacted in good faith. Thus, it becomes even more important for governments to find a mechanism with which to solidify reform efforts and make their commitment more credible. In this game of imperfect information (see Downs and Rocke 1995), governments can reveal their type as dedicated reformers by seeking domestic or international solutions.

For instance, the establishment of property rights is tenuous when private audiences doubt their ability to persist in the future. “The greater the perceived risk of losing existing property rights, the less likely the holders of those rights will be to forgo current consumption to accumulate property, thus slowing investment that contributes importantly to economic growth” (Weimer 1997: 7). Government policy is key in counteracting this debilitating trend to send signals that governments are dedicated to the costly reform process and respectful of new economic institutions they have the power to circumvent (Weimer 1997: 12). To make the governmental commitment to abide by new institutional structures and rules, leaders can seek domestic or international solutions.

To continue the property rights example, governments can create domestic institutional structures that make it costly for them to infringe on property rights. Root (1989) studies the role corporatist arrangements played in forcing the French monarchy to respect economic agreements. In Old Regime France, the monarch often did not repay

loans, and being an absolute monarchy, lenders were unable to enforce the terms of loans. Recognizing this potential outcome, lenders raised the rates on loans and overall made them more difficult for the monarch to obtain. Although the king was the supreme power in France, it became more difficult for him to receive necessary funds. To solve this problem, corporatist arrangements were created to make defaulting a less likely outcome and as a result the terms of loans became more favorable for the king (Root 1989). The domestic structure of France was changed to solve this credibility problem, and in this case, domestic solutions were sufficient to protect the interests of the various actors. More generally, during economic liberalization governments can tie their own hands by creating domestic institutions that commit individual leaders to collectively rational strategies, such as organizations that impose fiscal discipline to continue economic liberalization (Bates and Krueger 1993b: 464-6; North 1981).

Yet, sometimes governments are unable to create domestic institutions which make their commitment to reform credible. For instance, constitutions imposed by authoritarian rulers often fail to provide credible commitments because authoritarian rulers cannot be held accountable to constitutions (North 1981; Root 1989). Domestic institutions are also unlikely to provide credible commitments when reforming governments face severe opposition at home that the domestic structures exacerbate rather than alleviate. Two approaches purport to explain when reforming governments face the most severe opposition, making reform success unlikely.

According to the dominant approach, referred to as the J-curve approach, economic reform causes short-term losers to have immediate, concentrated costs (Bates

and Krueger 1993b: 456) while the benefits from reform are in the unknown future and spread throughout society. Therefore, the short-term losers are highly motivated to slow or halt the reform process. This motivation may be correlated to the reform path a government pursues. From the case study evidence presented in chapters four and five, governments using shock therapy are opposed by short-term losers. When governments face highly motivated reform opponents, their ability to sustain reform policies is questionable. If governments are able to insulate themselves from the short-term losers and exist in a stronger or more authoritarian state, reform success is likely (O'Donnell 1973). However, when governments cannot use domestic solutions to insulate themselves from short-term losers, they need outside help to continue economic reform.

According to the partial reform approach, short-term winners received immediate, concentrated benefits from early reform policies while the costs from reform are diffuse. The initial surge in profits gradually disappears as the reform process continues. To prevent this loss of profits, short-term winners attempt to force the state into a partial reform equilibrium where they continue to benefit from early reform policies and later reform policies are never initiated or implemented. This may be more likely when governments follow the slower, incremental reform path, which allows opponents more opportunities to weaken economic reform. In this scenario, the stronger or more authoritarian state is less likely to continue economic reform (see Bates and Krueger 1993b). Domestically, governments can make their commitment to reform more credible



by increasing their ties to the losers or the general public. If domestic solutions that make the state more democratic are not available, governments can still protect the reform process by seeking outside help.

Both approaches agree that regardless of the opponent type reforming governments must overcome, reform opponents are more likely to threaten reform success when a state is undergoing a dual transition. When this occurs, external and internal actors lack information about the intentions or motivations of the government because the regime is new (Crescenzi 1999). New regimes also have no established reputation of honoring commitments and being self-restrained (Diermeier et al 1998). Finally, both transitions are threatened by the continued existence of authoritarian actors controlling important resources of power, a widespread attitude of neutrality or indifference regarding the type of regime in place, the prevalence of authoritarian patterns of domination in social spheres, deep economic crises, and the aggravation of social inequalities (O'Donnell 1992: 19).

When governments embark on economic reform, they encounter severe credibility problems that are exacerbated when reform opponents are powerful actors. The two approaches explaining who reform opponents are and when they can threaten successful reform are discussed in detail in chapter two, but the summary presented here illustrates that governments can seek domestic and international solutions to credibility problems. When domestic solutions fail and leave economic reform threatened by reform opponents, reforming governments can then find an international solution by seeking membership in a liberal IO.

### ***SEEKING MEMBERSHIP TO PROTECT ECONOMIC REFORM***

When the success of economic reform is threatened by reform opponents, dedicated reformers can reveal their type by seeking membership in a liberal IO, which protects reform policies from the opponents. Rather than analyzing how international factors aid domestic commitments in this way, much previous research considers how domestic factors relate to international commitments. For instance, Martin (2000) finds that as the demand for international credibility increases, executives are more likely to institutionalize domestic procedures to lock-in foreign policies. The fundamental insight from this literature is that leaders can make international commitments credible by sending costly signals which raise audience costs or sink costs (Fearon 1997 and 1994), and this insight can also apply to domestic commitments. Government leaders can send costly signals at the international level to indicate their commitment at the domestic level. In short, policy promises become more credible when leaders reveal their preferences through various costly signals, such as seeking membership in a liberal IO to make their commitment to economic reform more credible. When governments enact liberalization measures, audiences question whether the leaders are dedicated to economic reform and will continue reform even at the risk of losing short-term gains. In essence, the rationality of reforms is questioned. Commitment to economic reform becomes credible if it is rational for actors to do what they say they will, and as a result, other players believe the commitment will be kept (Martin 2000: 14-15).

Reforming governments seek membership in a liberal IO to make their commitment to reform more credible. The lengthy process of joining a liberal IO makes

their commitment credible because it is a costly signal that both raises audience costs and sinks costs, making it rational for reforming governments to continue reform. Liberal IOs limit their existing members' and candidate members' sovereignty over specific policy instruments (Milner 1997; Martinez and Martin 1996; Hawdon 1996), and therefore limit the ability of reforming governments to deviate from economic reform. Because IOs with specific membership criteria demand continued reform for membership to occur, reforming governments use the accession process to bind themselves and successors to reform. Reforming governments realize that membership may be able to solve problems within the state that otherwise threatened the success of economic reform. Reform opponents able to prevent or subvert policies that governments favor make restrictive international institutions appealing. Governments are able to use restrictive international institutions, specifically formal international institutions with liberal membership criteria, to quell reform opponents. Restrictive institutions are especially suited to this task because they require that specific policies be enacted before membership is acquired, which locks-in government favored policies. The institutions can also dispense additional gains that can be given to various groups within the state seeking membership to obtain additional support for membership (Milner 1997), and consequentially additional support for government favored policies.

First, seeking membership in a liberal IO raises audience costs because reforming governments are going "overboard" in reform. Because "achieving credibility will always require a *larger* policy reform than would have been dictated in the absence of the credibility problem" (Rodrik 1989: 758), reforming governments use the accession

process to show this greater dedication. By taking part in negotiations with a liberal IO and making membership part of the government's platform, the government is creating a reputation for being serious about the reform process and seeking mechanisms to secure liberalization policies to prevent defection (see Lipson 1991: 510).

Because of the significant costs associated with defecting from the accession process, reforming governments seeking membership in a liberal IO make their dedication to economic reform more apparent.

“A regional trade organization may endow a government's economic or political reforms with increased credibility as they are ‘locked in’ due to regional commitments and help to demonstrate to trading partners that the domestic reforms or policies are ‘for real’. This particular benefit was viewed as a major motivation behind the accession of Mexico to NAFTA” (Yeung et al 1994: 20).

The reforms become more credible because it is more difficult for the government to reverse or change the policies. This occurs even when states do not become members of the liberal IO. During the accession process as seekers negotiate with the liberal IO, they reach international agreements or executive agreements (see Lipson 1991) that bind the seekers to follow certain policies as they attempt to become members of the IO. Even before states sign an accession treaty and become official members of an IO, they sign binding agreements to pave the path to the accession treaty. These agreements also serve the purpose of providing the government with increased credibility for its reform process.

A breach of an international agreement signed during the accession process would harm a state's reputation, making it more difficult for the state to enter future international agreements (Stein 1990). “For reasons of reputation, as well as fear of retaliation and concern about the effect of precedents, egoistic governments may follow

the rules and principles of international regime even when myopic self-interest counsels them not to” (Keohane 1984: 106). Mexico used this tactic by binding its tariff rates under the GATT and then negotiating with the U.S. about a free trade agreement, making policy reversal extremely costly and solidifying reform (Rodrik 1994: 83). Thus, future governments were limited in their policy options because Mexico entered two international agreements to stabilize economic reform.

The ability of international institutions to provide credible commitments at the international level is well understood, but these international commitments rest on the assumption that individual states will not reverse their policies in the domestic arena. Martin’s (1992) study of economic sanctions finds that states can raise audience costs by implementing sanctions through international institutions, making them more credible. The international institution serves to limit the policy options the state has and makes remaining options not favored by the institution more costly to enact. In this way, international institutions can make international policies more credible.

The same logic applies to states seeking membership in liberal IOs. As they seek membership by entering negotiations and signing agreements, states limit their domestic policy options to make defecting from reform more costly. Domestic reforms are locked-in by the accession process because the reforming governments are less able to reverse the reform policies. Once international agreements have been reached, the governments face significant costs to their international reputations if they disregard international commitments. By negotiating with other states and IOs, reforming governments loudly proclaim their dedication to liberalization in an attempt to make the reforms more

credible. True reformers are thus able to lock-in economic reform during their rule, binding future governments. Governments can convince non-governmental agents of the governments' dedication to reform by using the goal of liberal IO membership to lock-in or showcase domestic policies (Yeung et al 1994: 29).

Second, seeking membership in a liberal IO also makes reforming governments' commitment to reform more credible because the accession process sinks costs. The threat during liberalization is that reform will halt because the governments will defect or actors doubting the seriousness of the reforms will undermine the liberalization process. The first threat is overcome because reforming governments engage in lengthy, costly negotiations during the accession process. A complete breakdown in negotiations would waste months or even years of effort and money spent during the accession process, making governments less willing to allow this outcome. The costs associated with restructuring, renegotiating, or leaving the IO are high enough to deter governments and even their successors. In short, international agreements during the accession process place limits on political leaders and therefore make their promises believable (see Cowhey 1993: 159).

The accession process is the most rigorous with the most sunk costs when states seek to join a liberal IO, which has specific membership criteria. An international institution with specific membership criteria (or a restrictive international institution) causes more internal change than other types of international institutions because the restrictive institution has specific standards that must be met for membership to be acquired. Although these institutions are designed to allow the participation of less

wealthy or less powerful states and leave some room for negotiation (Mahler 1993: 295), they have fundamental requirements that all potential members must meet. It follows that restrictive institutions with liberal political or economic requirements cause more liberalization than restrictive institutions without liberal requirements. Thus, international institutions that have liberal requirements can be used as protectors of economic liberalization for states on the cusp of or beginning the liberalization process. In today's world, the majority of restrictive IOs have liberal membership requirements, either economic or political, reflecting a world that is increasingly dominated by the liberal governing structure (see table one), resulting in an international system where liberal IOs are growing in number and size (Cook 2000: 95-98).

Reforming governments sink costs even more by seeking membership in a liberal IO because the accession process spawns vested interests in future membership (see Cowhey 1993). During the accession process, governments enact policies that once in force "create interests who benefit from that particular constellation of rules and procedures. These interests—within and outside the government—become a formidable political force, making change difficult" (Goldstein 1993: 224). The new vested interests push reforming governments to continue seeking membership in a liberal IO that will protect their newly acquired status. The sooner membership is obtained, the sooner actors such as voters, interest groups, and financial investors develop a vested interest in maintaining membership, and the sooner the threat of not-seeking or losing membership is lessened. Although Gruber (2000:88) makes this argument regarding institution

creation, the logic applies in this situation as well where reforming governments enact policies during accession that spawn vested interests dedicated to ensuring necessary policies for accession talks to continue.

While there is still the risk of involuntary defection (Putnam 1988: 438) from the accession process, this risk can be limited by raising the costs of any future defection. For instance, if the reform process is slowed or halted, the restrictive IO can halt the accession process and delay membership until reform policies are supported. Although the EU hoped to have new members attend the current constitutional convention, the accession process has been slowed in part because the potential members are not enacting reforms quickly enough for the EU. Thus, the future members are excluded from an important convention where fundamental EU policies such as the Common Agricultural Policy (CAP), which will greatly benefit states such as Poland, are being revised. If future governments left the accession process altogether, they would also be excluded from aid programs within the EU designed to help seekers meet EU standards.

Governments can solve the problem of outsiders undermining economic reform by making reform policies more palatable to those that threaten the process. Governments can offer incentives to these actors making them less likely to defect at the first opportunity, even if those actors are the next government.<sup>9</sup> IOs can provide candidate members with resources to bribe these actors or convince them of the

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<sup>9</sup> Gruber (2000: 82) makes a similar argument at the international level. International institution founders can provide structures that lessen the adverse consequences of cooperation from would-be defectors. For instance, institutions often have a collective decision making structure where would-be defectors can influence policies and implementation.



government's commitment. During the accession process, governments can obtain immediate gains from economic reform which can then be used to win or bribe more supporters for the reform process and ease the adjustment strain (Leipziger 1992; Solingen 1998). The accession process can also convince outsiders that governments are dedicated to reform. While some structures within the IO will allow future governments to maneuver, the basic principle of the IO, economic or political liberalization, cannot be entirely circumvented. The candidate states are sinking costs to achieve the membership criteria laid down by the liberal IO, making it more likely that the government will adhere to economic reform. By sinking costs during the accession process, reforming governments attempt to delay and every prevent tomorrow's dominant political and economic actors from abrogating any preexisting treaty obligations (Gruber 2000: 84).

Because the accession process can both raise audience costs and sink costs to protect economic reform, governments facing severe opposition to reform will be more likely to seek this outside help. As discussed above, this occurs when governments are reformers but they face significant opposition to reform. When economic reform faces little domestic opposition, reforming governments do not require outside assistance. When governments are not interested in economic reform, they will also not need outside assistance that would push them to enact reform policies the governments do not support. However, when governments are reformers, but powerful reform opponents threaten reform success, creating severe credibility problems for the governments, seeking membership in a liberal IO can overpower the opposition.

In a study of international financial institutions (IFIs), Kahler (1992: 114-115) reaches a similar conclusion and argues that only in delicately balanced cases does the conditionality bargain significantly influence reforms. States where governments have a high level of commitment to adjustment programs before external support exists are more likely to implement reforms regardless of whether loans or aid programs are contingent on liberalization reforms. Using the same logic for liberalization and IO accession, states where liberalization is not contested will not be influenced by seeking membership in a liberal IO. These states will liberalize regardless of whether they seek membership. However, when reform-minded governments face opposition to reform, they can seek membership in liberal IOs to make the reform process more likely to succeed. The liberal IOs can aid governments in controlling the opposition through typical tactics such as persuasion, partial compensation, obfuscation, and containment (Nelson 1989: 7), and retain the efficacy of these tactics by providing tangible improvements resulting from reforms (Haggard and Kaufmann 1992; Nelson 1989; Pevehouse 2000).

Overall, by seeking membership in a liberal IO, governments can make reforms clearly optimal by creating a situation where governments face serious costs if they subvert or halt the reform process. When governments seek membership in a liberal IO, they often stake their party platform or ideology on obtaining membership, resulting in equating their survival with the accession process. They also sink costs by engaging in lengthy negotiations where international bargains are carefully made. These bargains represent months of government work and are agreements between seekers and the liberal IO. If the bargains were tossed aside, governments would lose months or even

years of costly negotiations in addition to harming the seekers' reputations. Any future bargains would more difficult to reach. By seeking membership in a liberal IO, governments can change the costs of reform policies to make them rational, and therefore credible to domestic and international audiences. Thus, "if the pursuit of gains over time involves short-term sacrifices, turning to international institutions can be an attractive option for domestic policymakers" (Martin and Simmons 1998: 749), and liberalizing governments can solve credibility problems by seeking membership in a liberal IO (see Franck 1990). At its core, seeking membership in a liberal IO furthers reforming governments' economic goals because the accession process makes continued reform rational and therefore more credible (for a discussion of rationality, see Brown 1994). Reforming governments make reform success, an important goal of theirs, more likely by seeking membership in a liberal IO (see Martin: 1999: 80; Vaubet 1993: 31; Taylor 1993: 29).

Although the process of seeking membership in an IO results in a formal international agreement when membership is obtained, the process of seeking membership creates informal agreements that can significantly improve a government's ability to enact economic reform policies. The informal promise granted by the IO of eventual membership should certain standards be met provides the government with a powerful tool to present a credible commitment to reform. The government has staked its international and often domestic reputation on obtaining membership by having government leaders form an executive agreement as a visible and credible sign of policy intentions (Lipson 1991: 498) to sustain reform measures. While the government may be

tempted to renege on reform policies to reap short-term gains, the substantial long-term reputational costs and material costs this would incur should make it more likely that a government serious about obtaining membership in a liberal IO will sustain reform measures. Thus, the process of seeking membership (expressing interest, negotiations, and eventually applying) influences the domestic setting enough that a seeker is able to commit credibly to economic reforms.

Reforming governments need this outside help in providing a credible commitment to reform the most when they face strong reform opponents. The accession process makes the government commitment to reform more credible by raising audience costs and sinking costs, which bind the government and successors to continued reform. By using an international solution for domestic credibility problems, reforming governments protect economic reform from reform opponents. The question that necessarily follows this summary of existing literature is when will governments need this outside help. Put differently, under what conditions do reforming governments seek membership in a liberal IO to protect economic reform?

## ***OVERVIEW***

The J-curve and partial reform approaches describe the domestic conditions that motivate governments to seek international solutions to credibility problems during economic reform. Are reforming governments facing conditions where short-term losers threaten reform more likely to seek IO membership? Or are reforming government facing conditions where short-term winners threaten reform more likely to seek IO

membership? Which group presents a serious enough challenge to economic reform that outside help is necessary? Using a standard Cox model where cases fail when they seek membership in a liberal IO, the results from the large-N study offer more support for the J-curve approach.

The findings that support the J-curve approach are more robust than those supporting the partial reform approach. In the first model presented, states where non-elites have an increased ability to influence policy making (participation competition) are more likely to seek membership in a liberal IO. The rationale beyond this finding is that states with this condition allow short-term losers to participate more in decision making, resulting in a threat to economic reform. Reforming governments can counter this threat by seeking outside help from a liberal IO. This is completely opposite to the logic used in the partial reform approach. This relationship is robust in the variations considered when regions and decades are controlled for.

Additionally, antigovernment demonstrations are a significant predictor of seeking. While this finding is not as robust, it does suggest that mass uprisings against economic reform can increase the likelihood that states will seek membership in a liberal IO. According to the J-curve approach, short-term losers can threaten reform using these tactics. Reforming governments can use the process of accession into a liberal IO to protect reform policies from short-term losers protesting in the street.

There is one finding that supports the partial reform approach. According to this approach, reforming governments are less likely to seek membership when government leaders are highly accountable to the losers. Because the short-term winners threaten

continued reform, governments must remain close to the losers through means such as legislative elections. When legislative elections occur, states are less likely to seek membership in a liberal IO. While this finding supports the partial reform approach, it is not as robust as support for the J-curve approach.

Although the support for the J-curve approach is not conclusive, it outweighs the support for the partial reform approach. To find more comprehensive evidence, better measures of when short-term losers are veto-players and public officials' ability to subvert policy implementation are needed. Additionally, the basic unit of analysis could be changed from states to reforming governments. Both of the approaches predict behavior by governments that are dedicated to reforms, but the dataset uses cases defined by state rather than government and does not consider the issue of reforming. This could be dealt with by changing the unit of analysis from states to reforming governments and coding seeking to distinguish government leaders who actively strive to meet membership criteria of liberal IOs from government leaders who offer empty platitudes like Meciar in Slovakia.

Each of these concerns is addressed in the following case study chapters. The case study of Spain focuses on the specific government, as opposed to the state. Rather than considering Spain's relationship to the EU where the state acts as the basic unit, I study Spain as two distinct cases: under Franco and after Franco. Although Spain under Franco is coded as seeking membership in the EU, the government was not dedicated to reform and did not actively strive to meet membership demands expressly stated by the

EU. Following Franco's death, the new democratic government actively sought to meet EU criteria, and often used gains (current and future) to bribe short-term losers who were veto-players, such as organized labor and the military.

The case study for Slovakia also consists of two distinct cases. Under Meciar's leadership the government often stated it wanted EU membership but did little to achieve it because the government was captured by short-term winners. The new leadership by contrast has maintained a high level of communication with the EU and proven its dedication to becoming a member. As predicted by the partial reform approach, Slovakia under Dzurinda's leadership sought membership in the EU to protect the reform process from short-term winners who are attempting to re-capture the government. Using inept and corrupt public officials and manipulating the democratic rules in Slovakia, Meciar and his supporters still strive to slow the reform process. To protect economic reform from the continued threat posed by short-term winners, the new government is dedicated to becoming an EU member.

The relationship between Vietnam and the Association of Southeast Asian Nations (ASEAN) also supports the partial reform approach. By looking at Vietnam's relationship to ASEAN more closely, I am able to study the relationship between seeking and public officials who subvert reform implementation. This case offers increased support for the partial reform approach because the short-term winners were able to prevent reform policies from being implemented. By halting the reform process, corrupt

officials were able to receive large profits using the black market. The Vietnamese government sought membership in ASEAN to protect reform policies by using ASEAN representatives to monitor reform implementation.

Finally, the Chilean case is essential to understanding the role reform opponents can play as veto-players because their demands often slowed negotiations with NAFTA. To protect their interests from increased foreign competition, many agricultural interests fought to continue domestic protection. To protect continued economic reform from these interests and other veto-players, Chile sought membership in NAFTA. Even though membership was never obtained, the negotiation process provided the mechanism to protect reform from short-term losers such as organized labor and the traditional, landed elite.

These four cases were specifically selected to counter the flaws present in the results from the duration analysis. Using public statements by government leaders and private interviews with government officials at embassies located in Washington, D.C., the motivations of government leaders are better understood. The results from the Cox model suggest that states are more likely to seek IO membership when faced with short-term losers rather than short-term winners who oppose reform, but the comparative case studies illustrate that both groups can threaten reform success and drive governments to seek outside help. Although the J-curve pre-conditions may be more common, both short-term losers and short-term winners can motivate governments to seek membership in a liberal IO.



When economic reform policies are threatened by opponents, reforming governments can seek membership in a liberal IO to bind themselves and successors to economic transformation. Seeking membership can provide this external credible commitment to reform, but the existing literature does not offer evidence of when states are more likely to require outside help. In the following chapter, I derive hypotheses from both the J-curve and partial reform approaches to predict when states seek membership in a liberal IO. These hypotheses are then tested using a standard Cox model with several robustness and omitted variable checks. While the results offer slightly more robust support for the J-curve approach, comparative case studies are necessary to test of the posited causal mechanisms. The findings presented in this dissertation do not conclusively show that one approach is definitively correct, but they do indicate that the conditions expected by the J-curve approach are dominant. If a state is randomly selected, it is more likely that the reform process in that state will follow the J-curve pattern where short-term losers rather than short-term winners threaten reform success. However, this dissertation indicates that regardless of which group threatens economic reform, reforming governments are likely to respond to threats by seeking membership in a liberal IO, believing this will protect economic transformation. More often, the threatening group is short-term losers, but both groups can scare governments into seeking an external solution to domestic reform troubles.

The fundamental relationship presented in this dissertation is that domestic actors seek international solutions to domestic credibility problems, regardless who reform opponents are. Specifically, during the tenuous process of economic liberalization, state

leaders can seek membership in restricted IOs that protect liberal policies. In this way “domestic-international linkages may allow credibility to be ‘exported’ from one level to alleviate the credibility gap at the other level” (Lohmann 1997: 40-41).

## CHAPTER 2

### IOs PROTECT ECONOMIC REFORM

From the earlier review of existing works on the relationship between domestic actors and international institutions, it is clear that domestic factors play a significant choice in foreign policy decisions, and that what occurs in international relations can influence domestic politics. However, the relationship between seeking membership in IOs and liberalization is not understood. Although it is recognized that IOs can lock in distributional effects at both the international level (Martin 1999; Fearon 1998; Ruggie 1992) and the domestic level (Gruber 2000; Pevehouse 2000; Viner 1950; Yeung et al 1994), the specific relationship between domestic political variables and seeking IO membership is not understood in the context of domestic economic reform. Because states are uniquely located at the intersection of international and domestic arenas, which allows them to play the two arenas against each other (Skocpol 1979), state governments can use seeking IO membership as a mechanism to strengthen the liberalization policies they support. Just as state leaders must build domestic coalitions to make international promises credible (Haggard and Simmons 1987: 516-517), they can also use international coalitions to make domestic promises credible. When states suffer from domestic credibility problems during economic reform, governments can seek membership in liberal IOs to counter these threats by increasing their political clout.

If governments can intentionally use seeking membership in liberal IOs to stabilize economic reform as presented in the previous chapter, the central question becomes when is it likely for states to do so. When will the process of membership accession be able to improve governments' ability to enact reform policies designed to limit the role of the state in the economy and open the economy to international economic transactions?<sup>10</sup> In short, what conditions exist that motivate governments to join liberal IOs that often have exacting membership criteria? While a consensus exists that being part of IOs can encourage both economic and political liberalization, little attention has been given to the question of whether this IO ability to foster liberalization can begin even before liberalizing states attain membership. Although practitioners and theorists often posit that such a relationship exists, the previous chapter shows the lack of rigorous study in this area. While many may agree that the process of becoming members in IOs such as the EU and NAFTA can encourage domestic liberalization, an understanding of why government leaders believe this to be true is lacking. Leaders from Vietnam to Slovakia argue that the accession process stabilizes economic reform, but we do not understand why they believe this relationship to be true. What conditions motivate these diverse leaders to seek membership?

According to the dominant J-curve approach to economic transformation, reform suffers from a temporal problem where the potential gains from reform are diffuse and long-term while the losses are concentrated and immediate (see figure one). The short-term losers threaten the reform process by pressuring the government to halt reforms,

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<sup>10</sup> This definition of economic reform is discussed in chapter one.

whipping up support to vote the reforming government out of office, or using mass uprisings to weaken the government's dedication to reform. Typically, proponents of this approach argue that governments can make economic reform stick if governments are insulated from the short-term losers, but when this option is unavailable, reforming governments can still protect the reform process. Seeking membership in a liberal IO may provide a way for governments to insulate themselves from dissent if the domestic institutions are unable to provide this protection.

Supporters of the partial reform approach argue that short-term winners pose the greatest threat to reform success (see figure one). Short-term winners rather than short-term losers pose the threat to successful economic reform because reform policies have different time horizons, resulting in market distortions where short-term winners gain large windfalls. If economic reform continues, these distortions would end, causing their profits to fall. To prevent this tapering off of profits, short-term winners actively subvert continued economic reforms. Reforming governments can prevent being captured by these short-term winners if they are more responsive to the general public rather than the specific, concentrated interests of the short-term winners. Again, when this domestic solution is unavailable, reforming governments can seek membership in a liberal IO to overpower reform opponents, in this scenario short-term winners.

For each approach, distinct hypotheses are derived from the logic of when economic reforms are likely to suffer. As the previous chapter shows, I posit that when reforming governments are faced with domestic conditions that exacerbate the threat posed by reform opponents, either short-term losers or short-term winners, governments

are more likely to seek membership in liberal IOs to counteract this threat to reform. Dedicated reformers will search for ways to stabilize the reform process. Although IOs will not have a significant influence when opposition to reform is strong or when there is no opposition to reform, they may become the deciding factor where support for and opposition to reform are more evenly balanced. An IO's conditional support can bolster the standing of reform within governments when the opposition exists but is not all-powerful (see Haggard and Webb 1994: 25). The existence of reform opponents who could slow or conceivably halt reform, rather than the existence of powerful opponents who can prevent reform from beginning, makes liberalization possible but by no means a certainty. Thus, it is in states where economic reform is both not a certainty yet not an impossible development that liberal IOs can significantly aid reform efforts.

The central question is what domestic conditions motivate governments to seek international solutions to credibility problems during economic reform. Are reforming governments facing conditions where short-term losers threaten reform success more likely to seek IO membership? Or are reforming government facing conditions where short-term winners threaten reform success more likely to seek IO membership? Which group presents a serious enough challenge to economic liberalization that outside help is necessary? The logic of the J-curve approach suggests that governments subject to the demands of short-term losers will be more likely to need international aid while the logic of the partial reform approach suggests that governments threatened by short-term winners are more likely to need international aid. In this chapter, I present hypotheses derived from the logic of each approach that explain when reforming governments will

be threatened by reform opponents (either short-term losers or short-term winners) that they will seek membership in a liberal IO to stabilize the reform process. These two arguments can then be tested against each other in both a large-N study and comparative case studies.

### ***J-CURVE APPROACH***

The dominant approach in the study of economic transformation is the J-curve argument. In this view, the basic problem with reform policies is that they are expected to make things worse before they get better. This temporal problem exists because economic reform causes immediate, concentrated transitional costs such as high unemployment, price increases, and production declines while the benefits of reform such as low inflation, increased availability of goods and services, and stable currency are diffuse, future gains. Thus, the short-term losers are highly motivated to oppose the reform process while the future winners are not. The future winners will gain from nonexcludable benefits similar to public goods, but the short-term losers are concentrated groups who were privileged or subsidized by the former regime (Hellmann 1998: 203-207). These latter actors are highly motivated to pressure the government to halt reform policies, whip up support to vote the reforming government out of office, or use mass uprising to weaken the government's dedication to reform. Therefore, it is unlikely that reform policies will continue (see figure one).

The traditional answer to the threat posed by short-term losers is to insulate reforming governments, but governments may not always be able to use domestic

solutions to this threat. When governments cannot insulate themselves domestically from short-term losers, they are more likely to seek membership in a liberal IO to provide this insulation, binding themselves and future governments to the reform process. Seeking membership in a liberal IO can prevent a future government from reneging on economic reform, and prevent reforming governments from reneging due to the actions of veto-players or the general dissatisfaction of the masses.

### ***The Threat Posed by Short-Term Losers***

Short-term losers pose a significant threat to economic reform because reform policies offer the promise of future gains to the population as a whole while exacting immediate costs from concentrated groups. This combination of a time inconsistency problem and a collective action problem make the long-term winners unlikely to provide a strong enough cadre of support for reforming governments while the short-term losers are usually organized and sometimes able to act as veto-players in the political system. The traditional short-term losers of economic reform include labor unions, impoverished pensioners, the unemployed, and former state-sector employees (Hellmann 1998; Frye 2002), and these actors are highly motivated to oppose economic reform because they bear the brunt of the immediate costs.

Short-term losers pose a threat to economic reform because of both a time inconsistency problem and a collective action problem. The time inconsistency problem exists because economic reform requires actors to accept short-term losses while only promising future gains. “If the government cannot make a credible commitment to



maintain those reforms until the promised benefits arrive or to insure that those gains are not confiscated once they do arrive, then it may be rational for economic actors to reject the reforms *ex ante*” (Hellmann 1998: 206). In short, the reforming governments are often unable to provide a credible commitment to reform, resulting in an *ex ante* rejection of reform because future gains are unlikely to exist while the losses are immediate.

During economic liberalization, economic actors often believe that they are unlikely to see future gains from reform efforts. Economic actors have a high discount rate for future payoffs because governments are often easily able to prevent reform policies from being properly implemented or reverse the reform process entirely, often gaining sizable short-term gains in the process. For instance, after the debt crisis of the early 1980s, international financial and development experts expected that prompt action by creditors and debtors would permit resumed growth within a few years at most. If the debtor states curtailed demand and adjusted prices, normal international financial relations of debt service and capital flows would resume. However, the “quick-fix” scenario proved more difficult in part because domestic and foreign business confidence was difficult to restore (Nelson 1989: 4-5). Supporters and opponents of the policy changes were skeptical that stabilization measures and investment incentives would last. “Price changes, in particular, were subject to erosion (through inflation and real exchange rate appreciations) and to administrative reversal. Put differently, the same features that make price reforms comparatively easy to implement may also make them unconvincing to investors” (Nelson 1989: 6). Thus, the changes governments must make during

economic reform are often easily subverted or reversed. As Rodrik (1989) notes, the likelihood of this occurring is increased because governments can reap sizable short-term gains from policy reversal.

The net result of the ability to halt reform and gain sizable short-term gains by doing so is that economic actors believe the rational strategy for governments to pursue involves reneging on reform (Rodrik 1989). Although rational actors may sometimes follow what appear to be sub-optimal strategies because they are part of nested games rather than a single game apparent to an observer (Tseblis 1990; see also Alesina 1994), for economic reform to be successful, economic actors must believe the reform process to be credible. In short, the reform policies must appear to be the optimal strategy or rational as discussed in the previous chapter. If economic actors believe that reforming governments will undermine reform policies by reneging or confiscating the benefits from reform, they will reject reform *ex ante* believing that they will never see the benefits of reform.

While believing that the benefits of reform are highly unlikely, the costs are immediate and are directly related to the radicalness of the reforms: the more radical the reforms, the higher the costs. “Inefficient enterprises must be closed or restructured, state subsidies and social spending must be reduced, and domestic prices must be raised to world levels—a program that in the short term is expected to generate unemployment, sharp declines in production, and falling living standards” (Hellmann 1998: 206). While wages and supply are falling, prices generally soar making it difficult to obtain basic necessities such as food. The net result is that while the benefits of reform are in the

uncertain future, the costs are immediate and often very painful. As mentioned in the previous chapter, when governments follow the shock therapy path of reform rather than the slower, incremental path, it is more likely that governments will face short-term losers who strongly oppose reform efforts.

This time inconsistency problem is compounded by a collective action problem. Reform suffers from a collective action problem because the benefits from reform are similar to public goods while the costs are concentrated among specific groups losing their privileges from the previous system. Rather than spreading the costs throughout society, concentrated groups of actors who benefit from the status quo suffer present and certain costs (Bates and Krueger 1993b: 456). For instance, if protective tariffs are lowered, specific industries are at risk from increased international trade. Those harmed by economic liberalization such as businesses and labor unions are already organized and often influential in government decision making.

While the losers from economic reform are often easily identified and well-organized businesses and industries, the winners are widespread and unorganized segments of society such as the small, rural landholders (Nelson 1989 and 1995). Sometimes the winners are even difficult to identify and often lack influence in decision making.

“In many developing countries, however, the classic asymmetry between concentrated losers and diffuse gainers is particularly marked. Powerful business and labor groups in the nontraded goods sector—groups inclined to oppose export-oriented strategies—are likely to be overdeveloped. On the other hand, crucial sectors that might constitute the core of reform coalitions, such as small peasants and landless laborers, informal sector workers, and nontraditional export interests, are less well organized and must overcome significant barriers to collective action in order to become politically effective” (Haggard and Kaufman 1992: 19).

Under these circumstances, the strongest supporters of economic reform are unable to express their view because they are unorganized, and reforming governments lack a strong core of supporters to use against reform opponents.

Thus, policy change is plagued with many collective action problems during economic reform. Stable prices are a public good, but specific individuals and firms may gain from policies undermining stability and be reluctant to bear more costs of stabilization than others. Although some specific reform policies, such as wage restraint, regulatory reform, and privatization, are supported by all segments of business, others, such as trade liberalization and even state enterprise reform, face resistance from adversely affected sectors. These policies of trade liberalization and state enterprise reform will generate overall efficiency gains, but specific firms or sectors will lose particularistic benefits (Haggard and Kaufman 1992: 18). Reform measures that result in the loss of particularistic benefits are more likely to cause short-term losers to oppose the reform process.

Because of the time inconsistency problem and the collective action problem that economic reform suffers from, short-term losers are able to threaten the reform process. The response to this threat has been to structure political institutions “to shield state actors from the pressures of short-term losers until the realization of the gains from the reforms creates the necessary political constituency to sustain them” (Hellmann 1998: 207). Reform efforts are less likely to suffer reversals when the reformers are insulated from the short-term losers’ reaction. “By insulating strong executives who are committed

to reform and backed by the international community, countries may withstand pressure to change policy exerted by groups bearing the short-term costs of reform” (Frye 2002: 311).

Because the long-term winners from economic reform are disparate, unorganized groups facing future gains while the short-term losers are concentrated groups dealing with immediate costs, reforming governments lack a core group of supporters and are threatened by highly organized opponents. Until the winners are a powerful group able to support reforming governments, the government leaders must be insulated from the demands of the short-term losers. By increasing the distance between the public and the reforming governments through domestic institutions designed to increase executive power and elite partisanship, costly reform policies can be enacted until the gains from reform are finally realized. Yet, not all governments are able to withstand the demands of short-term losers. Reforming governments may be voted out of office, reform policies may be paralyzed by the actions of veto-players, or the governments and perhaps even the regime can be threatened by the armies of the unemployed or impoverished pensioners. In situations where governments are more susceptible to the demands of short-term losers, they are more likely to seek an international solution to the domestic troubles of economic transformation.

### ***The International Solution***

Seeking membership in a liberal IO can bind current and future governments to economic reform by insulating them from short-term losers. Short-term losers such as

striking workers, resentful former state bureaucrats, impoverished pensioners, and armies of the unemployed can prevent the economic reform from being successful. When reforming governments face domestic conditions where short-term losers are highly influential, they are more likely to seek external help in insulating reform from the demands of short-term losers. Specifically, by seeking membership in an IO that demands a certain level of liberal policies for membership, reforming governments can remove domestic economic reform to the international level. By using international agreements to bind themselves and future governments to the reform process, short-term losers are unable to prevent reform policies from continuing. Seeking membership in a liberal IO prevents short-term losers from electing leaders able to halt the reform process, provides a source for bribes to gain the tacit support of short-term losers that can act as veto-players or the ability to overpower veto-players, and insulates the reforming governments from the demands of the populace.

First, governments seek membership in liberal IOs to reveal their type as dedicated reformers, and to make future governments less likely to remove reform policies. In short, seeking membership in liberal IOs makes future policy change too costly for either the reforming government or future governments. When future change becomes too costly, observers view the reform measures as credible. Although reform initiatives are more likely where politicians are insulated from particular group constraints, the continuation of reform in part rests on convincing non-governmental agents that reform measures cannot be reversed at the discretion of individual decision makers (Haggard and Kaufman 1992: 19) from the current ruling coalition or a future

one. The problem governments face is that often the reform policies they enact are easily halted or subverted in some way. When governments begin economic liberalization measures, they have the ability to slow, halt, or even reverse the reform process.

“[E]lites that are seen by their own people as corrupt or living beyond their means may not have the will or the confidence to ignore the challengers to the reforms” (Waterbury 1989: 52), and elites are also seen as likely to end the reform process in an attempt to garner more support for their ruling coalition.

Because reform measures are easily halted or subverted, and the public recognizes this, promises of economic reform are not credible. As discussed earlier, while being offered promises of future benefits of economic reform, the costs are immediate and certain. This time inconsistency problem creates a situation where short-term losers are able either to replace reforming governments through elections or to participate in government enough to force the reforming governments to renege on the reform process. When reforming governments are not insulated from the short-term losers and face frequent elections or cabinet changes, have a weak executive, or have high levels of public participation and competition in the government, they are highly susceptible to the demands of the short-term losers. For instance, if reforming governments are unable to prevent frequent elections from being held, they must find an alternative way to protect reform from the anger of short-term losers, who are likely to elect leaders that will halt the reform process (see table two). By seeking membership in a liberal IO, reforming governments can make their promise to maintain reform measures, and their ability to ensure that future governments maintain reform measures, more credible.

*Hypothesis One:* Reforming governments held accountable to the general public are more likely to seek membership in a liberal IO.

According to the logic of the J-curve approach, economic reform is threatened by short-term losers facing the costs of declines in production, decreases in wages and living standards, and price increases. In an attempt to prevent continued economic hardships, short-term losers are likely to pressure reforming government by exercising their right to participate in government and vote. When reforming governments are weakened by the ability of short-term losers to hold their governments accountable, economic reform is unlikely to succeed. Faced with this knowledge, dedicated reformers are more likely to seek membership in a liberal IO to bind themselves and future governments to the reform process, in the face of short-term opposition.

Second, reforming governments are more likely to need external aid to stabilize the reform process if short-term losers can act as veto-players in the domestic society. While it is better for compensation to provide benefits to a wide segment of society to improve their economic welfare over the long term rather than providing direct compensation (Haggard and Webb 1992), governments can appeal to specific opponents of reform by packaging or sequencing reform policies to change interest groups' calculations. In this way the vocal opponents of reform are bribed to accept the changes. For instance, changes in subsidy programs can defuse protest by targeting volatile and important groups. Firms that are losers in trade liberalization can gain in exchange rate policies or reduced labor costs. Governments can package policies together in this way to compensate for costly reform measures, minimize the access of rent-seeking



antireform groups, build ties with export supporters, and weaken institutions providing access for firms in the import-substituting sector (Haggard and Webb 1994: 18-19).

While these tactics are in part a response to political pressures, governments can manipulate the constraints to secure their favored policies (Haggard and Kaufman 1992: 28-31; Waterbury 1989). Simply put, governments offer bribes to gain tacit support for economic liberalization.

Labor unions are often short-term losers during economic reform, and can significantly influence reforming governments because their organized structure allows them to bargain collectively and more importantly synchronize mass strikes, which can paralyze an already fragile economy. “Organized labor almost always loses in the initial phase of a traditional adjustment program. Tight fiscal and monetary policies reduce aggregate demand and employment and hit directly at the public sector employment and wages” (Haggard and Webb 1994: 16). As governments try to streamline their involvement in the economy, labor usually suffers setbacks. Although some of the setbacks may be temporary, governments face the threat that labor strikes will paralyze the economy. Under severe pressure, governments may cave into labor’s demands and slow or halt reform measures. Because it is rational to assume that labor will protest a loss of influence and wealth in some manner, it is also probable that governments will somehow acquiesce to labor’s demands, undermining reform efforts in an attempt to protect their jobs or even their lives (see table two). Realizing this possibility, other actors question the commitment of governments to reform.

Reforming governments recognize this threat and attempt to secure labor's support for economic reform. Haggard and Webb (1994) summarize the main mechanisms used to secure labor's support of reform measures: corporatist arrangements (Katzenstein 1985); close ties with social democrats (Lange and Garrett 1985); or ties with broad cross-class parties (Haggard and Kaufmann 1992). Each of these mechanisms allows labor to interact with the government, to compromise on new policies, and to make credible policy promises. Governments can use these domestic tools to gain the tacit support of labor through bribes, making governmental commitment to reform more credible because it is less likely they will face debilitating strikes.

Although governments do have domestic tools that they can use to bribe opponents of economic reform, compensation is difficult because governments may lack the resources (Haggard and Kaufmann 1995), may use it to bribe the powerful opponents rather than the most severely affected opponents (Nelson 1992), and may counteract the basis of liberalization policies. During economic liberalization, reform policies are designed to reduce government interventions, such as subsidies, that lead to inefficiency, rent seeking, and corruption, but compensation schemes can directly cause these very same problems (Haggard and Webb 1994: 23-24). Yet, while compensation or bribes may cause difficulties in economic reform, on balance the measures stabilize reforming regimes to ensure that reform continues, rather than halting completely.

Because governments may lack the resources for bribes, they can seek membership in liberal IOs to enhance their ability to bribe reform opponents. Powerful actors who are veto-players may be able to prevent the adoption of policies they dislike

even when governments favor said policies. Governments can overcome this opposition and adopt policies that they otherwise could not by using international solutions. By using international solutions such as seeking membership in a liberal IO, governments obtain additional “gains (in the form of increased positive externalities or reduced negative ones) that accrue to other domestic groups, ones whose support in turn makes policies desired by political actors feasible and durable” (Milner 1997: 45).

*Hypothesis Two:* Reforming government facing short-term losers that have veto powers are more likely to seek membership in a liberal IO.

According to the logic of the J-curve approach, economic reform is unlikely to succeed if short-term losers are veto-players. When short-term losers are able to paralyze the economy by draining capital from the economy or halt business through large-scale strikes, reforming governments need to gain their tacit support for reforms by offering bribes. Although external support can be directly or indirectly linked to compensatory measures (Haggard and Webb 1994: 26), seeking membership in liberal IOs provides a mechanism for external support to be specifically tied to bribes. Seekers gain the ability to bribe opponents because first, full bribes are only gained once membership is obtained, and second, some bribes are given during the accession process. Reform opponents are bribed with the promise of large future gains should they allow reform measures to continue because only when the IO finds that reform is satisfactory will seekers gain admittance and the full benefits of membership.

However, during the process of seeking membership, potential members are granted a few benefits that provide extra resources, increasing the political stability by

allowing the country greater consumption than would otherwise have been possible. Furthermore, external assistance “allows the state to sustain a higher level of investment, which in turn should lead to greater economic benefits in later years” (Haggard and Webb 1994: 26). Even if the liberal IO does not provide direct aid to seekers as the EU or ASEAN does, the prospect of future trade concessions by joining the IO can greatly increase the attractiveness of a reform program as it did for Mexico and its relations with Canada and the U.S. (Haggard and Webb 1994: 27). The specific programs such as PHARE in the EU provide technical and economic assistance in reforming, and the promise of future membership makes investment more likely during the accession process.

Third, reforming governments at risk from the demands of short-term losers even if they are not using normal political pathways or acting as veto-players are more likely to seek membership in a liberal IO. Short-term losers such as the armies of the unemployed, impoverished pensioners, and resentful former employees face immediate costs of economic reform when they lose their jobs, see their retirement funds dwindle, and encounter soaring prices while their incomes fall. This subset of short-term losers are not highly organized or able to negotiate collectively like veto-players are, and they are often also marginalized from the policy making process (Haggard and Webb 1994: 16), unable to influence reforming governments through normal political pathways such as election. Perhaps they fear that by the time elections roll around, they will be without any hope of changing policies, or perhaps they are unable to participate in normal political pathways as the urban poor are often unregistered and unable to vote.

Among the obvious policies that cause economic losses to this subset of short-term losers are trade liberalization and a diminished role for the state. “More trade puts at risk all but the most efficient of the manufacturing firms that grew up behind high protective walls. A diminished role for the state threatens not only the jobs of public sector workers but also the hopes for employment of many of the young people graduating from college or even from a secondary school” (Nelson 1989: 8). During adjustment and liberalization programs, urban working and popular classes also suffer dramatic relative losses. When these groups oppose reform measures, they pressure the government not only through strikes or elections but also through mass protests and riots. Political leaders see any of these actions as a threat to the sustainability of reform policies (Nelson 1992: 222).

Through mass riots and anti-government protests, this subset of short-term losers who are often unorganized and marginalized can threaten economic reform just as politically active short-term losers and those with veto powers can (see table one). However, efforts to appease these protesters can undermine the reform process (Nelson 1992: 222).

*Hypothesis Three:* Reforming governments facing mass unrest are more likely to seek membership in a liberal IO.

To continue economic reform, governments must be insulated from the demands these short-term losers of reform place upon them. Reforming governments can try to convince these actors that the reform policies cannot be reversed at the discretion of individual decision makers (Haggard and Kaufman 1992: 19), resulting in the inability of

governments to help. Urban workers and popular classes may even tacitly support adjustment programs because of their hopes for the future if they believe the government can manage the economy and will share future benefits (Nelson 1992: 261).

By seeking membership in a liberal IO, reforming governments are able to perform both of these tasks more successfully. During the accession process, governments form international agreements with the liberal IO that bind states to a path of economic reform. The decisions are taken out of the government leaders' hands. Moreover, as discussed above, eventual membership promises gains to society as whole from economic reform and membership that are more credible. Overall, the process of seeking membership allows governments to make their commitment to reform credible because they are less likely to acquiesce to the demands of these short-term losers and undermine the reform process. The governments succeed in tying their hands through international negotiations, resulting in reform measures being beyond their power to halt. Additionally, the promise of future IO membership can give losers the belief that governments will share future benefits (see Nelson 1992: 261). Simply put, once states become a member of the IO, there is a belief that economic and political situations will improve.

### ***Conclude J-Curve Approach***

By developing the logic central to the J-curve approach, three hypotheses are presented to explain when states will need external support to protect economic reform. If the J-curve logic is correct, reform policies are at risk because costs are immediate and

concentrated while benefits are in the future and diffuse. This combination of a time inconsistency problem and a collective action problem means that short-term losers pose a significant threat to continued reform. Specifically during economic liberalization, “governments can achieve a stable settlement of distribution in several ways: by consciously shaping the market to impose a particular distribution of the costs and gains of growth; by permitting the market to allocate them with only limited government intervention or compensation; or by negotiating an explicit settlement between the producer groups. In essence, the losers in the market must either be compensated by policy or excluded from policymaking” (Zysman 1984: 309).

When reforming governments are not able to insulate themselves from short-term losers through domestic means, they can seek membership in a liberal IO to provide an international counter to this threat. Specifically, when short-term losers are able to influence policy making through normal political pathways such as elections, to function as veto-players by holding general strikes, or to instigate mass unrest, reforming governments are more likely to seek membership in a liberal IO. The process of seeking membership in a liberal IO can insulate governments from the threat short-term losers pose by binding reforming governments and successor governments to the reform process. The reform measures are removed from the discretion of individual leaders, and governments sink substantial costs during the accession process. If the J-curve logic is correct, reforming governments are more likely to seek membership in a liberal IO under conditions where short-term losers pose a greater threat to economic transformation.

### ***PARTIAL REFORM APPROACH***

The J-curve has come under increasing attack, and one of the new approaches is the partial reform argument presented by Hellmann (1998). According to this approach, reform is at risk because the state becomes stuck in a partial reform equilibrium when the short-term winners prevent the completion of economic reform. The payoff structure for short-term winners is similar to a reversed J-curve where they receive large windfalls when reform policies are first implemented, but as the reform policies become more comprehensive and move towards completion, their payoffs dwindle. The immediate benefits are concentrated in the short-term, resulting in these large windfalls while the costs are dispersed among society as whole. Thus, the short-term losers are not the significant threat to successful reform; the short-term winners pose the greatest threat.

Reforming governments can avoid this partial reform equilibrium by restraining the short-term winners. Reforming governments can do this, first, by ensuring that reform measures are fully implemented rather than subverted by corrupt officials who may be short-term winners, and, second, by retaining close ties with the public to avoid being captured by the interests of short-term winners (see figure one). When states are most likely to suffer the threat of short-term winners and be unable to complete economic transformation successfully, reforming governments can turn to IOs and use the process of seeking membership in a liberal IO to ensure reform measures are fully implemented and remove policy making from the discretion of individual decision makers, making it less likely short-term winners can capture the government.



### ***The Threat Posed by Short-Term Winners***

Short-term winners pose a significant threat to continued economic reform because they gain large benefits from initial reforms that will gradually decrease as reforms continue while the costs of reforms are dispersed. In short, the logic of the J-curve approach is reversed. Rather than costs being immediate and concentrated, they are dispersed, mitigating their impact. Rather than benefits being far-off and dispersed, they are immediate and concentrated. In a study of post-communist states, Frye (2002) finds that main variables suggested by the J-curve approach such as elite partisanship, the strength of the executive, and relations with the EU and IMF are not significantly related to economic growth. The very characteristics that the J-curve approach suggests are central to successful economic reform and growth are not significant. Hellmann (1998) argues that instead the short-term winners pose the threat to successful reform and growth.

The short-term winners gain from market distortions that are the result of reform policies with different time horizons, and use these gains to prevent continued reform. For instance, while breaking up monopolies may be a lengthy process, prices are liberalized much quicker. Short-term winners profit from this difference in time horizons and often attempt to prolong the period of temporary market distortion (Hellmann 1998). These actors receive large windfalls when reform begins, but as the continuing reform efforts gradually end market distortions, their profits fall.

“[I]n the short term economic reform tends to produce concentrated benefits for well-positioned interest groups while dispersing the costs of transformation throughout the rest of society. The greatest threat to economic reform comes therefore from a narrow group

of industrial managers, bankers, and natural resource tycoons bent on capturing the state for their personal benefit” (Frye 2002: 309).

This narrow group of short-term winners has more opportunities to block continued reform when governments use piecemeal reform efforts rather than shock therapy. By following the slow, incremental path of reform mentioned in chapter one, reforming governments lengthen the period of time when market distortions exist, allowing the short-term winners more time to gain large profits which they can then use to block further reform.

Hellmann (1998) finds substantial evidence of these rent-seeking activities in post-communist transitions when short-term winners are able to profit from market distortions resulting from piecemeal government reform efforts.

“Rapid foreign trade liberalization with incomplete price liberalization has allowed state enterprise managers to sell their highly subsidized natural resource inputs (for example, oil and gas) to foreign buyers at world market prices. Price liberalization without concomitant progress in opening market entry or breaking up monopolies has created opportunities for some producers to earn monopoly rents. Privatization without reform of the credit mechanism has allowed managers to divert subsidized state credits earmarked to uphold production into short-term money markets at high interest rates. In each case, these arbitrage opportunities have generated rents to those in a position to take advantage of these market distortions” (Hellmann 1998: 219).

Because their profits are dependent on market distortions that continue economic reform would remove, short-term winners oppose continued reform. If reform is allowed to continue, their profits will decrease in a reversed J-curve function, and therefore the short-term winners pressure reforming governments to halt reform either by preventing reform measures from being implemented or by capturing the government.

Reforming governments can avoid becoming stuck in a partial reform equilibrium by restraining the short-term winners. The challenge is to sustain reform measures “past

the ‘peak of transition,’ that is, the point at which further reforms threaten the rents accruing to winners from the distortions created by earlier reforms” (Hellmann 1998: 222-3). To prevent corrupt officials from not implementing reform measures fully and short-term winners from capturing the government, high levels of political competition, the inclusion of losers in the policy making process, and diverse governing coalitions are necessary for successful reform (Frye 2002: 309). When reforming governments exist in states with open political systems, they can disperse the gains of early reform to a broader segment of society, making the efficiency gains from comprehensive reform more attractive than the reduced rent flows from a partial reform equilibrium (Hellmann 1998: 228). However, if reforming governments exist in states with closed political systems, they are more likely to have reform measures poorly implemented or to be captured by the interests of short-term winners. Under these conditions, reforming governments can seek membership in a liberal IO to ensure economic reform continues.

### ***The International Solution***

Seeking membership in a liberal IO can bind current and future governments to economic reform by preventing short-term winners from forcing a partial reform equilibrium. Reforming governments are most at risk in states where short-term winners can prevent reform measures from fully being implemented or where reforming governments are removed from the influence of losers in the policy making process. When reforming government face these conditions, they can seek membership in a liberal IO that will provide outside aid in monitoring policy implementation, and remove the

policy making process from the discretion of governments susceptible to being captured by short-term winners. In short, the accession process provides outside aid in monitoring policy implementation at the same time as tying the hands of government leaders.

First, states are more likely to seek membership in a liberal IO when corrupt officials are able to prevent economic reforms from being implemented. For government programs to be implemented, governments need the support of actors that formally and informally share resources needed for specific policies to be enacted and enforced (Hagan 1993), and during economic liberalization, bureaucratic organizations play a crucial role in initiating and consolidating reform efforts (Haggard and Webb 1994:13). Public officials in these organizations can block the implementation of reform measures; although liberalization policies may be on the books, they will not be used in practice. Therefore, monitoring is an important function for any government carrying out reform measures because “[p]olitical resistance to programs may create roadblocks to implementation for even a highly committed government” (Kahler 1992: 119).

During economic reform, governments face a bureaucratic challenge in making bureaucrats implement reform measures (Waterbury 1989: 40).<sup>11</sup> “To be carried out, measures like trade liberalization or state enterprise reform demand cooperation from a number of governmental agencies (and sometimes private groups), whose directors and staffs often do not understand and/or fundamentally oppose the changes. Thus there are

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<sup>11</sup> See Waterbury (1989) for a similar argument regarding economic adjustment.

any number of openings for accidental or deliberate sabotage” (Nelson 1989: 9).

Officials can deliberately slow, halt, or counteract reform measures to prevent liberalization if they are short-term winners.

Public officials may have business interests, which benefit from current government policies rather than continued liberalization policies (Nelson 1989:10). Once the reform policies are passed, the officials may refuse to enact the changes because their private interests would be threatened by the reform policies. When economic reform measures are in the initial phase, public officials can use their participation in economic policy implementation to influence how reform measures are enacted and gain a large profits by aiding other short-term winners. Continued economic reform frequently involves replacing the discretion of state officers with quasi-automatic criteria for economic activities such as import licensing. Such changes place jobs at risk and decrease the opportunities for side payments (Nelson 1989: 9-10). Realizing their jobs and incomes are at risk if economic reform continues, these public officials may sabotage economic reform. Local officials can also gain from the partial reform equilibrium where they have a significant share of local monopoly rents that would be threatened if economic competition increased (Hellmann 1998: 204). In short, corruption may allow short-term winners ample opportunities to prevent public officials from enforcing continued economic reform (see table one).

To ensure that reform policies are fully implemented, governments faced with this threat can seek the aid of outsiders to monitor policies (Cowhey 1993). Seeking

membership in a liberal IO makes the reform process more credible because it increases the likelihood that reform policies will actually be implemented and enforced.

*Hypothesis Four:* Reforming governments where public officials are unlikely to implement economic reform measures are more likely to seek membership in a liberal IO. By seeking membership in a liberal IO, government gain access to IO officials who provide technical assistance to supervise policies. In reforming states “powerful political opposition forces can undermine policies they disagreed with in the first place. Perhaps even more important, lack of state capacity can severely limit the ability to implement a program, especially one involving major structural change as opposed to less fundamental demand management policies” (Stallings 1992: 85). Even governments with enough money to enact reform measures suffer from opponents’ sabotage efforts, especially because liberalizing states tend to lack sufficient state capability to ensure policies are implemented.

Formal international institutions can aid reforming governments in overcoming this deficiencies by providing economic and technical assistance. As mentioned earlier, many liberal IOs include specific programs that are designed to provide candidate with this assistance. IO officials with expertise in the reform areas can provide aid by monitoring policies to ensure they are implemented. This form of linkage provides reformers with external support to pressure governments officials, provide empirical evidence, and give intellectual reinforcement when needed (Stallings 1992: 83-84). Furthermore, linkage “may further cooperation by ‘creating’ beliefs that defections in one game trigger a breakdown of cooperation in other games” (Lohmann 1997: 61). In this

way, international institutions can provide information to domestic audiences regarding leaders' credibility, and indicate whether audiences must punish their leaders. By seeking membership in truly effectual international institutions that have a history of requiring members to meet institutional provisions (Young 1992: 161-162), reforming governments are also likely to enact policies demanded by the IO.

Second, reforming governments can seek membership in a liberal IO if they are more likely to be captured by the interests of short-term winners. This is likely to happen when governments are too distant from the public and do not have ample opportunities for the losers of reform to participate in the decision making process. If the reform process is a sequence of many distinct choices over time making up the separate components of overall reform such as stabilization and privatization, short-term winners have many opportunities to influence policy while losers do not. In this lengthy process, “the winners with their concentrated gains would be expected to play a more decisive role, given their greater resources, their smaller number, and their selective incentives for collective action. Indeed, it is reasonable to assume that the winners might have an implicit veto power in the decisions over separate components of economic reform, especially those that affect their existing rent streams” (Hellmann 1998: 222). Thus, the short-term winners have both the motivation and the ability to influence economic policy.

In states where reforming governments are not forced to hear the demands of the losers often, the governments become distant from the general public, and are more susceptible to the demands of short-term winners. When reforming governments are subject to frequent elections or executive turnovers, the increased participation of the losers can check the ability of the winners to veto continued reform measures. “More

importantly, politicians who face regular, genuinely competitive elections may be constrained from pursuing policies that concentrate gains to a narrow segment of the electorate while generating high social costs” (Hellmann 1998: 229). Instead of answering to the narrow interests of short-term winners, reforming governments are forced to be accountable to a much broader segment of society.

Reforming governments can also remain accountable to the losers if there is a high level of political inclusion. Greater political inclusion could lead to a greater dissipation of the rents from partial reform measures as more groups demand their share of short-term gains. Additionally, as political inclusion in the decision making on economic reform increases, it becomes less likely that the short-term winners will be able to impose policies that bring them private benefits at a high social cost (Hellmann 1998: 232). When there are more opportunities for genuine competition and participation in the political process, the losers are able to use their larger numbers to outweigh the demands of the short-term winners.

However, if states lack these avenues allowing the losers to participate in policy making, reforming governments are more likely to be captured by the interests of the short-term losers (see table one). To avoid becoming stuck in a partial reform equilibrium, reforming governments can seek outside help.

*Hypotheses Five:* Reforming governments not accountable to the losers of reform are more likely to seek membership in a liberal IO.

While domestic characteristics such as frequent elections, high political rights, coalition governments, and increased competition can force governments to be responsive to the



losers rather than the short-term winners, some states lack these characteristics. In these states, reforming governments are unlikely to withstand the influential short-term winners. Yet, reforming governments can still avoid a partial reform equilibrium if they can coerce short-term winners to accept continued reform. In this situation, liberal IOs can aid reforming governments.

By seeking membership in a liberal IO, reforming governments can remove control of reform policy making from their hands. The accession process can bind governments to continued economic reform. While they may sympathize with the concerns of short-term winners, reforming governments can no longer easily halt the reform process. Instead of being accountable to the domestic losers, reforming governments have made themselves accountable to an outsider, the liberal IO. By tying their hands in this manner, reforming governments can avoid being captured by the short-term winners.

### ***Conclude Partial Reform Approach***

From the logic of the partial reform approach, two hypotheses suggest conditions when reforming governments are more likely to seek membership in a liberal IO. Hellmann (1998) argues that economic transformation is much more likely to succeed when governments are able to ensure officials implement reform measures and government are accountable to the losers from reform. Yet, these domestic solutions are not always available to reforming governments, and under these circumstances, seeking membership in a liberal IO can aid states in avoiding the partial reform equilibrium.

Seeking membership in a liberal IO can make economic reform more successful because IOs are willing to provide technical expertise and aid in monitoring how reform measures are implemented. This decreases the ability of corrupt officials to subvert the reform process. The accession process can also aid reforming governments by tying the hands of government leaders. When governments are too distant from the losers, they can still avoid caving into the demands of short-term winners. During the accession process, governments form international agreements that bind them to specific reform measures. In the case of seeking membership in a liberal IO, continued economic reform is central to these agreements. According to the logic of the partial reform approach, reforming governments are more likely to seek membership in a liberal IO when they suffer from poor policy implementation and are too distant from the losers of reform.

## ***CONCLUSION***

All of the hypotheses above rest on the assumption that reforming governments will seek outside help when the success of economic reform is at risk. For both the J-curve approach and the partial reform approach, the hypotheses assume that seeking membership in a liberal IO can bind the current and future governments to the reform process. By seeking membership in a liberal IO, governments are able to withstand the demands of reform opponents, either short-term losers or short-term winners. IOs are able to aid reformers in locking-in reform policies because the process of becoming a member limits the policy options of current and future governments. IOs can lock-in successor governments through long-term agreements, which affect the preferences of

future governments by creating constraints on their freedom of action (Keohane 1984: 120). These long-term agreements exist even before states become official members of an organization.

If seeking membership in a liberal IO provides a credible commitment to economic reform, the central question becomes when is it likely reforming governments will need this aid. According to the dominant J-curve approach, governments are at risk from the demands of short-term losers who suffer concentrated and immediate costs during economic transformation. Short-term losers are more likely to threaten the success of reform when governments are held highly accountable by the public, are at risk of short-term losers acting as veto-players, and are threatened by mass uprisings against reform measures. Under these conditions, economic reform is more likely to fail because governments are unable to withstand the demands of short-term losers. To avoid this outcome, governments can reveal themselves as dedicated reformers and seek membership in a liberal IO. The accession process binds current and future governments to economic reform and insulates reform from short-term losers.

According to the partial reform approach, an alternative to the J-curve argument, economic reform is less likely to succeed when short-term winners are able to influence policy making. Short-term winners gain large, immediate benefits from early reform measures, but these profits gradually decrease as reform measures continue. To prevent this loss of profits, short-term winners attempt to prevent reform measures from being fully implemented and to capture the government. Short-term winners are more likely to threaten the success of economic reform when governments suffer from public officials

subverting the reform process and are too distant from the influence of the losers of economic reform. Reforming governments at risk of caving into the demands of short-term winners can protect the reform process by seeking membership in a liberal IO. The liberal IO can aid reforming governments in monitoring policy implementation and tie the hands of government leaders to help them withstand the demands of short-term winners. When the reform process is taken away from the discretion of government leaders and shared with the liberal IO, reforming governments are more likely to avoid the partial reform equilibrium.

The hypotheses derived from the two approaches are fundamentally at odds with each other. According to first approach, elections and political competition threaten successful reform. The latter approach suggests that these characteristics are fundamental to completing economic transformation. To ascertain when reforming governments are more likely to need IO assistance during economic reform, we need to understand when economic reform is most at risk. By testing the two approaches, we can discover which approach best predicts under what conditions reforming governments are more likely to seek membership in a liberal IO to stabilize the reform process. The statistical analysis presented in the next chapter suggests that the J-curve approach more accurately explains when states will need this outside assistance.

## CHAPTER 3

### STATISTICAL FINDINGS

As seen in chapter one, IOs can bind current and future governments to economic reform. But under what conditions will reforming governments need this external aid to make their commitment to reform credible? According to the J-curve approach presented in chapter two, economic reform is most at risk when short-term losers are able to influence policy making. Short-term losers threaten reform because they suffer immediate, concentrated costs while the benefits of reform are in the future and diffuse. To prevent continued economic hardship, short-term losers pressure reforming governments when they can hold governments accountable for economic troubles, they act as veto-players, and they use mass uprisings against reform policies. An alternative to this approach, the partial reform argument, finds that short-term losers pose the greater threat to economic reform instead of short-term winners. Short-term winners gain from immediate, concentrated benefits when reform begins while the costs of reform policies are spread throughout society. Because short-term winners profit from market distortions that continued reform will resolve, they resist further reform. When short-term winners are able to prevent reform policies from being fully implemented and influence government leaders more than losers are able to, short-term winners can capture reforming governments. The end result is that states become trapped in a partial reform

equilibrium where short-term winners continue to reap large profits. In either case, reforming governments can prevent to failure of economic reform by seeking membership in a liberal IO.

The accession process into a liberal IO can make governments' commitment to reform more credible by decreasing the risk reform opponents pose. If short-term losers threaten reform success, states where losers can hold the government accountable for economic troubles, where losers can veto policies, or where losers can use mass uprisings to protest reform policies are more likely to seek outside help during economic transformation. If short-term winners threaten reform success, states where winners can prevent reform policies from being implemented or where losers are not included in the policy making process are more likely to seek outside help during economic transformation. Because seeking membership in a liberal IO binds current and future governments to economic reform by tying leaders hands and sinking costs in the accession process, governments can overpower the threat to reform success, whether short-term losers or short-term winners pose the threat.

To understand whether conditions where short-term losers or short-term winners threaten reform success sufficiently to force governments to seek outside help, I present a model testing these two approaches. By using duration analysis, we can study under what circumstances reforming governments are motivated to seek membership in a liberal IO. Simply put, when is economic reform threatened enough that governments seek help? Event history methods are better suited to study this question because it represents a change process where the duration spent in one state (i.e., not seeking)

affects the probability that the unit will make a transition to another state (i.e., seeking). An alternative tool using more traditional time series methods ignores the temporal structure of this problem (Box-Steffensmeier and Jones 1997: 1414-1415). For instance, logit is often used on a set of pooled binary time-series cross-sectional data where the dependent variable is coded as “0” if the event did not occur and “1” if it did. However, “while this technique allows us to explore the effects of independent variables on the transition from one state to another, it *assumes* that no duration dependence exists. The exponential function in logit simply does not allow duration dependence to be examined” (Bennett 1999: 259). By using a standard Cox model with the efron method for dealing with ties, more precise estimators are obtained that address the temporal relationship inherent in the dependent variable.

Before presenting the results from the model testing the J-curve and partial reform approaches, I discuss which IOs are able to bind current and future governments to economic reform. By focusing on IOs with specific, liberal membership criteria, I construct a dataset of when states seek membership in this type of IO. After describing liberal membership criteria and seeking, the indicators for the J-curve and partial reform hypotheses are presented in greater depth than covered in chapter two. The overall results from the model offer no conclusive support for either approach, but the J-curve approach is supported more. I conclude by considering potential threats to the validity of this finding.

### ***WHICH IOs CAN HELP?***

IOs can significantly aid economic reform when IOs offer a mechanism for governments to increase the credibility of their commitment to reform. When states seek membership in this type of IO, they can protect the economic reform policies from opponents. However, IOs that are easy to join and easy to leave, do not offer this protection. Because the central problem is that governments cannot ensure that reform will be sustained, they need an external solution that will bind them and their successors to the reform process. If reforming governments seek membership in IOs where the accession process is simple, outside actors will recognize that accession does not increase the governments' credible commitment to reform. Yet, if reforming governments seek membership in IOs with highly restrictive membership criteria, specifically liberal requirements, outside actors will recognize that governments are tying their hands and would face higher costs if they defected from the reform process.

I have created a scale for three types of IOs based on the difficulty a state faces in gaining admittance. IOs that are simple to join are called non-restrictive. For this type of IO, a state merely needs to express the desire to join the organization, and it becomes a member. The IO may have limits on membership based on geographical location such as the Organization of American States and the Nordic Council, but any state that meets such general requirements can easily attain membership. The second type of IO is a semi-restrictive organization where a state seeking membership has to sign a general declaration of principles such as the United Nations Charter or the Organization of African Unity Charter. To join this type of IO, a state must agree to these broad



principles that are left open to interpretation. The final type of IO is a restrictive organization where a state seeking membership must meet specific criteria the IO establishes. While a state signs an agreement to support human rights when joining the UN, what those human rights are and how a state should protect them are left ambiguous whereas in a restrictive IO, the IO provides detailed accounts of how minority groups should be protected, language laws should be changed, and voting should occur (as the EU does). Although some criteria may be negotiated, there are fixed limits within which the state seeking membership must fall.

A restricted IO has specific policies or policy outcomes that the state seeking membership has to enact or reach. The criteria that the state seeking membership must meet are clearly presented in IO summaries in the *Europa World Yearbook* and in official IO documents. For instance, the Franc Zone is such an IO where states must agree to peg their currency to the french franc, establish a fixed exchange rate, hold the bulk of their reserves in francs, and effect their exchange on the Paris market. Specific guidelines like these, which spell out exactly what a state seeking membership must do to gain admittance, are what divide a restricted IO from a semi-restrictive IO (see table one).

Once an IO is coded as restrictive, the membership criteria are coded to explain what ideals the IO supports. A restrictive IOs can be coded in seven categories: liberal economic, liberal political, cultural or religious, resource or energy, communications, alliance, and other. IO summaries from the *Europa World Yearbook* and the *Yearbook of IOs* state the requirements restrictive IOs place on membership, and are used to categorize restrictive IOs. A brief examination of restrictive IOs shows that the majority

of restrictive IOs support liberal economic or political ideals. Additionally, the sparse literature on how institutions can influence state policies focuses on liberalization rather than, for example, how institutions can influence religious change.

Restricted IOs with liberal economic requirements make membership contingent on economic reform policies such as trade liberalization and the protection of property rights. These requirements are specifically stated in the IO summaries from the *Europa World Yearbook*. Trade agreements such as the North Atlantic Trade Agreement (NAFTA) and the Southern Common Market (MERCOSUR) have liberal economic requirements because they create areas where restrictions on trade and investment are reduced. In cases such as these, a restricted IO is coded as having liberal economic requirements for membership (see table one).<sup>12</sup>

Far fewer restrictive IOs have specific liberal political requirements. IOs have liberal political requirements if membership is contingent on civil liberties and the protection of human rights. These requirements are specifically stated in the IO summaries from the *Europa World Yearbook*. For instance, the Council of Europe is a restricted IO that has liberal political requirements but not liberal economic requirements. The Council of Europe seeks to spread democracy and the respect of human rights, and the Council contains the European Commission of Human Rights and the European Court of Human Rights.

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<sup>12</sup> Banks are excluded from this analysis. International banks are open in terms of membership but restrictive when granting loans. This suggests that a future study could expand the analysis presented here to bank loans.

Cultural or religious IOs impose policies supporting cultural or religious factors, such as specific language use or the observance of religious dictates such as the Islamic Development Bank. IOs that focus on the development and allocation of specific resources or energy sources such as the International Seabed Authority are coded as resource or energy based. Communication IOs establish specific standards to aid transnational communication such as the International Telecommunications Union. Alliances are militaristic organizations where states pledge to protect each other or combine military forces in some manner, such as the Western European Union. The final category contains two restrictive IOs that do not fall into any other categories: the Commonwealth of Independent States, and the Franc Zone (suggesting this category could be labeled colonial).

A total of twenty-one regional IOs are studied in this project: the Association of South-East Asian Nations (ASEAN), Central American Common Market (CACM), Andean Group (AG), Caribbean Free Trade Association (CARIFTA), Caribbean Common Market (CARICOM), Southern Common Market (MERCOSUR), Latin American Common Market (LAFTA), North American Free Trade Agreement (NAFTA), European Free Trade Agreement (EFTA), European Union (EU), Council of Europe, Arab Common Market (ACM), Cooperation Council for the Arab States of the Gulf, East African Community (EAC), Common Market for Eastern and Southern Africa (COMESA), Communauté Economique de l'Afrique de l'Ouest (CEAO), Council de l'Entente, Economic Community of West African States (ECOWAS), South African

Development Community (SADC), Union Douaniere et Economique de l'Afrique Centrale (UDEAC), and Union Dounariere des Etats de l'Afrique de l'Ouest (UDEAO) (see table one).

This dissertation focuses on restrictive, regional IOs rather than on restrictive, global IOs. There are several theoretical and practical reasons for the focus. Global IOs tend to lack membership criteria or only have broad statements that members must agree to rather than specific membership criteria. Only the Organization of Economic Cooperation and Development (OECD) and World Trade Organization (WTO) could be roughly interpreted as liberal IOs according to my definition. It is especially debatable whether the OECD membership requirements meet the definition of restrictive.

Although all member states must have liberal economic policies, membership is not extended to all states with such policies; instead, membership is extended when domestic economies are large enough that member states think excluding a state results in excluding a sizable portion of the world's gross national product (GNP). The WTO does meet the definition of restrictive, but there are additional theoretical and practical reasons to exclude this organization.

If I were to include only one or two global IOs in the dataset, I would encounter a number of problems. First, the process of seeking membership in a global IO may be fundamentally different than seeking membership in a regional IO. Regional organizations are inherently IOs where all states have a shared history and often some shared cultural background. Also, they often face similar exogenous influences. A global organization cannot possess the same level of homogeneity because it

encompasses states from a variety of regions. Second, it is easier to identify potential members for regional organizations. To ascertain when states seek membership in a liberal IO, I must first identify when they could potentially seek membership. For regional organizations this is relatively simple. If states are independent, control their foreign policy, exist in the region the IO covers (often stated openly in IO documents as is the case for ASEAN), and are not already members, they are potential members of the regional IO and could seek membership. Identifying who potential members are for global organizations is more difficult. For instance, the OECD extends the possibility of membership when states have large enough economies, but the definition of ‘large enough’ has never been clear. Thus, it would be difficult to identify who the potential members are. More generally, global organizations may not be truly universal; some states may never be able to join a global organization because they reject the basic principles the organization embodies, such as the Soviet Union’s relationship to the World Bank.

Finally, it is more likely that regional organizations are able to bind governments to economic reform more successfully than global organizations. Small IOs are more successful than large IOs because of the problems surrounding collective goods (Russett and Sullivan 1971). Regional organizations with their limited membership can present a more effective platform for collective action, and therefore provide a more credible commitment for reform. Overall, it seems that regional organizations are increasing in importance (Taylor 1993: 24-26), and becoming more popular than global organizations. Because larger, global organizations move too slowly for those interested in gains from

trade liberalization, the regional organizations are more appealing (Yeung, et al 1999: 3-5). As regional organizations become more popular for these reasons, it is more likely that governments seeking to make their commitment to reform more credible will seek membership in the more popular and successful organizations.

The dataset covers 1970 through 1999. International organizations became more prevalent after World War II, but the paucity of economic data during the 1960s restricted me to the years following 1970. States are included in the dataset when they meet two criteria: independence and control of foreign policy. Because of these two requirements, a number of communist bloc countries and states still limited by colonial rule are excluded from the dataset. The ability of a government to control the state's foreign policy was coded from the *Europa World Year Book*, which provided details on when governments were forced to follow the dictates of a foreign government in international relations. The dataset was structured around POLITY III, and thus, states excluded from the POLITY III dataset are not included here. Additional variables were gathered from Banks (1995) and the World Bank (2000). As discussed above, international organizations were coded from the *Europa World Year Book*, and seeking was coded using a variety of sources from international organization documents to general serial publications.

A state can seek membership in a regional, liberal IO in any given year it is a potential member of that IO. Seeking means that the state is meeting with IO officials about the accession process, has formally applied for membership, or has announced its intention to join the IO. Because I use a broad definition of seeking rather than limiting it

to states that have applied for membership, I increase the possibility that a government may announce that it desires membership while doing very little to ensure that membership is actually a feasible outcome. The case studies of Spain under Franco and Slovakia under Meciar focus on this situation. Although each of these governments repeatedly expressed their wish to join the EU (or earlier the EC), they made few changes in their policies to meet the specific demands IO officials made. Therefore, it is likely that I will include cases coded as seeking while the government is not a dedicated reformer. This failure of the large-N dataset to identify states as being dedicated to economic reform is one reason case studies are necessary to understand when dedicated reformers use IOs to provide an external solution for credibility problems.

### ***WHEN CAN IOs HELP?***

If regional, liberal IOs can credibly bind current and future governments to economic reform, the question is when will governments need this assistance. As Kahler (1992) found in his study of international financial institutions, external aid has little influence on reform success when the state is heavily dominated by those committed to reform. Yet, external aid can help economic reform when governments support reform but they are threatened by reform opponents. In these cases where economic reform is highly contested, external actors can significantly improve the probability of reform success. When will reforming governments efforts be at risk? The logic of both the J-curve and partial reform approaches suggests that in states undergoing democratic transitions, reform policies are at risk, but from there they suggest contradictory

relationships. According to the hypotheses derived from the J-curve approach, when short-term losers are influential, reform policies are at risk, and outside help is needed. According to the hypotheses derived from the partial reform approach, when short-term winners are influential, reform policies are at risk, and outside help is needed.

### ***Short-Term Losers***

Short-term losers threaten the reform process according to the J-curve approach when they can influence policy making because governments are highly accountable to the public, losers are veto-players, or losers use mass uprisings to protest against reform policies. Under these conditions, governments are likely to slow or reverse economic reform unless they can successfully bind themselves and successors to the reform process. By seeking membership in a liberal IO, reforming governments can stabilize the reform process.

As discussed in chapter two, short-term losers are more influential when governments are highly accountable to the public (see table two). Therefore, governments are more likely to seek membership in a liberal IO when they are highly accountable to the public. I use three measures of government accountability. First, governments are more accountable when legislative elections occur. Short-term losers can use legislative elections to vote dedicated reformers out of office. Second, governments are more accountable when the cabinets are frequently changed to reflect the demands of the public. These variables are from the Banks (1995) dataset. Third, governments are more accountable the higher the level of participation competition.



Short-term losers can influence policy making more if non-elites are able to use the institutional structure for political expression. Participation competition is measured in POLITY III.

Short-term losers are also more influential when they are veto-players in the society. While the J-curve approach suggests that several actors can be veto-players during economic reform, the literature suggests only one indicator that can be easily measured in a large dataset. Labor unions can effectively act as veto-players during economic reform by organizing general strikes (see table two). Through general strikes, unions can paralyze the economy and prevent reform policies from being implemented. If economic reform is at risk because of strikes, governments are more likely to seek membership in a liberal IO to protect economic transformation from the demands of organized labor. The Banks (1995) dataset contains a measure of general strikes.

Finally, short-term losers are more influential when they use mass uprisings to protest against reform policies. Governments may weaken reforms if short-term losers are holding large numbers of antigovernment demonstrations or riots. However, seeking membership in a liberal IO can provide a mechanism to insulate governments from these protests (see table two). The higher the level of mass uprisings (antigovernment demonstrations and riots), the more likely states are to seek membership. Both of these indicators are from the Banks (1995) dataset.

If the J-curve approach is correct, states where short-term losers are influential are more likely to seek membership in a liberal IO to protect economic reform. Whether

short-term losers are influential because the government is highly accountable to the public, the short-term losers are veto-players, or mass uprisings take place, reforming governments should seek membership in a liberal IO to protect the reform process.

### ***Short-Term Winners***

Short-term winners threaten the reform process according to the partial reform approach when they can influence policy making because public officials prevent reform policies from being implemented and governments are not accountable to the losers or the general public. Under these conditions, governments are likely to slow or reverse economic reform unless they can successfully bind themselves and successors to the reform process. By seeking membership in a liberal IO, reforming governments can prevent short-term winners from halting the reform process.

Short-term winners are more influential when public officials are short-term winners and prevent further reform policies from being implemented (see table two). For the purposes of this dissertation, corrupt officials are those who actively sabotage the reform process. By taking bribes or refusing to implement reform policies, corrupt officials limit the effectiveness of reform efforts, and thus sustain the partial reform equilibrium. They take these actions because they either are short-term winners as was the case in Vietnam or because they are bribed or ordered to do so as was the case in Slovakia under Meciar. Corrupt officials are able to sabotage the reform efforts in part because they are not held accountable to the general public. The more undemocratic a state is, the more likely short-term winners are able to succeed in using corrupt officials

to subvert reform efforts. However, there are few valid cross-national measures of corruption, but the Banks (1995) dataset includes the indicator of purges or government cleansing of the ranks. Purges are more likely to happen when corruption exists, and can be used as a proxy measure for corruption. The more purges, the more corruption, and the more likely a state is to seek membership in a liberal IO.

Public officials are also more likely to prevent reform policies from being implemented when they gain significantly from the existing black market. If government officials are corrupt and have substantial private economic interest in blocking reform policies as discussed in chapter two, they are more likely to sabotage reform efforts. This is another indicator that is not measured in the large-N dataset. To test this hypothesis adequately, case studies are necessary. The Vietnam case study especially provides insights about the relationship between public officials subverting reforms and seeking membership in a liberal IO.

Short-term winners are also more influential when governments are not accountable to the reform losers. Governments are not accountable when they do not allow the losers to participate in or influence policy making, and many of the indicators used for government accountability are also used here. If elections or cabinet changes occur too seldom or participation competition is low, governments are more likely to be captured by the interests of short-term winners. Because the partial reform supporters argue that more democratic states are unlikely to allow short-term winners to capture the government, traditional indicators of democracy are used here. Additionally, the partial reform approach suggests that reform losers must be able to hold reforming governments

accountable, making them continue reform policies. When reform losers or the general public are unable to play this role because they do not take part in decision making (a low level of participation competition) or have little influence on government actions (few legislative elections), the reform process is more at risk, and governments will need outside help. Under these conditions, reforming governments are more likely to seek membership in a liberal IO to prevent becoming stuck in a partial reform equilibrium. More inclusive regimes will give the losers more opportunities to influence political outcomes (Hellmann 1998: 230), and will be less likely to seek membership in a liberal IO.

If the partial reform approach is correct, states where short-term winners are influential are more likely to seek membership in a liberal IO to protect economic reform. When short-term winners are influential because public officials can prevent policies from being implemented or governments are insulated from losers of economic reform, reforming governments should seek membership in a liberal IO to protect the reform process.

The existing literature has heavily focused on the numerous international reasons for forming IOs, and to some extent has addressed the international reasons for joining existing IOs as discussed in chapter one. I include a number of variables to control for these relationships. The model includes four control variables: executive constraints, GDP per capita, potential international organizations, and trade (a sum of exports and imports). Potential international organizations was included as a summation variable of the total international organizations that a state could join in a given year. GDP per

capita is used a control for the developmental level of states. Trade controls for the alternative argument that trade interdependence is what causes states to seek membership in IOs. This was the second relationship between domestic actors and international institutions discussed in chapter two, which drew heavily on the neoliberal institutional literature. The results suggest that trade is not a significant predictor in seeking membership in regional, liberal IOs. The third and fourth relationships between domestic actors and international institutions discussed in chapter two are not controlled for in the model presented below. The third relationship drew heavily on the two-level games literature, suggesting that government leaders use domestic constraints to strengthen their international bargaining positions. The studies looking at the fourth plausible relationship between domestic actors and international institutions suggest that government leaders change domestic structures in response to IO efforts. In this top-down approach, the IO is first mover who then drives domestic actors to change their behavior. Although these cannot be controlled for in the large-N study, evidence of this relationship is looked for in the comparative case studies. While some support for each is found, support for the second imagined reversed is also apparent. In this view, whether using the logic of the J-curve or partial reform approach, domestic leaders actively seek outside help to protect favored policies.

Executive constraints measure the operational independence of the executive. Ranging from unlimited to authority (1) to conditions where executives are equal or subordinate to other powers (7), executive constraints indicate how accountable the executive is to other political actors. Executive constraints measure the relationship

between the executive and other elite political actors, but does not measure the relationship between the executive and the general public. This measure is included to control for the importance other domestic institutional arrangements that are not covered in the hypotheses may have on seeking. Executive constraints are used as opposed to other measures because international negotiations tend to be dominated by executives rather than other actors. Therefore, the institutional relationship of executives to other elite political powers could influence seeking membership.

## ***RESULTS***

Neither approach is completely supported by the findings from large-N analysis, but more evidence of the J-curve logic is found. Because I am trying to predict whether states will seek membership from a pooled time series dataset, the model is estimated using a standard Cox model. Only states with the potential of joining some regional, liberal IO are included in the dataset, and states such as the United States are excluded from the dataset because there are no regional, liberal IOs that the U.S. is a potential member of. A total of 129 states make a total number of 1,949 entries from 1970 until 1995. In the entire dataset, there are only 63 exits or times when states seek membership in a liberal IO. Even with the broad definition of what constitutes seeking, most states do not seek membership in regional, liberal IOs even when they are potential members of those IOs.

Both the J-curve and partial reform approaches suggest that states undergoing a democratic transition are more likely to seek membership in a liberal IO to protect a

economic reforms, and this variable is significant in the model (see table three).

Although both approaches are able to predict this relationship correctly, they largely fail to predict if states threatened by short-term losers or short-term winners are more likely to seek membership in a liberal IO. While the political uncertainty during democratic transitions makes states more likely to seek membership, this finding does not indicate what specific characteristic of transitions causes this. The two approaches presented in chapter two suggest what conditions occur during economic transformation that make reform policies less likely to succeed and therefore more needy of outside help.

According to the J-curve approach, when short-term losers are more influential, economic reform is more at risk, and therefore states are more likely to seek outside help. If short-term losers are more influential when governments are highly accountable to the public, losers are veto-players, and mass uprisings against reforms occur, states with these characteristics should be more likely to seek membership in a liberal IO. In the full model, two indicators are significant in the predicted direction. The first indicator is participation competition. When non-elites are more able to take part in the institutional structure of the state, states are significantly more likely to seek membership in a liberal IO ( $p \neq 0.05$ ). Under this condition, short-term losers can voice their dissent and influence policy making, putting reforms at risk. States can protect reform policies from short-term losers by using the accession process to bind current and future governments to economic reform regardless of what short-term losers demand.

The full model includes two other measures of government accountability: legislative elections, and cabinet changes. According to the first hypothesis derived from

the J-curve approach, the more opportunities the public has to influence policy making through avenues such as elections and even cabinet changes (a proxy for government changes), the more likely states are to seek membership in a liberal IO. However, while cabinet changes positively influence seeking membership, this relationship is not significant. Legislative elections significantly influence seeking membership ( $p \# 0.1$ ), but not in the predicted direction. This finding supports the partial reform approach and is discussed below.

Hypothesis two was derived from the J-curve approach and posits that states where short-term losers are also veto-players are more likely to seek membership in a liberal IO. Labor unions are a traditional short-term loser during economic reform, and can veto economic policies by paralyzing the economy through the use of general strikes. Although general strikes positively influence seeking membership, this relationship is not significant.

The final hypothesis derived from the J-curve approach predicts that states where short-term losers use mass uprisings against reform policies are more likely to seek membership. By using riots and antigovernment demonstrations, short-term losers can force reforming governments to slow or halt reform. Antigovernment demonstrations make states more likely to seek membership, and this relationship is significant in the full model ( $p \# 0.1$ ). When more antigovernment demonstrations occur, a state is more likely to seek membership in a liberal IO. The public uses mass uprising to protest government policies, and states respond to this action by seeking outside assistance to continue



favorable policies, such as economic reform. Additionally, riots are predicted to make states more likely to seek membership, but the model shows riots have the opposite effect, although this relationship is insignificant.

Participation competition and antigovernment demonstrations remain significant in both variants of the full model (see table three). As discussed earlier, purges are a poor proxy variable for government corruption which can threaten reform success and make government more needy of external aid according to the partial reform approach. However, this indicator was never significant and does not provide a sound measure of corruption. When purges is dropped from the model, the results from variant one are consistent with those from the full model. A second variable, general strikes, is dropped in the second variant of the model. This indicator is also never significant. As discussed in earlier in the chapter, short-term losers can use veto powers through means other than general strikes, but measures for this tactics are lacking in large cross-national studies. Additionally, the literature suggests that strikes can reflect organized labor's role as a veto-player while the indicator used in model is general strikes. By only including sweeping strikes that paralyze a broad section of the country, the importance of limited strikes is overlooked. Finally, general strikes could often coincide with antigovernment demonstrations and riots, obscuring the influence of this variables. This problem could be solved by creating a factor consisting of highly related indicators, or considering the variables independently while recognizing that the included variables may also be capturing some of the explanatory power of the omitted variables. When both purges and strikes are omitted from the model in variant two, the results from variant two are again

largely consistent with the results from the full model. The only consequential change is that antigovernment demonstrations become more significant ( $p \neq 0.05$ ). States with a higher level of antigovernment demonstrations are more likely to seek membership in a liberal IO as the final hypothesis from the J-curve approach suggests. This relationship is more closely studied in the Chilean case study presented in chapter five.

As mentioned above, there is one significant finding that supports the logic of the partial reform approach. According to hypothesis five, states are more likely to seek membership in a liberal IO the less accountable they are to the losers. Reforming governments are accountable to the losers when there are many opportunities for losers to participate or influence policy making. One indicator of when this condition occurs is legislative elections (see table three). Losers can influence policy making more when legislative elections are frequent, and therefore reforming governments have less need for external aid in the reform process. In the full model, states with more frequent legislative elections are significantly less likely to seek membership in a liberal IO ( $p \neq 0.1$ ). This is the only indicator of government accountability to reform losers that is significant in the predicted direction. One indicator, participation competition, significantly influences seeking membership in the opposite direction, supporting the J-curve approach rather than the partial reform approach as discussed above. The final indicator, cabinet changes, is not significant but also behaves as the J-curve hypothesis suggests rather than the partial reform hypothesis.

The other hypothesis derived from the partial reform approach is that states are more likely to seek membership when public officials can prevent reform policies from

being implemented. As discussed above, the indicator used in the large-N study, purges, is an inexact measure. The rationale is that purges indicate high levels of corruption, which in turn means that public officials are more likely to subvert policy implementation making states more likely to seek membership. Purges are positively related to seeking membership, but the significance level is appalling ( $p = 0.874$ ). When this indicator is dropped from the model in variant one, none of the other findings change significantly. It is only when both purges and strikes are omitted in variant one that antigovernment demonstrations become more significant as discussed above.

The results from the full model show both approaches are correct that states are more likely to seek membership in a liberal IO when a democratic transitions has occurred, but when the approaches are tested against each other, stronger support for the J-curve approach is evident. As predicted by the J-curve approach, states are significantly more likely to seek external aid for the reform process when there are many opportunities for non-elites to take part in policy making. Additionally, states are also more likely to seek membership in a liberal IO when governments need help insulating themselves from antigovernment demonstrations. The only indicator that significantly supports the partial reform approach is legislative elections. When legislative elections do not occur, governments are less accountable to reform losers and are more likely to seek external aid.

Two control variables are significant. First, the measure of how many regional, liberal IOs the state is a potential member is a significant, positive predictor of seeking ( $p \# 0.05$ ). This measure controls for the possibility that states may be more likely to seek

membership when they have a larger number of IOs to join. The variable may also be a control for regional variation as there is only one regional, liberal IO in southeast Asia (ASEAN) while there are several in Latin America. The results also indicate that states where the executives are accountable to other political actors are significantly more likely to seek membership in a liberal IO ( $p \# 0.1$ ).

While the results are overwhelmingly supportive of the J-curve approach, the data used may have been skewed in favor of finding few significant indicators of seeking membership in a liberal IO for two reasons. First, as discussed early, I use a broad definition of seeking that includes government leaders expressing a desire to join a liberal IO. However, as the cases of Franco's Spain and Meciar's Slovakia show, government leaders sometimes express a desire join an IO while in reality they are doing little to ensure that membership can be obtained. By including coding these states as seekers when they are not truly interested paying the costs of seeking membership, the true relationship between the predictors and seeking membership may be clouded.

This problem is closely related to the second issue. Both the J-curve and partial reform approaches assume that the governments are interested in reform, and the hypotheses for each approach predict when reforming governments will seek outside aid. Yet, the dataset is organized by states rather than governments, and does not address the issue of whether governments are reformers. To provide a more fair test for these hypotheses, governments need to be coded as reformers or not. The hypotheses are only expected to predict under what conditions reforming governments are likely to seek membership; they do not predict when states with governments that may or may not be

reformers are likely to seek. However, due to data availability issues, I use a dataset that offers a more challenging test for the hypotheses. By using states rather than reforming governments as the case unit, I am testing whether either approach can predict when states in general rather than just a specific type of government will seek membership in a liberal IO.

### ***RE-ESTIMATING THE MODEL AND VARIANTS***

Because there is very little work on when states seek to join existing IOs with high costs associated to accession, there is a significant risk that the model omits significant variables. To address this concern, I re-estimated the full model and its two variants including dummy variables for decades and then dummy variables for regions. The dataset covers three decades and five regions.

There are three decades covered in this dataset: the 1970s, 1980s and 1990s. Dummy variables for the decades can cover unmeasured exogenous variables, assuming that states share exogenous shocks around the world. The most appropriate indication of this is the Cold War and post-Cold War division in the dataset. Only two dummy variables are required (dec1970s and dec1980s) because the remaining cases during the 1990s will be the only cases with a value of zero for both included dummy variables. The re-estimated full model and variants drop the dummy variable for the 1970s because it is highly collinear with the dummy variable for the 1980s. When the full model and variants are re-estimated with a dummy variable for the Cold War (1 for 1970 until 1990

and 0 for later years), this dummy variable is also dropped from the model due to collinearity. When any one dummy variable is included in the analysis (dec1970s, dec1980s, or dec1990s), the results are not significantly affected.

Because the dataset includes 129 countries, I used dummy variables for regions rather than each country. There are five regions included in this study: Latin America, Europe (which includes many states from the former Soviet Union largely because IOs such as the Council of Europe have expanded that far east), Africa, the Middle East, and Southeast Asia. The other regions of the world are not included because there are no regional, liberal IOs that have potential future members. Dummy variables for the regions can control for unmeasured exogenous shocks that states in close proximity to each other share. They can also somewhat control for unmeasured historical and cultural experiences that regions share. Again, only four dummy variables are needed because the fifth region will have the only cases with a value of zero for all the included regional dummy variables. I included dummy variables for Europe (Euroreg), Latin America (Lareg), the Middle East (MEreg), and southeast Asia (SEArege). I also re-estimated the full model and its two variants including a dummy variable for Africa (Afrege) and dropping the other regional dummy variables in turn. The results for the various combinations of regional dummy variables are not significantly different. However, the re-estimated full model and its variants are different from the original model and variants.

Table four presents the model and variants re-estimated with regional dummy variables except for Afreg. The first noticeable difference is that the variable antigovernment demonstrations is not significant in the full model ( $p \# 0.15$ ) nor variant

one ( $p \# 0.15$ ), but is highly significant in variant two ( $p \# 0.05$ ). This suggests that the occurrence of antigovernment demonstrations does not always significantly influence. Because this relationship between antigovernment demonstrations and seeking is not robust when regional location is controlled for, the support for the J-curve hypothesis concerning mass uprisings is weaker than previously concluded from the findings presented in table three. However, the significance of antigovernment demonstrations in variant two suggests that purges, general strikes, and antigovernment demonstrations share enough characteristics that excluding the first two makes antigovernment demonstrations. To understand this interaction, factor analysis could be used.

The second noticeable difference is that the control variable measuring the number of regional, liberal IOs a state is a potential member of is not significant (see table four). This variable was highly significant in the original full model and variants ( $p \# 0.05$ ), but it could have served as a proxy indicator for regional location as discussed above. When regional dummy variables are included regardless of which regional dummy variable is left out, this control is no longer significant. It seems likely that regional dummy variables are controlling for the density of IOs in a region, and the potential IO measure is no longer needed.

The third important finding from re-estimating the model and variants with regional dummy variables concerns the regional dummy variables. Surprisingly, Euroreg is not significant. While LAreg is significant, MEreg and SEareg have inflated coefficients and are highly insignificant. Regardless of which regional dummy variable is excluded, MEreg and SEareg have this result when included. The finding is not

surprising for the Middle East as it contains only one regional, liberal IO, the Arab Common Market (ACM). This IO exists on paper in the sources used for coding this dataset and is therefore included in this study. However, the IO is largely defunct and more a function of religious or cultural politics than liberal economic ideals. While the ACM is coded as a liberal IO based on its summary from the *Europa World Yearbook*, in reality it is not an effective liberal IO.<sup>13</sup> Additionally, the paucity of liberal IOs in this region may effect the results presented in table four. Southeast Asia also suffers from this problem because only ASEAN exists. These are the only two regions in the study where only one IO is included. This extremely low number of IOs compared to the other regions could contribute to inflated coefficients from the regional dummy variables.

The findings presented in table four are largely consistent with those from the original model and its variants. The coefficients all have the same sign in the re-estimated model and variants as they do in the original results. Participation competition remains significant and support the first hypothesis derived from the J-curve approach. Only in the re-estimated variant two are antigovernment demonstrations significant as the third hypothesis derived from the J-curve approach predicts. Legislative elections remains a significant, negative predictor of seeking as expected by the partial reform approach. The other significant finding is the relationship between executive constraints and seeking. When executives are highly constrained by other political actors, states are less likely to seek membership in a liberal IO, but this finding supports neither approach.

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<sup>13</sup> This is considered more in-depth later when the Middle East is dropped from the study to check robustness.



I also re-estimated the original model and variants only including a control for Europe (Euroreg). The majority of research considering how IOs can foster domestic reform in member-states focuses on European IOs such as the EU and the Council of Europe. It is a justifiable concern that findings in this study merely reflect the situation in Europe. The high density of regional IOs with liberal economic membership requirements and even liberal political membership requirements<sup>14</sup> makes it more likely that potential members seek membership in these highly successful IOs to solve credibility problems. States in Africa or Latin America where IOs have a lengthy history of failure may be less able to use IOs to solve credibility problems.

The results presented in table five show that main findings are robust even when a control of Europe is included. Once again, all of the coefficients have the same sign as they had in the original results. A state experiencing a democratic transition is more likely to seek membership in a liberal IO as both approaches suggest. Legislative elections are significant in the re-estimated full model and both variants in the manner predicted by hypothesis five derived from the partial reform approach. Participation competition remains a significant predictor of seeking as the J-curve approach expects. Antigovernment demonstrations are again only significant in variant two. Surprisingly, Euroreg and potential IO are not significant in the full-model or variants (see table five). Because the results are overall robust when Europe is controlled for, the results from the original model and variants reflect more than a European phenomenon.

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<sup>14</sup> The only regional IOs included in this study that have explicit liberal political membership criteria are the EU and the Council of Europe.

The robustness of the findings can also be tested by dropping each of the five regions from the model in turn. Dropping either the Middle East or Southeast Asia has no significant impact on the results (see tables six and seven). As mentioned earlier, these two regions have only one liberal IO each, the ACM and ASEAN. Additionally, these two regions provided few instances where states sought membership. From the results in table six when the Middle East is excluded from the analysis, we can see that the findings are very similar to the results when all regions are included (compare tables three and six). Participation competition and antigovernment demonstrations remain significant predictors of seeking and support the J-curve approach while legislative elections offer significant support for the partial reform approach. When Southeast Asia is excluded from the analysis (see table seven), the antigovernment demonstrations become more significant in the full model and both variants ( $p \# 0.05$ ), providing stronger support for the J-curve approach.

The results are less consistent when Latin America is dropped from the analysis (table eight). This is not surprising because excluding Latin America results in ignoring a large number of cases (notice that the total number of cases drops below 600). Democratic transitions remain a significant predictor of seeking. As expected by the J-curve approach, participation competition also remains a significant positive predictor of seeking, but antigovernment demonstrations are only significant in variant two. Executive constraints also remain a significant predictor of seeking. The only indicator that supports the partial reform approach, legislative elections, is not significant in variant two.

General strikes is a significant predictor as expected by hypothesis two derived from the J-curve approach. When short-term losers are veto-players and can paralyze the economy through tactics such as general strikes, reforming governments are more likely to seek outside help to protect reform policies. This is the first time support for this hypothesis is found. As expected, when more general strikes occur, states are more likely to seek membership in a liberal IO. However, this relationship is only significant when Latin America is excluded from the analysis.

Support for hypothesis three derived from the J-curve approach is weakened when Latin America is excluded. According to this hypothesis, states are more likely to seek membership when short-term losers can influence economic reform by using mass uprisings against reform policies. Previously, antigovernment demonstrations were shown to have this predicted effect, but this relationship is not consistent when region is controlled for or when specific regions such as Latin America are excluded. Riots are negatively related to seeking, but this relationship was not significant in the previous results. When Latin America is excluded, riots significantly make states less likely to seek membership in a liberal IO ( $p \# 0.1$ ).

These findings suggest that the indicators general strikes and antigovernment demonstrations may be closely related. Antigovernment demonstrations tends to become significant or reach a higher level of significance when general strikes are excluded from the analysis (see variant two in table three and variant two in table seven) as discussed earlier. The sudden significance of both general strikes and riots is highly suspect because these are not robust findings.

The results are not consistent when either Europe or Africa is dropped from the analysis. The vast majority of exits from the dataset (instances when states seek membership) are located in these two regions, and the highest density of regional, liberal IOs is in these regions. When either region is excluded from the data, few instance of seeking remain (for example, when Europe is excluded there are 12 exits and a total of 622 cases) that the results are highly questionable. However, the influence that the region has on seeking can be controlled by either using regional dummy variables for all but one region (table four) or controlling for Europe (table five).

### ***THE NEED FOR CASE STUDIES***

If regional, liberal IOs can aid reforming governments in credibly committing to economic transformation, when do reforming governments seek this assistance? Two distinct approaches presented in chapter two offer predictions that are contradictory about what conditions threaten the reform process and make governments more likely to need help. Using duration analysis, slightly more evidence is found for the J-curve approach's logic, and this support is bolstered when alternative models are considered to check robustness. According to this approach, short-term losers threaten the reform process when governments are accountable to the public, short-term losers are veto-players, or short-term losers use mass uprisings to protest against reform policies. When conditions exist that make short-term losers influential, economic reform is at risk, and reforming governments are more likely to seek membership in a liberal IO.

The findings that support the J-curve approach are more significant and robust than those supporting the partial reform approach (see table nine). In the original model and variants (see table three), states where non-elites have an increased ability to influence policy making (participation competition) are more likely to seek membership in a liberal IO. The rationale beyond this finding according to hypothesis one is that states with this condition allow short-term losers to participate more in decision making, resulting in a threat to economic reform. Reforming governments can counter this threat by seeking outside help from a liberal IO. This is completely opposite to the logic used in the partial reform approach. This relationship is robust in the variations considered where regions and decades are controlled for.

Additionally, antigovernment demonstrations are a significant predictor in some of the above results. While this finding is not as robust, it suggests that mass uprisings against reform policies can increase the likelihood that states will seek membership in a liberal IO. According to hypothesis three derived from the J-curve approach, short-term losers can threaten reform success using these tactics. Reforming governments can use the accession process into a liberal IO to protect reform policies from short-term losers protesting in the street.

There is one finding that supports the partial reform approach. According to hypothesis five, reforming governments are less likely to seek membership when government leaders are highly accountable to the losers. Because the short-term winners threaten continued reform, governments must remain close to the broader group of losers through means such as legislative elections (see table three).

Although the support for the J-curve approach is not conclusive, it outweighs the support for the partial reform approach (see table nine). To find more comprehensive evidence, better measures of short-term losers as veto-players and public officials' ability to subvert policy implementation are needed. Additionally, the basic unit of analysis could be changed from states to reforming governments. Both of the approaches predict behavior by governments that are dedicated to reform, but the dataset uses cases defined by state rather than government and does not consider whether the issue of reforming. This could be dealt with by changing the coding of seeking to reflect government leaders actively striving to meet membership criteria of liberal IOs rather than offering empty platitudes such as Meciar in Slovakia.

Each of these concerns is addressed in the following case study chapters. The cases were selected to act as heuristic case studies, which provide the "opportunity to learn more about the complexity of the problem studied, to develop further the existing explanatory framework, and to refine and elaborate the initially available theory" (George 1979: 51-52). Because the domestic variables driving governments to seek membership in existing liberal IOs have largely been ignored (see chapter one for a summary of this literature), the available theory needs heuristic case studies to improve our understanding of when states seek membership in liberal IOs. Specifically, George's method of process tracing allows researchers the ability to follow the decision making process within states to determine what factors influenced their ultimate decision (see George and McKeown 1985). Moreover, process tracing provides more information concerning what the dependent variable "seeking" constitutes. As King, Keohane, and

Verba (1994: 54 and 147-148) caution while historical studies should focus on outcomes we wish to explain, causal inferences is impeded when the dependent variable is constant. However, heuristic case studies remain an important tool for this study because they reveal that the dependent variable is not the dichotomous variable argued above, where states either seek or not. Instead, the cases in the following chapters reveal that seeking can rest in a middle ground where government leaders state their support of membership and may even apply for membership but at the same time engage in actions that undercut the accession process. In this instance, governments may be interested in the accession process but not actual membership as was the case in Spain under Franco and Slovakia under Meciar. Thus, the cases selected below arguably contain two values of the dependent variable, which would have been overlooked if George's heuristic case studies were eschewed in favor of King, Keohane, and Verba (1994) argument.

While the cases presented below serve the function of heuristic case studies by revealing the dependent variable to be more complex than initially construed and aiding in the development of a theory regarding seeking, further research should include cases with a more complete range of the dependent variable. The cases in the next two chapters include two values of the dependent variable ("true" seeking and seeking focused on negotiation rather than accession), but do not include the third value of the dependent variable, not seeking. To improve the causal inferences made in the following chapters, additional case studies with this value for the dependent variable are needed.

The cases below were selected to overcome the weaknesses in the duration analysis and to provide a better understanding of "seeking" entails. For instance, rather

than considering Spain's relationship to the EU where the state acts as the basic unit, in the case study I study Spain as two distinct cases: under Franco and after Franco. While Spain may meet the broad definition for seeking presented above, the government under Franco was not dedicated to reform and did not actively strive to meet membership demands expressly stated by the EU. Because Franco does not meet the definition of a reforming government presented in chapter one, neither the J-curve approach nor the partial reform approach applies to this case. After Franco's death, the new government began economic reform and follows the predictions of the J-curve approach where short-term losers acting as veto-players and using mass uprisings spurred the government to seek membership in the EU.

Slovakia also consists of two distinct cases. Under Meciar's leadership, the government often stated it wanted EU membership, but it did little to achieve this state. However, Meciar's government enacted some economic reforms, and offers an interesting test of the partial reform approach. When Meciar was prime minister, the short-term winners fully captured the government because Meciar himself and his closest supporters were the short-term winners. Thus, the partial reform approach would not predict that Meciar seeking membership in a liberal IO desperate to force him to continue economic reform, but it does explain his promises to seek membership while his actions were designed to ensure that membership could not occur. This superficial seeking hid his true motives which were to continue the partial reform equilibrium. After Meciar, Slovakia follows the traditional partial reform expectations because the new government was constantly threatened by short-term winners attempting to recapture the government



and prevent reform policies from being implemented. To prevent short-term winners from blocking reform, the new government has maintained a high level of communication with the EU and proven its dedication to becoming a member.

The additional case studies are of Vietnam and Chile. By looking at Vietnam's relationship to ASEAN more closely, I am able to study the relationship between public officials subverting reform implementation and seeking. Following the predictions of the partial reform approach, the Vietnamese government sought membership in ASEAN to ensure that reform policies were implemented. Government officials and state employees who either were short-term winners profiting from a thriving black market or were bribed by short-term winners actively sabotaged the reform process. To regain control over economic policy, the government needed outside help. The Chilean case is essential to understanding the role reform opponents can play as veto-players because reform success was constantly threatened by organized labor and the traditional, landed elite. To overcome this opposition, the government needed outside assistance, which it found in the NAFTA negotiations.

These four countries and six cases were specifically selected to counter the flaws present in the results from the duration analysis. Although the results indicate that the J-curve approach is more often correct than the partial reform approach, they do not provide conclusive support. To understand under what conditions reforming governments seek outside help to aid economic reform, a closer analysis of cases is

needed, and this closer analysis also counters the weakness in the statistical analysis.

With these reasons in mind, the two Spanish cases and two Slovak cases are considered next.

## CHAPTER 4

### SPAIN AND SLOVAKIA PROTECT ECONOMIC REFORM

In this chapter, I look at the relationship between Spain and the European Community (EC) and Slovakia and the European Union (EU). Both the EU and the specific cases selected provide the opportunity to correct for weaknesses in the statistical analysis presented in the last chapter. The dataset heavily relied on Europe for instances of states seeking membership in a liberal IO, and the EU provides the typical example for academics and practioners making the claim that IOs foster liberalization. Spain and Slovakia are interesting because they provide two cases each rather than one. As discussed at the end of chapter three, both the J-curve and partial reform approaches assume the actor is a *reforming government* as defined in chapter one, but the dataset uses states in a given year with no reference to whether they are reforming. Moreover, both cases addresses problems with measurement in the dataset.

The EU is important to study, first, because the European cases were clearly important in the duration analysis. Although the dummy variable for whether states were located within Europe was not significant (see Euroreg in table five), the results were not robust when all European cases are excluded. When the region was excluded, the number of instances of seeking in the dataset fell to twelve, and the findings were not robust with this small occurrence of seeking. To ascertain if Europe is somehow special

beyond contributing a significant number of the cases for the dataset, a closer analysis is necessary. Specifically, the EU must be studied as it is the most powerful regional liberal IO and is often the focus in the existing literature on how IOs foster liberalization.

Second, of the twenty-one restrictive international organizations with liberal requirements included in the dataset, only the European Union (EU) has both liberal political and economic membership requirements. EU membership is only extended to states that meet a threshold of liberalization in terms of human rights, democratic process, economic openness, and property rights. As the EU has evolved, these criteria have been clarified. For instance, when Spain sought EU<sup>15</sup> membership under General Franco, the existing members stated that Spain would not be accepted until the regime had a better human rights record. This political criteria was later clarified at the Copenhagen European Council meeting in 1993. The Copenhagen consensus provides three basic criteria for membership: stability of institutions which guarantee democracy, the rule of law, human rights, and respect and protection for minorities; the existence of a functioning market economy and the capacity to cope with competitive pressure and market forces within the EU; and the ability to fulfill the obligations of membership such as the adherence to the aims of political, economic and monetary union (*Enlargement* 9; Pastor 2001: 184). To meet existing EU legislation, applicant states must adopt roughly 1,4000 pieces of single market legislation (“Facing the Challenge” 30 December 1997). The Copenhagen criteria are “cast in iron,” and candidate states have little or no

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<sup>15</sup> Spain originally sought membership in the European Economic Community, but the term EU is used here to simplify.

probability of joining if they do not meet these criteria. Candidates are able to negotiate terms concerning the *acquis*, the twenty-nine chapters covering specific policy areas such as the free movement of capital, but the broad liberal criteria specified by Copenhagen are not seen as open to negotiation.<sup>16</sup>

Because the EU has both liberal political and economic requirements, the EU is often cited as an example of how IOs can spread democratic values such as human rights, even before accession occurs during association, negotiations, and increased relations between the Union and the prospective members (see Pinder 1994; Whitehead 1991). Yet, few empirical studies exist of this ability to foster liberalization before membership is obtained (Russett, Oneal, and Davis 1998), and economic liberalization during this period has been surprisingly neglected. Even without broad empirical findings, a consensus exists among scholars and practitioners that the EU is highly influential in fostering liberalization. The duration analysis from the last chapter clearly indicates that this relationship exists, but the comparative case studies provide a more comprehensive understanding of when the EU is able to strengthen the reform process in states seeking membership.

Spain and Slovakia are interesting cases to study together because they share several characteristics in their respective relationship to the EU. First, the change in leadership in Spain during 1975 and Slovakia in 1998 significantly altered the relationship of each state to the EU. For Spain, I argue that Franco was not the economic

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<sup>16</sup> Interview with spokesperson at the European Commission, delegation to Washington, DC, July 9, 2001.

reformer that both approaches assume, and therefore neither approach applies to this case. After Franco, the new leaders quickly began economic reform, and the J-curve pre-conditions were met because the short-term losers rather than the short-term winners are concentrated and threaten reform success. For Slovakia, Meciar enacted economic reform policies, but only to profit himself and close allies, and only as many as he absolutely had to. From 1993 until 1998, Slovakia was captured by the short-term winners, and the partial reform approach would not predict seeking, yet Meciar continuously expressed his interest in the EU and applied in June 1995. Once Meciar was defeated in the 1998 election, the new reforming government sought EU membership to prevent the short-term winners, namely Meciar, from re-capturing the government, as predicted by the partial reform approach. Thus, the four cases presented below address weaknesses both from the theory chapter because Spain seeks under Franco and Slovakia seeks under Meciar when neither approach predicts that they will, and from the duration analysis because the dataset poorly measures veto-players and public officials preventing reform implementation (see table ten).

Second, Spain and Slovakia when they sought membership in the EU were both less developed, sharing a lower standard of living and less industry than existing EU members during the accession process. Spain's per capita income in 1980 was only 50 percent of the EC average (Taylor 16 December 1980). Slovakia's GDP per capita based on purchasing power capabilities in 1993 was roughly 50 percent of the lowest-ranked EU members ("GDP Per Person" 1 April 1996). In 1993, Slovakia's GDP per capita was below \$2,000 while the fifteen's average was nearly \$20,000 ("EU Eastward" September

1995). Both states also had a lower level of industrialization than the EU average. After Spain's accession the farming sector increased by roughly one-third while the population increased by only 36 million (Taylor 16 December 1980). The farming sector in Slovakia while smaller still made up eight percent of Slovakia's GDP, and the industry that existed dated to the communist era (Eatwell 10 October 1994). The two states were clearly poorer and had a lower level of industrialization than existing members. Finally, Slovakia in part followed the reform path of Spain. Deputy Premier Pal Csaky argued that the Spanish model of government decentralisation after the fall of the Franco regime was an inspiration for the Slovak reform because what "was valid for Spain is now valid for Slovakia: decentralisation means democratisation" ("Slovakia Interested" 6 March 2001).

The four cases below focus on the most powerful liberal IO included in this study. European cases provided many instances of seeking in the duration analysis, and the EU is often considered the most-able institution in the world for fostering liberalization. Additionally, the cases of Spain and Slovakia address the importance of whether the state seeking membership is a reforming government while also considering the relative importance of veto-players and public officials. The findings presented below suggest that both groups of actors can sufficiently threaten reform success and drive governments to seek outside help.

## ***SPAIN UNDER FRANCO***

Although Spain sought membership in the then-EC from 1962 through 1985 (White 8 June 1985), neither the J-curve nor partial reform approach predicted this action until late 1975. Both approaches assume that the government is enacting economic reform policies, but Franco maintained a high level of state interventionism throughout his rule. Because the two approaches rest on an assumption that Franco's Spain does not meet, it is hardly surprising that they fail to predict Spain's seeking membership in the EC from 1962 until late 1975. However, if one considers Franco's Spain to be an economically reforming state as the approaches expect, then the case includes many indicators from the J-curve approach (see table two).

Franco allowed a high level of state interventionism in the economy throughout his rule. For instance, foreign transactions were significantly hindered with state interventionism even though Spain joined the IMF in 1958 and acceded to the GATT in 1967. "The foreign exchange controls inherited from the Civil War, quantitative restrictions, restrictive trade systems, and the discretionary practices inherent in the bureaucratic procedure are the main features of this interventionism regarding trade" (Rivallas 13 November 1979). Although Franco did allow some labor reform to occur such as legalizing collective bargaining and reducing the penalties for strikes, the right to strike was not acknowledged, and labor was only allowed to organize in state-run groups (Maravall and Santamaría 1986: 75). At the same time, Franco refused to cut industry workers, suppressing unemployment figures, and kept wage settlements ahead of inflation ("When He Goes" 25 October 1975). These policies allowed him to maintain



some control over workers and limit their dissatisfaction, and they revealed that Franco was not interested in economic reform that weakened his control of economic activity within Spain. If his economic control slipped, it seemed probable that his political control would also slip.

Franco twice entertained the notion of greater economic and political liberalization in response to domestic pressure: from the late 1960s until the assassination of his president in 1973, and after his 1974 brush with death. The first liberalization efforts were halted after Blanco's assassination because the more extreme supporters were able to rally Franco's support and neutralize the liberalization policies. Specifically for political liberalization, the "expectations generated by the liberalization policies were completely frustrated. Several groups belonging to the so-called civilized right wing emerged with the aim of backing some politically known figure who might lead the country toward an eventual pluralist or semipluralist outcome" (Maravall and Santamaría 1986: 79).

After his illness in 1974 and the end of dictatorships in Portugal and Greece, Franco's command of politics slipped somewhat and liberalization began once again, but he was able to prevent total economic and political openness (Richardson 17 February 1975; "Generalissimo" 22 November 1975). The end of dictatorships in Portugal and Greece in 1974 left Franco as the last authoritarian regime in Western Europe, generating great pressure for political and economic change in Spain. Yet, Franco continued to refuse anything more than token liberalization, resulting in seething unrest increasingly exploited by terrorist groups. Political violence quickly escalated ("9 Die" 11 October

1975). After bank holdups, street shoot-outs, and assassinations, Franco placed the four Basque provinces under a state of exception, just short of declaring martial law. Arrests and detentions followed where police used torture to extract confessions. The rebels responded by increasing their violent campaign against police, culminating in Madrid's imposition of an anti-terrorist decree that placed Spain under a virtual state of emergency. The military tribunals quickly condemned nine men and two women to death for police murders, but Franco commuted the death sentences of six of the terrorists following international pressure (Steele 13 October 1975). The decision to execute the five remaining terrorists in September 1975 represented Franco's determination to halt the year-long drift towards a more open Spanish society (Curcio 13 October 1975).

Both of these instances reflect Franco's unwillingness to loosen his grip on economic and political life in Spain (see table ten). The two times his control slipped, he soon clamped down and usually reversed the liberalization process. However, if he had continued economic reform and liberalized the Spanish economy, the J-curve predictions would have applied rather than the partial reform predictions because the potential losers from economic reform were concentrated short-term losers instead of short-term winners.

### ***Some Indications for the J-Curve Approach***

Franco's control over economic life in Spain was threatened by various concentrated groups. Specifically, organized labor opposed his legal monopoly over labor associations, and business leaders supported economic reform to increase their profits. Although these two groups pressured Franco to enact economic reform policies,

he maintained a highly interventionist approach to economics and often suppressed any opposition. Franco grounded his authority and power in the one-party system, the Falange-Organización, and in structures of corporatist representation, the Courts (las Cortes). Together these allowed the diverse groups of his governing coalition to participate in the decision-making process (Huneus 1998: 76). By taking part in and largely controlling most aspects of the economic and political decision making, Franco was able to withstand his opponents. For the J-curve approach to apply to this case, Franco would have had to been a reformer, and the short-term losers from reform concentrated and facing immediate costs from reform. Although some indicators exist of these conditions, namely for potential veto-players and mass uprisings, the actions were mainly taken in protest against political policies rather than economic policies.

After the early 1960s, workers gained more freedom to organize labor associations and to strike. “So dramatic was the change that by the late sixties and early seventies, Spanish strikes usually exceeded on a per capita base those of any European nations except Italy and England” (Malefakis 1982: 219; see Gunther, et al 1988).

Business leaders responded to increased labor unrest with a willingness to negotiate rather rely on the state to suppress labor strikes. This pro-reform movement was also strengthened by numerous antigovernment demonstrations, riots and general strikes.

Franco responded by declaring a national state of emergency in 1969 and holding a court martial of Basque separatists in 1970. Yet, even after his efforts to suppress his

opponents, “political structures independent from initiation and control by the central government, such as the Democratic Assembly, began to appear in Catalonia in 1972” (Ziegenhagen and Koutsoukis 1992: 24).

This development of a civil society and the pressure of economic groups led to a multitude of social, economic, and political problems that the Franco regime was ill-equipped to handle (Ziegenhagen and Koutsoukis 1992: 111) as different groups began pressuring the regime for policy changes. The unrest culminated by 1975 when an unprecedented wave of protest strikes against Franco swept across Spain. Groups including students and doctors staged walkouts while business workers and professionals openly organized political groups. Even the Catholic Church and the Army, stalwarts of the Franco regime, began to favor change (Richardson 17 February 1975). A high number of strikes, increasingly open political activity, and scarcely-veiled press criticism of the government led the government to announce a state of emergency in two Basque territories in April 1975. Within a month, Basques claimed more than 2,000 political arrests occurred, searches and beatings became commonplace, and even priests were detained (“Spain: Scapegoats” 31 May 1975).

Near the end of his life, Franco attempted once again to thwart the reformers by declaring a state of emergency and ordering the September 1975 executions of five Basque terrorists. The executions drew criticism in part because the trials were closed to the public, defense lawyers had little time to prepare their cases, and there was no appeal through the judiciary system (Richardson 13 October 1975). Franco refused to weaken his control of the judiciary process enough to allow these procedures. Domestically, the

September 1975 executions sparked a wave of political violence as police and protestors clashed. The ETA retaliated against the executions with car bombs while other terrorists openly fought police (“9 Die” 11 October 1975). Two terrorist groups remained significantly active during this time although the top leaders of the ETA and the Revolutionary Anti-Fascist Partiotic Front (Frap) were dead or in prison (“Spanish Guide Rouge” 11 October 1975). Internationally, negotiations with the EU had been halted in November 1974 and scheduled to resume in October or November 1975, but were indefinitely postponed following executions of defendants whose rights were repeatedly violated during their trials. The Council noted that although the ministers of the EU hoped that a democratic Spain might join the assembly of European nations, “negotiations between the EEC and Spain cannot be resumed at this time” (*Ninth General Report* 1976: 266).

Franco’s control was further threatened by his own mounting health problems and opposition from within his staunchest supporter, the Spanish Army. In October 1975, officials arrested three young Spanish Army offers, members of the clandestine Military Democratic Union (UMD), on charges of sedition. A total of twelve UMD ringleaders were arrested as Franco’s generals fought to maintain their iron control of the military (“When He Goes” 25 October 1975). The younger members of the Spanish Army, feeling thwarted by Franco’s generals remaining in power and limiting their own advancement, were using the UMD to discuss the proper role of the military in political life, and attempting to weaken the power of Franco’s biggest supporters (Huneus 1998: 75).

Even with several indicators expected by the J-curve such as strikes, anti-government demonstrations, riots, some unrest in the military, and a general atmosphere of civic unrest, Franco was not enacting economic reform, and therefore the J-curve approach does not apply to this case. Even though neither the J-curve nor the partial reform approach predicts that Spain would seek membership in the EU during this time, Franco repeatedly expressed his interest in joining the organization. The question then becomes why did he do so when neither of the approaches presented in chapter two expected him to. What drove Franco's desire to seek membership in the EU?

### ***Why Franco Sought Membership***

Neither the J-curve nor the partial reform approach explains why Franco sought membership in the EU from the early 1960s until his death in 1975. The EU made it clear that accession was impossible for a regime with chronic human rights abuses, but Franco continued to voice his interest in EU membership for two reasons. First, EU membership would help Spain's stalling economy. Second, Franco used seeking membership in the EU as a mechanism to maintain and increase his political clout domestically. Although he was not reformer, he used EU membership talks in a similar manner.

As predicted by the neoliberal institutionalist argument discussed in chapter one, Spanish economists and business leaders were virtually unanimous in the view that only EU membership could keep their economy moving ahead as over half of Spain's exports were to the EU, and pushed for membership (Steele 13 October 1975). The EU appeared

attractive because it offered an institutional framework to deal with these economic, political, and social problems while also ensuring future economic growth, but the solutions the EU could provide depended upon liberalization (Malefakis 1982; Peres-Diaz 1993). Both the more modern, internationally-oriented industrialists and large-scale agriculturalists supported community membership, and the government accepted association with the community as a long-term goal of the Spanish economy (Malefakis 1982: 220), but Franco refused to meet the EU's demands concerning human rights. By the 1970s, Spain had a productive and diversified economy with goods that would likely be highly competitive within the EU if Spain had been a member. "The community, however, would not admit Spain into membership until, in the words of a resolution passed by each of its main institutions in 1975, 'freedom and democracy have been established in Spain'" (Kurth 1993: 48-9). Many additional groups emerged in the developing civil society that urged Franco to seek membership in the EU, but Franco while continuing negotiations ignored the EU's demands that human right violations decrease. Thus, although various groups within the regime were able to voice their interest in EU membership, they had insufficient influence to change state policies to gain membership. Franco's government remained strong although some indicators of regime instability (i.e., antigovernment demonstrations, riots, etc.) increased in the late 1960s.

Second, Franco used seeking EU membership to protect his political power. Franco recognized that economic interests within his state were strongly in favor of EU membership, he did not favor membership in an IO that would limit his political and

economic control. To appease the economic interests though, he sought membership in the EU. In this manner he was able to maintain his political power. Seeking membership was merely another mechanism to control politics at home. Although Spain first requested negotiations on association with the European Community in 1962, the government “made it quite clear that its request was with a view to full membership at some future date” (Nugent 1994: 32). Rather than being a dedicated seeker striving to meet the EU’s demands, Franco embarked upon a series of leisurely discussions with the EU concerning Spain’s accession at some indeterminate time.

By voicing this interest in eventual accession, Franco protected his private interests. Both the J-curve and partial reform hypotheses rest on the ability of domestic actors to use international institutions to increase their political clout at home. This relationship was discussed in general terms in chapter one when considering why states join IOs, and further developed for the two approaches in chapter two. However, the relationship is broader than the two approaches present it. According to both approaches, reforming governments seek membership in a liberal IO to protect economic reform; the accession process increases their power enough to make reform success more likely. The more general relationship is that domestic actors use international institutions to increase their political power at home, and this more general relationship is the second reason why Franco sought membership in the EU.

While Franco recognized the importance of EU membership for economic reasons and was willing to offer the facade of sincerely seeking membership in the organization, it was clear that he was unwilling to relinquish his control of politics and economics



enough to meet EU demands. In fact, he used membership talks to strengthen his political power. By discussing membership with EU officials, Franco was able to tell economic interests and other groups pushing for membership that he was making an effort to meet their demands rather than providing them with a common complaint to join forces against Franco's rule. Beyond this, Franco was not a reformer as defined in chapter one, and therefore neither approach applies to this case. Both the J-curve and partial reform approach assume that the governments are reforming, and then focus on cases where reform opponents can threaten reform success. In Spain, Franco was not an economic reformer, and no group threatened his favored policies because the opponents were not powerful. When groups expressed their dissatisfaction with the regime through strikes, antigovernment demonstrations, riots, or even terrorists activities, Franco was able to suppress their dissent. When groups pressured him to seek EU membership, he was able to meet their demands sufficiently that they posed little threat to his favored policies. Only after Franco's death was the regime weakened enough the policy opponents were able to influence policies.

### ***SPAIN AFTER FRANCO***

The J-curve approach expects short-term losers to threaten economic reform because they are concentrated groups facing immediate costs from reform policies. To prevent costly economic reform, they try to weaken the reform process and are more successful when the short-term losers are veto-players, use mass uprisings, or hold the government highly accountable to the public. By pressuring the reforming government

through any of these tactics, short-term losers may persuade reforming governments to slow or halt economic reform. After Franco's death, the new regime began a dual transition that was threatened by short-term losers from both economic and political reform. For the purposes of this study, the J-curve expectation that short-term losers who are concentrated and facing immediate costs from economic reform were met in Spain after Franco's death (see table ten). To overcome the threat posed by short-term losers who were veto-players and used organized mass uprisings, the new government sought membership in the EU from 1975 through 1985.

After Franco's death, the new leadership began immediate economic reform policies. Immediate reform was needed because the rapid economic expansion that brought prosperity to many Spanish workers and helped delay demands for political reform had come to a sudden standstill. Living standards were falling rapidly because 20 percent inflation far outstripped the one percent real growth rate. A broad spectrum of political activists from the right-of-center moderates, the centrist Christian Democrats to the Socialists appeared willing to give Juan Carlos, Franco's designated successor, a chance to govern if he issued a general amnesty, legalized political parties, primed the economy to reduce rising unemployment, and requested membership talks with the EC ("The Options" 10 November 1975). However, the cautious program of reform the new king supported was threatened by both the left and the right, and his first major decisions angered both reformists and weakened his authority against the entrenched defenders of Franco's Spain ("Spain: Changing" 8 December 1975; "Bad Beginning" 13 December 1975).

In 1976, Juan Carlos appointed Prime Minister Suárez to appease the various factions and continue economic reform. Within the first year of his term, Suárez had initiated substantial political reforms: legalizing all political parties, granting amnesty to many political prisoners or suspects, recognizing the right to strike, legalizing free trade union federations, and enacting a new electoral law. The first free elections were held in June of 1977, and Suárez's newly formed Center Democratic Union (UCD) won the most seats in parliament with 34 percent of the vote. Following the election, Spain initiated a gradual process of liberalization spurred by the desire to join the EU and supported exports as an alternative to the previous limitation of imports. Reform policies after 1977 included allowing a greater variety of products to be imported, reducing customs duties on said products, discontinuing the use of quotas on imported finished products and components in the motor industry, and liberalizing foreign monetary transactions (Rivallas 13 November 1979). Thus, unlike Franco's Spain, the new regime leaders were clearly economic reformers.

The groups threatening economic reform were concentrated and faced immediate costs from reform. Specifically, veto-players such as organized labor, the military, and Franco's staunchest allies threatened reform efforts. Additionally, the high level of civic unrest continued under the new regime and threatened to undermine the reform process. To prevent these groups from blocking successful reform, Spain sought membership in the EU. The decision by the nine EU members to halt membership talks after the September 1975 executions left many in Spain shaken, fearing increased isolation from the rest of Europe ("Spain and EEC" 29 November 1975; Curcio 13 October 1975).

Once Franco died, Juan Carlos and his newly appointed prime minister quickly stated their support for EU membership to prevent isolations and protect reform policies. Spain formally applied for membership in July 1977, and negotiations began in February 1979. Spain was slated to join the EC with Portugal on January 1, 1983, but accession was delayed for three years due in part to agricultural conflicts.<sup>17</sup>

Two different parties led Spain during this time, but are treated as one case because they were both reforming governments as defined in chapter one and, moreover, their reform programs were similar. Although the UCD was defeated in the 1982 elections and the Socialist party (PSOE) came to power, the new government continued the economic reform program and also sought EU membership. The significant difference between the two governments and their approach to the EU was that the UCD government was obsessed with a timetable for entry while the later Socialist government focused more on the content of accession agreements (Graham 21 December 1982). Both parties agreed that EU membership offered an ideal institutional framework that could handle the problems of economic growth, coexistence, and freedom facing the new regime (Perez-Diaz 1993: 2).

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<sup>17</sup> In the early 1980s, the Common Agricultural Policy (CAP) used roughly 70 percent of the EC budget on agricultural subsidies, which needed to be cut before the EC could financially handle new members. Additionally, France was leery of increased competition from Spanish agricultural goods (Pond 16 June 1980).

### *J-Curve*

The J-curve approach expects reform to have costs that are concentrated and immediate while the benefits are diffuse and only realized in the distant future.

Therefore, the short-term losers are highly motivated to pressure the government to alter its policies in an attempt to protect their economic interests. Reforming governments are more likely to face this threat when short-term losers are veto-players, use mass uprisings, or hold the government highly accountable. In Spain, two of these conditions were met. Short-term losers such as organized labor, the military, and Franco's right threatened the reform process because they were able to act as veto-players.

Additionally, short-term losers used mass uprisings such as antigovernment demonstrations, riots, and even political violence to pressure the government. While the government remained dedicated to economic reform under both the UCD and Socialists, the short-term losers tried to weaken this dedication. During this period a broad spectrum from the right to the left-right encompassing the major political parties and even some trade unions emerged that was firmly committed to community membership as a goal (White 8 June 1985; "A Community" 22 November 1975), in part to protect the reform process (see table eleven).

As expected by the J-curve approach, the benefits from reform were diffuse while the costs were immediate. For instance, reform measures such as trade liberalization would benefit Spanish consumers with better protection, better standards, and a much wider variety of products (White 8 June 1985) while exposing previously protected industries to foreign competition. Thus, the short-term losers facing immediate costs

were highly motivated to oppose the reform process. By acting as veto-players and using mass uprisings, the short-term losers were able to threaten the reform process (see table eleven). Although the UCD and Socialist prime ministers were able to find some domestic solutions to answer this threat, they both recognized the need for outside help as predicted by the J-curve approach.

During economic reform, Spanish politicians recognized the ability of international obligations to impose, reinforce, or maintain “the reform and liberalization measures adopted by the government, giving them greater credibility” (de la Dehesa 1994: 136). The Socialist government led by Prime Minister Gonzalez after the 1982 elections especially mastered the use of a simple excuse to rationalize economic reform: ‘we have to do it because Europe demands it’ (White 8 June 1985). By employing this excuse, Spain was able to follow a path of economic reform counter to the wishes of the short-term losers. These actors threatened the reform process in two ways. First, the new regime faced several veto-players that opposed some aspects of economic reform. Organized labor, the military, and Franco’s right saw their interests endangered by government policies, and attempted to use their powers as veto-players to weaken the reform process. Second, short-term losers used mass uprisings to weaken the government and force policy change. However, each of these efforts failed as the reforming government sought outside help to strengthen the reform process and provide the simple excuse for the difficult economic transformation: Europe made me do it.

### *Veto-Players*

The new regime faced several veto-players who opposed various aspects of the economic reform program. Each of these groups attempted to use its role as a veto-player to slow or halt the reform process (see table eleven). As predicted by the J-curve approach, short-term losers who were veto-players threatened the success of economic reform, causing the government to seek outside help in stabilizing the reform process. Specifically, organized labor while now allowed to form associations was weakened because the reforming government, regardless of which party led it, aligned itself more with the interests of capital than labor (Petras 1993). To reform the economy, the government was willing to lay-off thousands of workers, cut benefits, and eventually ease the ability of employers to fire workers. Second, the military played a central role in Franco's regime, and Franco's generals remained a potent force in the Spanish Army. The military was wary of reform because economic and political openness were perceived to increase the risk that the far left would gain control of Spain, threatening the existence of the state. Third, Franco's legacy also included his staunch supporters outside the military, often called Franco's right. This group vowed to prevent any liberalization, economic or political, and had the entrenched political power from the old regime to pursue this plan. Together, the three veto-players were able to weaken the reform process, forcing the new government to seek domestic and international solutions.

Although the reforming government was able to use some domestic solutions to counter the threat posed by the veto-players, the government also needed outside help to ensure that the veto-players were unable to halt reform or, in the case of the military,

reverse the entire reform process. By seeking membership in the EU, the government manipulated the general perception that EU membership was desirable, and used the EU as an excuse for unpopular reforms. Specifically for labor, seeking to join the EU allowed the government to override labor's concerns. For the military, the possibility of EU membership offered increased opportunities to bribe the leaders of the Spanish Army. For Franco's right, the domestic solutions were more effective, but EU membership provided an additional mechanism to lock this group out of policy decision making thereby weakening Franco's right's ability to threatened continued economic reform.

### Organized Labor

Organized labor was overall a short-term loser from economic reform, and eventual membership in the EU in 1986 tied Spain to certain policies that were not in the interests of labor or the unions. Once the dual transition began, the leaders were dedicated to opening the economy to make EU membership more probable, and the costs of opening the economy were passed onto labor rather than born by capital (Petras 1993: 114). Labor responded by organizing strikes, which sometimes turned violent, work stoppages, and even Spain's first general strike since the 1930s. The reforming government in turn responded to labor's actions by seeking additional mechanisms to weaken the influence labor had on economic reform. The domestic solutions to labor unrest were largely unsuccessful, and following the predictions of the J-curve approach, the reforming government was well-aware that outside help was needed to withstand labor's demands.



Organized labor was overall a short-term loser during this period. Although now allowed to organize and strike, government policies usually weakened labor. The new regime was faced with the need to have both budgetary and wage restraints, an unpopular combination, because of Franco's economic legacy. As discussed above, Franco had refused to cut industry workers and kept wage settlements ahead of inflation ("When He Goes" 25 October 1975). To aid the stalling economy's recovery, the Suárez government halted these policies, and eased labor restrictions. By enacting few health restrictions and making it easier to fire workers and subcontract, the position of organized labor arguably decreased in post-Franco Spain. Subcontracting allowed factory orders to be handled by smaller companies using temporary and lower paid workers than larger companies with union workers, and the unions lost substantial influence as a result. The temporary workers were not organized and were ill-equipped to collectively bargain (Petras 1993). The later Socialist government continued this general trend and viewed Spain as "a major labor reserve for foreign-controlled labor-intensive industry, as a magnet for the attraction of speculative and real-estate capital, and as the site of the continued expansion of an already overdeveloped tourist industry" (Petras 1993: 115). The net result was that by the end of Prime Minister Leopoldo Calvo Sotelo's UCD government in 1982, unemployment had risen to at least 15 percent (Graham 12 November 1982). Labor continued to be a short-term loser from economic reform with increases in unemployment to account for over 22 percent of the workforce by 1985 (Ellman 1 December 1985).

Reflecting these economic troubles, labor unrest was high during this entire period. High labor unrest began immediately after Franco's death and the new regime's

attempts to liberalize the economy. On December 10, 1975 as many as 14,3000 construction and industrial workers walked off their jobs as part of underground left-wing organizations protesting a wage freeze the new regime had enacted. Work stoppages were also common immediately after Franco's death. For instance, a third of the taxi drivers in Madrid stayed home for several days in December. It was also common for banks in Madrid, Valencia, Seville, and Barcelona to be idle as workers stayed away. At the same time, strikes occurred often in cities from Madrid to Pamplona and Barcelona. In Tarragona, in the northeast, strikers plucked the feathers from chickens and released the chickens into the streets after painting their bodies with anti-government slogans ("Church Asks" 27 December 1975).

Unrest continued throughout this period of economic liberalization especially once Spanish officials began to fear that inefficient Spanish industry would be unable to handle increased foreign competition, especially after EU accession occurred ("Workers in Spain" 19 November 1984). Spain's program involved closing some plants, combining others, and dismissing or retraining employees, and was estimated to cost more the \$5 billion and impact at least 50,000 jobs (Schumacher 8 July 1985). To increase Spain's ability to compete with foreign goods, Prime Minister Gonzalez also instituted more rigid work hours and loosened laws protecting workers from being dismissed. In response to the Socialists' efforts to streamline industry, Communist and independent regional unions organized a national wave of strikes complete with escalating violence that turned into almost daily confrontations between strikers and police ("Workers in Spain" 19 November 1984; Linnee 13 June 1985).

The Socialist government sought a domestic solution to protect economic reform by appeasing labor and calming relations within Spain, but this solution failed to end labor unrest and labor's demands for weaker reform policies. Prime Minister Felipe Gonzalez and representatives of employers and Socialist unions signed an agreement governing labor relations and salaries in October 1984. The main aspects of the agreement, which held wages below the inflation rate and made it easier for employers to dismiss workers, were designed to aid the government's efforts to streamline industry in expectation of joining the EU. Overall, the agreement favored business interests. For instance, the former UCD government had withstood pressure from the employers' federation (*Confederacion Espanola de Organizaciones*—CEOE) to loosen Franco's rigid hire-and-fire laws (Graham 12 November 1982), but the new Socialist government followed employer demands and weakened the strength of organized labor. Recognizing this, the Communist union confederation, the Workers Commissions, refused to sign the pact, calling it a sellout of workers' interests (Schumacher 10 October 1984). The government, tentatively supported by business and the Socialist union organization, the General Confederation of Labor, responded to continued labor unrest by promising to build new industries in areas adversely affected by reform and to revitalize existing industries with credits, tax breaks and increased privatization. Still, organized labor largely remained skeptical of the reform process and organized strikes, demanding that threatened factories and shipyards be saved and alternative jobs guaranteed ("Workers in Spain" 19 November 1984). Because organized labor wanted to protect jobs at unproductive firms and guarantee employment, government acquiescence would have

weakened reform. By meeting these demands, the government would be forced to maintain barriers against trade to protect uncompetitive firms. Face with labor's continued opposition, the government needed outside help as predicted by the J-curve approach.

Labor unrest also continued because a general feeling existed that the government had sold out the workers. The unions recognized the irony that Socialists were administering what was seen as bitter capitalistic medicine. Only under a leftist government with the will and the credentials to take on the powerful unions was Spain "secure enough to undo the entrenched economy left by General Franco" ("Workers in Spain" 19 November 1984). The second party to form the government in post-Franco Spain, the Socialists were able to focus on the economic reform the UCD had postponed (Bermeo 1994), but organized labor responded to continued economic reform by using strikes and even a general strike to pressure the government to weaken its dedication to economic reform. The Socialist-dominated General Union of Workers (UGT) strongly opposed Socialist Prime Minister Gonzalez's efforts to curb inflation. Additional government plans to cut pension benefits led the Communist-dominated unions to organize the first effective general strike since the 1930s on June 20, 1985 (Rossant and Roberts 22 July 1985; Schumacher 8 July 1985).

To overpower labor's continued unrest and opposition to stringent economic reform, the reforming government sought outside help from the EU. Beyond providing a convenient excuse for painful policies as discussed earlier, entry into the EU was seen as way for the government to accelerate a painful modernization process that was needed

(White 30 March 1985). With EU aid, Spain was able to force liberalization past organized labor. At the same, EU negotiations strengthened the position of business leaders within Spain, so that their demands became more politically relevant than labor's. Overall, organized labor's role as a veto-player was weakened. In preparing for EU membership, the later Socialist government made a concentrated effort to increase labor flexibility to offset the dislocation associated with trade liberalization (Haggard and Webb 1994: 19 and 24). The domestic firms used to a high tariff wall under Franco's rule were strengthened in the new regime by allowing employers more power in labor negotiations and offering more opportunities to export their goods to Europe.

### The Military

Often referred to as the top veto power in Spain ("When He Goes" 25 October 1975), the military had been a staunch supporter of General Franco's regime and also stood to lose much political power in the new regime. Although the military was not a traditional short-term loser in terms of economic reform, the overriding concern was that the military would feel threatened by political reform and use its power as a veto-player, through a coup for instance, to halt all continued reform, both political and economic. Even though the military's interests were not directly threatened by economic reform, the governments' pursuit of a dual transition risked the military's use of its veto power, which then would threaten the success of economic reform. By pursuing both domestic and international solutions to block the military from using its veto-power, the reforming

government protected continued reform. As the J-curve approach predicts, the reforming Spanish government sought membership in a liberal IO to supplement the domestic solutions, which were not completely effective.

Military unrest led the new democratic leaders to seek domestic solutions to check the military's use of its veto power. First, the new regime leaders provided the military with a role as a tutor, making Franco's generals respected elder statesmen. Second, during the democratic transition period of 1974 until 1978, military spending actually increased in Spain. In 1974 and 1975, defense expenditures the ratio of defense expenditures to total government expenditures was .14, but this ratio grew until it peaked at .24 in 1976. Thus, defense expenditures grew in relation to total government expenditures during the transition period, suggesting that the government may have increased military spending to placate the military (Ziegenhagen and Koutsoukis 1992) beyond placing the military in the role of tutor to the new regime. Finally, the new democratic leaders attempted to keep the Spanish Army out of politics. To head off the danger of right-wing generals deciding to prevent liberalization, a small group of military officers and civilians close to Juan Carlos hoped to phase out Franco's old guard through retirement, reorganizations, and shifts of command ("Transition" 10 November 1975).

However, factions within the military still viewed themselves as a short-term loser regardless of these domestic bribes and were increasingly unhappy when the new constitution guaranteed greater autonomy for ethnolinguistic groups in Spain and looked to the military only as a tutor of the new government. "That this arrangement was not entirely satisfactory to all segments of the military is shown by the discovery of several

military conspiracies and an attempted coup led by the Civil Guard in 1981"

(Ziegenhagen and Koutsoukis 1992: 25). In February 1981, Lt.-Col. Antonio Tejero stormed the Cortes and took 350 deputies hostage, but the king was able to convince Tejero to surrender. An additional right-wing plot to stage a military coup was discovered in October of the next year. This evidence that the military continued to pose a threat to reform made the new leaders realize they had been unsuccessful in offering domestic bribes to the military to gain their support for the reform process. To protect the reform process from continued military threats, the leaders sought outside help.

The 1981 attempted coup increased the reforming government's dedication to joining the EU in an effort to counter the threat posed by the military. Before the 1981 attempted coup, the reforming government had already hoped that seeking membership in the EU would bind Spain closer economically and politically to western European mainstream politics, thus isolating both the left and the Francoist military right wing ("The War" 4 July 1982). After the attempted coup which threatened the democratic stability of Spain, the Spanish government tried to speed Spain's entry into the EC "to deter nostalgic generals from attempting a rerun" (Markham 22 March 1981).

Recognizing this threat of future military rule, international actors such as U.S. President Ronald Reagan promptly urged Spain's accession to organizations such as NATO and the EU ("The Whys" 17 October 1981). Spain's democratic leaders hoped that continued negotiation with the EU and eventual membership would tie Spain to other democratic states and weaken the ability of the military to halt the dual transition. Additionally, the negotiations and eventual membership provided Spain with increased resources to bribe

the military into accepting the entire reform process. Specifically, the integration of the Spanish economy required a military capable of fulfilling Spain's new role as junior partner in policing European interests. The Socialists therefore proposed to create a rapid deployment force to intervene in regional conflicts (Petras 1993: 117). By offering international bribes such as a role in policing regional conflicts and an increase in international reputation, Spain was able to use outside help to neutralize the military's threat to both political and economic reform.

### Franco's Right

Franco's staunchest political powers were similar to the military in that they also stood to lose more from political reform rather than economic reform. However, after 40 years backing Franco, this group desired to block both types of reform, and initially after Franco's death had the power to do so. After Franco's death, Franco's right vowed to resist any reform, making Juan Carlos cautious in his reform efforts at first to avoid any immediate and potentially violent confrontation with the ultrarightists (Richardson 1 December 1975). Some of the immediate de facto reform measures after Franco's death were the almost complete disappearance of press censorship, the organization of still-banned, and the prevalence of reformist figures in politics, but many Franco supporters remained in power (Malefakis 1982: 225). The coexistence of the new democratic forces and old undemocratic forces resulted in the competition for control of the state. Often Juan Carlos supported reform measures that Franco's right was initially able to block, but the king and his fellow reformers were able to use mainly domestic tools to overpower



Franco's right. Thus, although Franco's right was able to function as a veto-power immediately following Franco's death, reformers using domestic solutions were able to overpower Franco's right.

Franco's right was initially able to act as a veto-player and prevent liberalization measures, and the members of this group were driven to exercise this power because they feared the retribution a democratic society might extract from them ("Bad Beginning" 13 December 1975). For instance, Juan Carlos wanted to start his reign with a generous amnesty for prisoners, especially political prisoners, but Franco's right insisted on a more limited pardon ("Spain: Changing" 8 December 1975). The king then attempted to install a relatively liberal technocrat as prime minister, but the right-wing heirs of Franco demanded that a majority of the Council of the Realm approve any nominee. Forced to relent, Juan Carlos asked incumbent Prime Minister Carlos Arias Navarro to serve out his term until January 1978 (Willey 15 December 1975).

Franco's cronies quickly gathered around then-Prime Minister Navarro, who was closely tied to Franco's regime. Navarro and Franco's supporters were only able to control the new regime for a single year until their slow reform process caused the king to remove them from office. In 1976, the king replaced Navarro with Suárez, whose Union of the Democratic Center (UCD) held the advantage in parliament, and the leaders closest to the old regime were ousted from power. Once parties began to form in 1975 and 1976, the National Movement and the leader associated with the organization after Franco's death, Navarro, lost power in the new regime, and the National Movement was eventually disbanded in 1977. Although groups within Spain had called for democracy

since Franco's death, Franco's political supporters were able to stall the reform process for a year until they were removed. After leading members of Franco's right such as Navarro were removed, the new leaders were able to isolate Franco's right and greatly limit their influence on decision making.

Franco's right still attempted to limit the reform process, and reorganized in two parties after the National Movement was outlawed: the *Fuerza Nueva* and the AP (the party of Franquist notables as well as of the bureaucratic and social interests which they embodied), but both were marginalized, remaining outside the democratic accord and receiving few votes in the years immediately after Franco's death (O'Donnell 1992: 29). Spain was also able to overcome the threat posed by Franco's right by using bribes. Suárez was able to gain their tacit support by promising some personal continuity (80 appointed members of the Cortes reappeared in 1977), and changing the electoral system reforms to increase the probability of conservative success (Maravall and Santamaría 1986: 83).

These domestic solutions were largely effectual in neutralizing the threat posed by Franco's right to the dual transition, and the EU aid was not needed as desperately as it was to overcome labor's opposition and the military's opposition. Yet, as discussed above, the EU provided a convenient excuse for reform policies and tied Spain inextricably to reform policies regardless of the demands issued by Franco's right. If any residual strength remained in Franco's right that threatened economic reform, the accession process would have further limited this short-term loser's ability to weaken the reform process. While Spain did not require outside help to overpower this veto-player's

opposition to economic reform, the J-curve approach correctly predicted how the accession process was fundamental in aiding the reforming governments' resistance to the demands of organized labor and the military.

### *Mass Uprisings*

Economic reform was also threatened by short-term losers who used mass uprisings to pressure the government to change its reform policies. According to the J-curve approach, short-term losers from economic reform can create an atmosphere of civic unrest to weaken the government's dedication to continued economic reform. With antigovernment demonstrations, riots, and political violence, the general atmosphere in Spain after Franco's death was certainly one of civic unrest (see table eleven). While the number of mass uprisings may not have increased from before Franco's death, the Spanish state was less able to cope with civic unrest. Franco had used his political and military might within Spain to suppress, often brutally, policy opponents using mass uprisings, but no similar strongman existed after his death. The new regime did have the might nor the will to use Franco's brutal tactics, and mass uprisings became a more effective tool to pressure government policy making with. Immediately after Franco's death, the short-term losers from the dual transition used several types of mass uprisings in an attempt to influence government decision making. With riots, demonstrations, and comparatively high levels of political violence such as assassinations, armed attacks, and bombings, short-term losers threatened the government's reform policies (Ziegenhagen and Koutsoukis 1992: 25). While not all of the mass uprisings attacked the government's

economic program, this high level of civic unrest threatened both aspects of the dual transition which were intertwined according to the government leaders. If one reform program was threatened, both were threatened. To counter this threat posed by short-term losers, the reforming government sought outside help to protect the dual transition.

Many of the mass demonstrations immediately following Franco's death were focused on political reform rather than economic reform. For instance, mass demonstrations were coordinated to demand amnesty for political prisoners. When Juan Carlos announced a limited pardon for most of Spain's 15,000 prisoners but excluded many political prisoners, 2,000 leftists organized in part by the Communist Party demonstrated against the government ("Church Asks" 27 December 1975). Watching a Madrid crowd peacefully chanting "amnesty" and demanding the release of political prisoners, a police officer remarked that 'this kind of thing' could not be tolerated, reflecting the dominant opinion of the far right that all such demonstrations were affronts and provocations. Fearing an uprising led by Franco's right as discussed above, the government responded to the mass demonstrations by converting a large area around the Carabanchel prison in Madrid into an armed camp, enclosed by barriers and surveyed by helicopters and police with automatic weapons. Demonstrators in the area were clubbed and arrested ("Spain: It Was" 13 December 1975).

Sometimes the protesters were also demanding economic reform. After being released from prison, Communist labor leader Marcelino Camacho demanded immediate economic reform and helped organize a mass demonstration. The police responded by arresting Camacho as he left his home, and 1,500 riot police waded through 5,000

demonstrators firing smoke grenades and swinging clubs. Following protestors into nearby coffee shops, the police arrested more than 200 protesters (Willey 15 December 1975).

Political violence was also at a high level immediately following Franco's death. During this period, Basque, Catalanian, and Galacian movements increased their demands for autonomy, and political violence also increased. From 1976 until 1982, the ETA wounded 540 people and killed 345, and extreme right-wing violence also increased causing 40 deaths and 128 wounded in just the Basque country. This considerable level of violence was connected with nationalism and "with the general process of democratization since it reflected in some cases opposition to the reform of certain institutions, including top security forces, and the persistent toleration of an underground rightist plot (*trama negra*) which involved top military officers and former ministers from the Franco period" (Maravall and Santamaría 1986: 92). In an attempt to bribe the veto-players of the military and Franco's right, the government angered other short-term losers from the reform process, causing them to use mass uprising in protest against government policies.

While the antigovernment demonstrations, riots, and political violence were not always directly opposed to the government's economic reform program, these mass uprising posed a threat to Spain's dual transition, both economic and political. If the short-term losers from the reform process succeeded in preventing the government from continuing its reform program, some of the economic policies would have been effected

because the two transition were inextricably linked by government heads such as Prime Minister Gonzalez (Díaz 1996). Moreover, some of the mass demonstrations were directly the result of economic reform.

For instance, economic reform policies early in Gonzalez's term resulted in a massive shakedown in the steel industry with many layoffs, and workers responded by using antigovernment demonstrations (Frenchman 16 December 1983). Rising unemployment, which rose to 18 percent during the first year of Felipe Gonzalez's Socialist government (Frenchman 16 December 1983), a general dissatisfaction with the hardships associated with economic reform, and the prevailing feeling that the new Socialist government had sold out the general public for the support of business leaders caused short-term losers to use mass uprisings to pressure government policy change. In August 1980, hundreds took part in a nine-day hunger strike in Spain's depressed Andalusia region, demanding economic aid to assist them against hardships from economic liberalization. Violence also erupted in the region after police tried to disperse protestors ("Hunger Strike" 5 September 1980).

The terrorists using political violence also began to oppose economic reform as the Basque terrorists continued their efforts in the mid-1980s. By 1985, 12 military leaders had been assassinated since the Socialists formed the government ("The Drain" 31 July 1985). The ETA's opposition to economic reform that limited their provinces' ability to fish freely without quotas became clear when they responded to Spain's signing of an EU accession agreement on June 12, 1985 by killing four army and police officers

(“Spain, Portugal” 21 June 1985). Recognizing their continued opposition to some aspects of economic reform and to Madrid’s rule over Spain in general, Prime Minister Gonzalez called the terrorists ‘assassins of hope’ (“Spain, Portugal” 21 June 1985).

The government blamed many of the economic hardships endured during the reform process on two fundamental problems: rising oil prices and trying to cope with Spain’s worst recession decades while introducing structural reforms for eventual EU membership (Monahan 23 September 1980). Thus, as discussed above, the EU was used as a scapegoat for difficult economic reform policies. By seeking membership in the EU, each successive Spanish government was bound to continue economic reform to ensure accession occurred. Regardless of what domestic actors opposed continued reform, the government was able realistically to say ‘it’s not my fault.’ The clearest example of this relationship was the Socialist party, which came to power in 1982, and its continuation and strengthening of economic liberalization. Despite what traditional socialist supporters demanded through mass uprisings such as antigovernment demonstrations, the new government continued and protected the reform process (“Workers in Spain” 19 November 1984; Bermeo 1994) from the short-term losers by seeking membership in the EU as predicted by the J-curve approach.

### *Too Accountable*

There is little evidence to suggest that Spain was too accountable to the general public, which would have allowed the short-term losers another avenue through which to threaten economic reform. Elections occurred in 1977 and 1982. The electoral outcome

with Suarez comfortably returning to power indicated that Spaniards were less rattled by the economic troubles than expected by the J-curve approach (“A Remarkable” 10 March 1979). Even when the Socialist party was brought to power, economic reform continued and even arguably increased in intensity. The party was openly dedicated to EU membership, and Prime Minister Felipe González devised a strategic anchor policy that relied on membership in the EU as the key to consolidation of Spain’s democracy and the modernization of its market economy (Díaz 1996: 257; de la Dehesa 1994: 137).

### ***Partial Reform***

The partial reform approach expects short-term winners rather than short-term losers to threaten the success of economic reform. Instead of the costs of reform being concentrated, the proponents of this approach argue that they are spread out among society as a whole. However, the short-term winners are concentrated and gain substantial profits from the beginning of the reform process. If the reform process continues, these profits will gradually taper off, and therefore short-term winners attempt to stall the reform process. In Spain after the death of Franco, there is little evidence that short-term winners from reform existed as a powerful group opposed to continued reform.

The first partial reform hypothesis is that public officials, who are short-term winners themselves or are bribed by short-term winners, will prevent reform policies from being implemented. To counter this threat, reforming governments such as Spain after Franco seek outside help to ensure reforms are enacted (see table two). However,



there is little evidence that this occurred in Spain although there was ample opportunity for corrupt officials to prevent policy implementation. The pacted democratic transition allowed many Franco supporters to retain political power in the new regime (Maravall and Santamaría 1986), but there is little evidence that they used this power to prevent policy implementation once Franco's right was removed from leadership positions. Additionally, the cumbersome Spanish legal and bureaucratic routines, many dating from the Middle Ages, made the government's bureaucracy the biggest headache for businesses according to the vice-president of the main employer's federation ("Spanish Bureaucracy" 21 December 1985). There is little evidence, however, that the officials used this paperwork tangle to prevent reform policies from being implemented.

The second partial reform hypothesis is that economic reform is at risk when the reforming government is not accountable to the short-term loser or the general public, but there is little evidence of this relationship in Spain. The general public was very supportive of both liberalization and EU membership in part because they were convinced from decades under Franco that being different from the rest of Western Europe was undesirable (de la Dehesa 1994: 133 and 135; Ellman 1 December 1985). They were able to express this support through elections in 1977 and 1982. The 1982 elections resulted in a Socialist victory perhaps with the hope that the troubles associated with economic transformation would be weakened. Thus, it seems that the general public might have desired to weaken the reform process rather than providing the bedrock of support the partial reform approach predicts.

### *Alternative Explanations for Seeking*

Two additional reasons can explain why Spain sought membership in the EU after Franco's death. First, Spain sought EU membership to increase its economic strength by strengthening ties with EU members as predicted by the neoliberal institutionalists discussed in chapter one. This argument is not as persuasive because the economic benefits from eventual membership were offset by the need to streamline Spanish industry as discussed above, and the accession terms surrounding agricultural and fishing issues were so unfavorable that Spain continues to complain about them. Second, EU accession was seen as a mechanism to protect political liberalization rather than economic liberalization. This uses the same mechanism as the J-curve and partial reform approaches where domestic actors use international institution to increase their political clout at home, but in this case the government used seeking membership in the EU to protect favored political policies rather than economic policies. However, the Spanish dual transition makes it difficult to say that EU accession only stabilized the democratic transition rather than intentionally stabilizing both transitions. While both alternative explanations may have some merit, they do not prevent the J-curve approach from explaining another driving factor in Spain's desire to join the EU, the need to protect economic reform.

First, the neoliberal institutionalist argument discussed in chapter one and supported from the earlier Spanish case is that states join international institutions for economic profits made possible, for instance, through lower transaction costs. Spanish business leaders desired EU membership during Franco's rule and after his death because

they recognized it was crucial to ensure economic growth as neoliberals argue. After Franco's death, autarky quickly became a thing of the past as trade quickly rose from 21 percent of GDP in 1973 to 26 percent in 1976 ("Spain at Europe's" 2 September 1978), and business leaders realized the potential for future benefits in the European market. By 1980 Spain exported 65 percent of its total agricultural exports to the EU. From the EU's point of view, the union imported 23 percent of its fruit from Spain, including 98 percent of its apricots (Pond 24 November 1980). The big holdup during membership talks was the French fear that Spanish agricultural exports, especially fruit, vegetables, and wine, would displace southern French farmers (Taylor 16 December 1980). By lowering trade barriers, Spanish farmers and export-oriented industrialists would be able to gain substantially.

However, after the initial enthusiasm for EU membership to obtain a democratic seal of approval for the new regime, Spain began to consider the substantial costs of membership which largely offset the initial gains expected by neoliberal institutionalists. The adoption of the value-added tax system (VAT) was expected to take longer than the target accession date of 1983. Spanish industrialists feared that open competition between Spain's previously protected industry and goods manufactured in the EU "would ruin their ability to stay in business" and began to demand more time to prepare for foreign competition before tariffs were cut on 50 percent of the country's imports (Giscard Remark" 13 June 1980; "EEC and Spain" 1 March 1980; "Spain Creeps" 8 August 1977). The loss of import quotas was expected to cause many businesses to fold, increasing unemployment according to Lorenzo Gascon, head of EC affairs at the

Spanish employers association (Nicholson 30 December 1985). Specifically for Europe's fifth largest textile industry, EU membership would involve dismantling high tariff walls and allowing greater foreign competition, resulting in inevitable closures of companies. According to Miguel Bosser, chairman of Bosser, a woolen-goods producer, the introduction of the value-added tax alone could lead to a cut of 20 percent in Spanish exports and the loss of 20,000 jobs (Moreton 15 November 1985).

Accession also was expected to increase existing economic troubles in Spain rather than bring economic gains. By 1985, unemployment stood at more than 21 percent and inflation at 9 percent, but both were expected to rise after accession (Schumacher 8 July 1985). The introduction of the value-added tax alone was expected to add two or three percentage points to the inflation rate ("Spain and Portugal Are" 15 June 1985). Furthermore, Spain and the EU leadership little hope that EU membership would increase GNP ("Spain at Europe's" 2 September 1978). The European Commission took a grim attitude towards Spanish accession and while recognizing that Spain should join for political reasons discussed below, the commission professed "itself deeply gloomy on the economic issues," and found that even seemingly positive economic issues such as 'motor zones' in the northern Basque and Catalan countries will only "increase regional inequalities in the community" ("The Rain" 2 December 1978).

Eventually, EU members agreed on how to deal with agricultural competition, and this made Spain's 1986 entry possible but not as economically rewarding. The EU responded to French, Italian, and Greek fears of increased competition from Spanish farmers and fisheries by reaching an agreement in October 1983 on the marketing of

Mediterranean farm products. The European Commission recommended long transition periods for those agricultural goods where Spain was most competitive (“A Pre-Emptive” 5 November 1983). Thus, one of the main benefits to membership was taken away from Spain. While Spain has economically benefitted from EU membership in the long term, the costs associated with membership were so great that an additional rationale for seeking EU membership seems necessary.

The second alternative explanation for joining the EU was to protect the political transition rather than the economic transition. A general perception exists in light of the economic problems discussed above that the instinct to join the EU was more political than economic. Specifically, membership was seen as a mechanism to anchor the new liberties and institutions to the more consolidated ones in the north (Markham 27 July 1980). Spanish Foreign Minister Marcelino Oreja Aguirre stated that Spain’s entry into the EC was crucial “to incorporate Spain in Community’s integration process” and to “establish peace” (“Spanish Foreign” 6 February 1979). This general perception encompassed the main political parties, the general public, and economic actors who felt that EU membership would ensure both the left and the right accepted the new democratic rules of the game (O’Donnell 1992: 27-28; “Spain at Europe’s” 2 September 1978). Spain’s domestic leaders used the EU membership to protect their favored policies, the same mechanism used according to the J-curve and partial reform hypotheses, but the favored policies were political in nature rather than economic.

However, this dedication was not enough to override the economic concerns discussed above that surrounded eventual membership, and Spain was not in a hurry to

accede to the EU (“Spain Creeps” 8 August 1977). Even with the lofty goal of protecting Spain’s democracy, membership talks remained stalled in 1981 and 1982 following the 1981 attempted coup and leaked information about other conspiracies by those who wanted to restore a Francoist regime. While the Council of Ministers promised to ‘intensify’ negotiations, they did not advance the target entry date and remained focused on economic problems within the EU, mainly CAP reform and Spanish farmers threatening French farmers (Palmer 22 March 1981).

There is little doubt that Spain desired EC membership to prove itself as a Western democracy, yet according to European Ministry Chef de Cabinet Carlos Westendorp y Cabeza, the political and economic reasons for membership could not be separated. While the new democracy needed to be supported through EC membership, “it is also true from an economic point of view that Spain has to be integrated into its natural commercial area” (Pond 24 November 1980). Thus, membership in the EU was seen as a mechanism to improve political *and* economic life within Spain. Prime Minister Felipe Gonzalez openly viewed accession as a way to consolidate Spain’s democratic institutions and to force archaic industries and agriculture to modernize during the economic reform process (Nicholson 30 December 1985). Because Spain followed a dual transition path, seeking membership in the EU was seen as a tool to protect both political and economic reform from reform opponents.

Although both alternative explanations for Spain’s decision to seek membership in the EU have merit, they do not outweigh the consideration discussed earlier. The initial economic results from membership were largely negative rather than rewarding

results expected by neoliberal institutionalists. While the long term results are positive, the large initial costs suggest another rationale was needed. The government clearly desired to protect Spain's fledgling democracy, but government officials recognized that in Spain the two aspects of the two transition were inseparable. To protect both economic and political reform, Spain sought membership in the EU.

### ***Spain Seeks Outside Help***

Spain sought membership in the EU from the early 1960s until its eventual accession in early 1986. While Franco was alive, this action cannot be explained by the J-curve or partial reform approaches because the government was not economically reforming. However, Franco sought membership in the EU to protect his power at home, a relationship understood by both approaches. Rather than using membership talks to further favored reform policies, Franco used the accession process to keep potential opponents in check. After Franco's death, Spain's relationship with the EU provides support for two J-curve hypotheses. First, short-term losers who acted as veto-players threatened reform success, and second, short-term losers used mass uprisings to weaken the reform process. In response to the efforts of short-term losers, the government sought membership in the EU. During the accession process, the new leaders locked-in reforms to prevent the short-term losers using either of these tactics from stalling reform efforts.

The opponents to economic reform in Spain during this time were predominately short-term losers who were concentrated groups facing immediate costs from reform. They attempted to weaken reform policies by acting as veto-powers and using mass

uprisings as predicted by the J-curve approach. There is little evidence that short-term losers used high government accountability to threaten reform or that short-term winners posed any significant threat to reform success. Overall, the J-curve approach correctly predicted under what conditions short-term losers would sufficiently threaten reform policies, driving the reforming government to seek outside help. Because organized labor, the military, and to a lesser extent Franco's right were able to act as veto-players and opposed significant aspects of economic reform, the UCD and Socialist governments both needed the EU's help in protecting reform from these short-term losers. Short-term losers also used mass uprisings in an attempt to weaken the government's dedication to economic reform, and again drove the reforming government to seek outside help. Rather than short-term winners threatening the reform process as predicted by the partial reform approach, the J-curve approach accurately explains which group threatened reform success and how the government responded to that threat.

### ***SLOVAKIA UNDER MECIAR***

According to the partial reform approach, short-term winners rather than short-term losers threaten economic reform as they did in Slovakia under Prime Minister Meciar's leadership and after. However, Slovakia under Meciar is not a classic example of the partial reform scenario because the short-term winners captured the government to such an extent that the prime minister himself was a short-term winner. From its independence in 1993 until the 1998 elections, Slovakia was dominated by the HZDS and



its leader Vladimir Meciar (“Czech Republic” 17 December 1997).<sup>18</sup> Meciar and his core supporters consisted of short-term winners from the economic reform process and attempted to stall or limit the effectiveness continued economic reform. By using networks of allies in an example of classic crony capitalism, the short-term winners led by Meciar were able to subvert the implementation of reform policies. Moreover, because the short-term winners had fully captured the “reforming” government, they were often able to pass legislation that undermined the reform process. Although the government was tied to the transitional losers through elections, the captured government was able to subvert the democratic process and maintain its crony capitalist rule until the 1998 elections.

In Slovakia, the short-term winners were able to gain immediate benefits from the reform process which would have been threatened by continued reform (see table twelve). For instance, Meciar and his network of supporters directly gained from the opaque process of privatization, and open privatization would have ended this benefit. Meciar’s cronies would also have substantially lost their benefits if foreign actors were allowed to take part in the privatization process. To prevent continued economic reform, Meciar reformed only what he absolutely had to in order to retain political power.

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<sup>18</sup> Meciar was removed from power in March 1994 after his coalition collapsed, but returned after the September-October elections. During his absence, a former party colleague headed the government who largely continued Meciar’s economic and foreign policies. Although the Moravchik cabinet attempted to correct some of the policy failures from Meciar’s government, the limited time and the nature of the government as a caretaker rather than publically mandated government limited its ability to do so.

Because the short-term winners had succeeded in capturing the government, the partial reform approach would not predict Meciar's government from seeking membership in the EU. According to both approaches, reforming governments seek outside help to protect economic reform when reform opponents pose a significant threat to reform success. In Slovakia, the reform opponents were the government and its closets supporters, yet Meciar's government sought membership in the EU. Clearly, this indicates an inability of the partial reform approach to predict why reform opponents may still seek membership in a liberal IO. Moreover, it suggests that the broad definition of seeking adopted in chapter three allows governments to be coded as seekers that are not dedicated to the accession process. Regardless of the reasons why, Slovakia sought membership continuously under Meciar's leadership, and formally applied in June 1995.

### ***Partial Reform***

As expected by the partial reform approach, short-term winners threatened successful reform in Slovakia by using public officials to subvert reform policies and limiting the government's accountability to the general public or the transitional loser. Looking at the independent variables (see table twelve), the partial reform approach would then predict that Slovakia would seek membership in the EU to protect the reform process from the efforts of short-term winners. However, this superficial reading of the case misses what actually occurred in Slovakia and illustrates the need to use detailed comparative case studies rather than fully relying results from large scale analyses such as the results presented in chapter three. A closer look at Slovakia during this time

reveals that the short-term winners had fully captured the government, and were very successful in stalling further reform. Seeking membership in the EU appears to be exactly the opposite of what the short-term winners were expected to do. According to the partial reform approach, reforming governments seek membership in liberal IOs to protect economic reform, but the short-term winners, dedicated to stalling reform, sought membership in the EU, which tried to further reform in Slovakia. This indicates that an alternative explanation is needed to explain the government's efforts to join the EU.

Under Meciar's leadership, the governing coalition weakened economic liberalization and increased state interventionism and protectionism, according to President Kovac. Some of the new laws favored lobbies and resulted in market distortions. For instance, privatization was not transparent and Meciar's friends largely gained from the process ("Slovakia Lagging" 20 January 1997). Meciar even attempted to keep the golden shares in companies after the government chose direct sale over the voucher method for further privatization. Many of the new owners were management and workers who then lacked funds to invest in their new assets, slowing restructuring ("European Commission Praises" 29 May 1996).

Overall, some successful economic reform had occurred which allowed the short-term winners to reap large profits but structural reform was lacking. The successful economic reforms were reflected by the positive macroeconomic indicators: growth in 1995 was 7.4 percent, beginning to rival some of the Asian economic tigers ("Money Supply" 23 October 1996), inflation fell in 1995 to 5.2 percent, and the exchange rate was stable against the D-Mark and the US dollar from 1993 on ("Money Supply" 23

October 1996). On the surface, Slovakia appeared to be one of the most successful transforming economies in eastern Europe, but the macroeconomic indicators did not reflect the true state of reform in Slovakia. From 1993 until 1998, Meciar followed a habitual pattern of hesitating over economic reform (Burke 15 March 1995). Summing up the economic conditions in 1996, one leading banker said that the “infrastructure is backward, other countries seem to be doing more; technology is not state of the art; enterprise restructuring is slow; foreign direct investment is unnaturally low; there are horror stories of non-performing loans at the big Slovak banks, and yet the macro-economic story is great” (“Money Supply” 23 October 1996).

This disjuncture between the macroeconomic indicators and the troubled future for economic reform was recognized by the European Commission and described by President Kovac as the “hybrid conditions of life” (“EU Assess” 17 September 1996; “President Kovac Attacks” 11 March 1994). Both the commission and the president recognized that Slovakia had become stuck in a partial reform equilibrium. To reform the economy completely and successfully, the World Bank and the EU concluded that Slovakia needed a transparent privatization process, banking regulation, bankruptcy policy measures, agricultural reform, effective implementation of competition policy, and procurement policy (“World Bank” 19 December 1996; “EU/Slovakia” 18 March 1997).

Yet, Meciar did none of these things. Instead, he seemed intent on centralizing both political and economic power: legislation restricted civil rights and gave security services free reign, and privatization landed property in the laps of Meciar’s friends (Ingram 25 August 1996). Overall, the slow pace of continued economic reform,

especially of companies and banks, had a negative effect on medium-term growth, and doubts soared about Bratislava's adherence to democratic and free market values ("EC Worried By" 25 November 1996; Boland and Done 23 October 1996). As reform sputtered along in Slovakia, the macroeconomic indicators also began to reflect the troubled state of economic transformation by late 1996. The current account, for instance, fell rapidly into a deficit of \$740 million within the first half of the year from a surplus in 1995 of nearly \$650 million. The deficit represented a significant rise in imports of both consumer and investment goods to meet domestic demands, and while some analysts suggested that a current account deficit was desirable, they recognized that it was unsustainable in the longer term ("Money Supply" 23 October 1996). Rather than correcting this economic problems with continued reform, Meciar used his influence over public officials and his distance from the public to prevent reform policies that would threaten the profits of short-term winners.

#### *Public Officials Subvert Reform Implementation*

As expected by the partial reform approach, the short-term winners used public officials to subvert reform implementation in order to protect their economic profits, but this was especially easy in Slovakia because the short-term winners controlled the government. When democratic rules within the state threatened their ability to use public officials in this way, Meciar's cabinet did not hesitate to work against fundamental rules of democracy ("Meciar Shows" 11 September 1997) as discussed below. The public officials were able to undermine the reform process even though there was little evidence

of large black market and corruption was seldom mentioned because they were led by a government dedicated to undermining the reform process. Instead of acting against the interests of a reforming government as the partial reform approach suggests, the public officials were following government orders to subvert the reform process.

Slovakia's civil service suffered from some of the problems expected by the partial reform approach, and successful economic reform required an effective public service, necessitating civil service reform ("EU/Slovakia" 18 March 1997). Slovak officials also recognized this need to reform the civil service. In response to the EU's decision that Slovakia did not have stable institutions, Slovak Deputy Prime Minister Jozef Kalman told journalists that the problem because of a "lack of complexity and imperfection in the laws on the competencies of public officials" ("Deputy Premier" 12 September 1997). President Kovac also alluded to corruption problems in a 1994 speech when he briefly mentioned the increase of corruption in state offices and banks, which was often whispered about but not openly discussed ("President Kovac Attacks" 11 March 1994).

While these traditional problems of corrupt and incompetent public officials made the implementation of reform policies more difficult as predicted by the partial reform approach, the more significant threat to the reform process came from public officials actively supporting the government's policy of preventing further economic reform. One of the clearest indicators of this relationship between the government and public officials was that more than 4,000 people were dismissed from the civil service and other government-controlled bodies for political reasons in the first year following the 1994

elections (“Slovakia: Madness” 2 December 1995). In his efforts to increase the centralization of powers in Slovakia, Meciar also went so far as to remove secondary school principles that did not join the HZDS. The overall effort was designed to ensure that Meciar’s supporters occupied every significant economic and political office to strengthen his authoritarian rule according to U.S. ambassador to Slovakia Ralph Johnson (Mortkowitz 6 August 1997).

Two particular examples reveal Meciar’s ability to use public officials in the short-term winners’ efforts to subvert continued economic reform. First, Slovakia received substantial funds from the use through PHARE aid, designed to help economic and democratic reconstruction in Eastern Europe. In granting EU funds, the EU expected privatization, reduction in state control of the economy, transparency in spending on projects, and the right of any citizen to apply for PHARE funds. Specifically for Slovakia, the EU stated that Slovakia needed to include non-governmental organizations (NGOs) and opposition parties in PHARE disbursements to ensure transparency and honesty, but Meciar’s cabinet succeeded in passing a 1996 law that increased state control of the funds and prevented NGOs, often dominated by his political opponents, from drawing on available funds. When the EU chastised these actions, Meciar responded by temporarily refusing to draw on the PHARE fund of 26 million ECU because of the EU plot to interfere with the Slovak government (Mudry 7 November 1996).<sup>19</sup>

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<sup>19</sup> Later inspections revealed misuse of PHARE resources allocated for General Technical Aid Fund projects in 1991 and 1996, before the current government came to power. The Druzinda government agreed in February 2002 to return 534,800 euros that Slovakia had

Originally, the PHARE funds to Slovakia were worth 40 million ECU for 1996, but the amount was cut to 27 million ECU when Slovakia failed to provide enough EU-acceptable plans. The plans were often rejected because they did not sufficiently further economic or political reform in Slovakia. Of the funds that did reach Slovakia, the EU heard several reports of misused funds, the lack of a full set of books on funds distributed, and Meciar's efforts to monopolize the PHARE program in Slovakia at the expense of NGOs who were often political opponents of Meciar. The EU continued to criticize the Slovak government for using its power to weaken the role of political opponents and convince public officials to divert funds as needed. Slovak Vice Premier Josef Kalman responded to these complaints by admitting that mistakes had been made and that a new transparent system of distribution was needed. Kalman then offered the solution of creating a special office to control the disbursement of PHARE funds, which would be answerable to Meciar's cabinet (Mudry 7 November 1996). Thus, the new office would increase the discretionary power of Meciar's government and further its ability to appoint and use public officers who would act in the interests of the short-term winners. Through these various tactics of marginalizing reform supporters such as NGOs, decreasing the amount of funds received, and misusing reform funds, the short-term winners were able to prevent further reform which would have decreased their profits.

The second example concerns the privatization process which was defined by classic insider privatization (Done and Anderson 28 October 1997). The Meciar

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withdrawn without authorization ("Slovakia to Return" 28 February 2002).



cabinet's first official actions after the 1994 elections were to postpone the second wave of privatization that was scheduled to begin the next day, cancel some sales already approved by the outgoing government, and gain control over decisive state bodies and the media ("Moravcik Warns" 5 January 1995; "European Parliament Fails" 30 November 1994). The government then considerably narrowed the list of companies to be privatized from an estimated value of 60 billion Slovak crowns to 40 billion crowns. By mid-1995, the government had still not released the final list of enterprises to be privatized, further lengthening the privatization process, and promised to exclude strategic sectors and retain government influence in others ("Minister Does Not" 2 June 1995; Anderson 2001b).

After the 1994 elections, Meciar switched Slovakia from voucher privatization which allowed ample opportunities for the mass public to participate to coupon privatization where the ruling coalition "decided to select themselves the new owners who will privatize Slovak companies" ("President Says" 4 November 1996). Under the new privatization scheme, state companies were mostly sold to those who ran them, who also happened to be "ex-appartachicks chummy with Mr. Meciar" ("Slovakia: Madness" 2 December 1995). During the second wave of coupon privatization when Slovak investors with contacts in Meciar's political circle were given preference, the National Property Fund sold companies worth SK 200 billion at unrealistically low prices, seemingly at the behest of Prime Minister Meciar according to the World Bank ("IBRD

Warns” 18 December 1996). In this way, Meciar was able to share the profits of the partial reform equilibrium with other short-term winners to strengthen his political support and prevent continued reform.

The privatization process was overall characterized by unpredictability and opaqueness, and the restructuring of privatized companies was hindered by the lack of investment capital. Banks were unable to contribute loans to solve this problem because many clients were unable to pay back loans. The new owners lacked the funds to invest in their companies unless the businesses saw a profit, which was rare. The European Commission concluded that only by restructuring the financial sector could industry be restructured (“EC Worried By” 25 November 1996; “European Commission Says” 2 April 1997). Yet, reform in the financial sector was delayed, and the three largest banks remained state-controlled in 1996 and managed over two thirds of all domestic loans (“IBRD Warns” 18 December 1996). If Meciar had been dedicated to economic liberalization, he could have introduced improved bankruptcy laws, which would have eliminated unviable companies and prevented further accumulation of bad debt (“European Commission Says” 2 April 1997). Meciar appeared to support some reform in the financial sector and proposed a privatization plan for the four largest banks that was expected to prevent continued poor banking practices. However, a closer examination revealed that at least 34 percent of the shares were to go to the banks’ largest debtors while the remaining shares went to unknown people close to the ruling coalition (“SDL Has” 28 February 1996). Even with proposed banking reform, Meciar was strengthening his position by ensuring that the interests of short-term winners were

protected. By the end of Meciar's rule, the mass privatization program had been replaced with classic insider privatization to enforce clientelism (Butora and Butorova 1999: 84-5; Anderson 2001a), strengthening Meciar's and his cronies' position and subverting the reform process.

Using insider privatization, misusing and limiting the effectiveness of PHARE funds, and generally influencing public officials to subvert the reform process, Meciar and his supporters were able to protect their interests as short-term winners to prevent continued economic reform. As the partial reform predicted, short-term winners posed the greatest threat to successful reform and used their influence over public officials to subvert the reform process. This expected pattern was supplemented by the short-term winners capturing the government. The leader of short-term winners became the prime minister and used the full power of his office to prevent the tapering off of profits by halting the reform process.

#### *Not Accountable to Transitional Losers*

The partial reform approach also predicts that reforming governments which are not accountable to short-term losers or the general public are more susceptible to the pressures exerted by short-term winners, resulting in a greater risk to reform success. The more undemocratic the regimes are more likely to suffer this fate, but reforming governments can prevent this outcome by seeking outside help to stabilize the reform process. However, if the short-term winners have already captured the government, they will be able to halt continued economic reform and not desire outside help to protect the

reform process. This occurred in Slovakia when Meciar and his fellow short-term winners were able to prevent continued economic reform, which would have threatened their interests. The short-term winners were able to lock Slovakia in a partial reform equilibrium in part because the regime was undemocratic, allowing the government to maintain a significant distance from the short-term losers.

The economic and political reforms that began following the Velvet Revolution in 1989 were slowed or even halted when Meciar became the leader of independent Slovakia. Although he received electoral support again in 1994, Meciar had made it clear from his election in 1992 that he was willing to disregard public will to follow policies which served his personal interest such as supporting the dissolution of Czechoslovakia, allowing communists to return to the government, and not enacting policies necessary for EU membership (Kabele 1994; Malova 1994; Crawford 1996).<sup>20</sup> Thus, a dangerous trend was established early in the new state's existence: the disregard for the public. Once dissolution became inevitable, the elites continued to bypass the public by not requiring a referendum to approve the new constitution. When the new state came into existence on January 1, 1993, the Meciar government had already shown a disregard for the public in issues concerning the fundamental nature of the Slovak state, and continued to do so throughout the Meciar regime, reflecting the overall character of the new state as it became a multiparty authoritarian regime rather than democracy (Malova 1994: 89; Anderson 2001a).

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<sup>20</sup> The republics were able to make separate economic policies because of a December 1990 agreement.

The collapse of Meciar's coalition in March 1994 and the emergency elections in September-October 1994 could be seen as evidence that democracy was working in Slovakia ("Slovakia: Madness" 2 December 1995). However, Meciar strengthened his position and was able to slow the reform process even more effectively than before as discussed above. After his return to power in late 1994, Meciar's governing coalition included anti-Western extreme right nationalists and the hard left, but his HZDS continued to dominate domestic politics. A number of cabinet changes were used during the next four years to strengthen the HZDS position rather than reflecting a high level of democracy as expected by the partial reform approach (see table two). Meciar was able to recover from the loss of support in early 1994 and regain his position as a prime minister with the ability to ignore the public's support for economic and political reform.

Although the public supported economic liberalization, they were unable to influence Meciar's policy, and his government was even able to reverse some of the reform measures enacted when Czechoslovakia existed. Although the economic reform continued superficially, there was little foreign investment, and a plethora of serious economic troubles plagued the state because reform efforts were carried out poorly (Crawford 1996). The Slovak government used the federal budget to finance a protectionist policy that "signaled a readiness to assume responsibility for the individual failures of its citizenry, which could only have a demoralizing effect. The direct consequences of advantageous unemployment benefits coupled with full pay for a five-month period was 15 percent rise in unemployment overnight in some regions" (Kabele 1994: 76). Meciar further weakened economic reform by pushing through laws in 1996

that threatened democracy and free market principles in Slovakia. The net result was the perceived high level of political risk in Slovakia, which in part caused a low level of foreign investment. In turn, the low level of foreign investment caused an increase in foreign debt as the corporate sector increased borrowing to finance the trade deficit (Done and Anderson 28 October 1997). By halting many economic reform policies and poorly implemented the few that continued, Meciar was able to present the public with a superficial support for economic reform while he protected the interests of short-term winners. Rather than following the demands of the public to continue reform, he subverted the entire process.

The reform policies that were enacted were not for the good of the general public and instead aided Meciar's close friends, often communists from the old regime. Thus, cronyism became a defining characteristic of Slovakia, and it led to a network of local authorities creating an atmosphere of fear in the countryside and a general feeling of anxiety among the public (Butora and Butorova 1999). When economic actors did not behave as Meciar and his cronies desired, they sometimes resorted to brute force to subdue any dissent. For instance, the government used police aid to remove the management of the Slovak Insurance Company forcibly and replace it with people close to the HZDS ("EP Wants" 21 June 1996). Meciar's government also controlled the state-run television and radio, and gained indirect influence over several national and regional newspapers when they were brought by companies connected to the communications minister and the father of the intelligence chief ("Slovakia: Meciar" 10 August 1996).

The general atmosphere in Slovakia was one where the economic rules and norms were not applied in the clear, objective, and transparent way the European Commission desired (“Brittan Highlights” 21 March 1997). The short-term winners led by Meciar were willing to act outside the democratic rules of the game to ensure that their interests rather than the populace’s interests were protected. Thus, although the general public supported continued economic reform, Meciar and his cronies were able to prevent this. While the partial reform approach correctly explains what happened in Slovakia when the short-term winners fully captured the government, the approach would not predict Slovakia to seek membership in a liberal IO which would then threaten the interests of the short-term winners.

#### *Short-Term Winners Seek EU Membership?*

Because the government consisted of short-term winners, the partial reform approach would not predict that Meciar’s cabinet would seek membership in a liberal IO such as the EU. The EU established the Copenhagen criteria, which clearly based membership on liberal economic and political policies, but Meciar and his cronies did not support either of these. If the partial reform approach is unable to explain why Slovakia sought EU membership from 1993 until 1998, the question remains of why the government expressed interest in the EU during this time. From an analysis of government and EU statements and personal interviews, it appears that Slovakia was willing to profess its desire for membership, but was unwilling to strive for membership with any form of dedication. In short, Meciar’s government paid lip service to the EU

but did little else. This lip service was necessary though to protect Meciar's power at home. Again, the same basic relationship that the J-curve and partial reform approach recognize explains what occurred in this case. The government used membership talks to increase its political clout at home and protect favored policies, but those favored policies did not include further economic reform. Instead, the government used membership talks to present the pro-reform public with evidence that the government was acting as the public willed. Simply put, Meciar and his cronies did what little they absolutely had to continue membership talks and keep the public's support. Meciar's vague promises answering EU demands and actions reveal that he was not truly interested in EU membership, but was forced to present superficial interest to maintain the public's support.

The EU repeatedly advised Slovakia to change its policies, and in November 1994 and October 1995 the EU officially expressed its concern that Slovakia did not observe the accession criteria ("Czech Republic" 17 December 1997). By issuing demarches to Slovakia, the EU hoped to pressure the government into greater reform, increasing the likelihood of accession. However, Roy James Perry, deputy chief of the EU-Slovak parliamentary committee, charged Meciar with ignoring demands from the union to make legislative changes that were "essential for its economic and political advancement for the road to integration into the EU" ("Slovakia Not Keeping" 17 June 1997). While Slovakia was able to gain entrance into the Council of Europe on June 30, 1993 after



promising to implement policies supporting human and minority rights within Slovakia (Demes and Mojzita 1994: 316), the EU was not fooled by these empty promises and demanded proof of reform, which was largely nonexistent.

Meciar responded to EU criticisms with vague promises of reform such as promising that “we will deal with it very seriously this year at any rate” concerning the import surcharge the EU strenuously objected to. (“Meciar on Abolition” 1 March 1996).<sup>21</sup> Quickly, the EU began to doubt his sincerity and argued that actions matter more than words on the path to EU membership. By ignoring EU recommendations and issuing the same promises year after year, Meciar convinced no one that he was dedicated to reform or even EU membership (“Meciar Unacceptable” 22 September 1997). Put more bluntly, Herbert Boesch, co-chairman of the EU-Slovak parliamentary committee, told Slovakia that the “time for promises is over” (“Slovakia Cannot” 20 June 1997).

Beyond his empty promises, Meciar’s actions also cast doubt on his desire to join the EU. For instance, despite declaring it wanted to enter the EU, Slovakia often did not have an ambassador at EU members’ capitals. For instance, when Ireland headed the EU during late 1996, Slovakia did not have an ambassador in Dublin. Nor did it have an ambassador in Italy when that country led the EU (“Ambassador To” 4 July 1996). Meciar also repeatedly pushed back the date for joining the EU. By the end of his government’s tenure, he suggested that Slovakia could join the EU “within the horizon of

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<sup>21</sup> The ten percent import surcharge provided a protective umbrella for domestic manufacturers by preventing “unnecessary imports to Slovakia” (Larsen 23 July 1997).

2007-2010" and that the delay was because membership required "immense" change ("Premier Worn" 18 December 1997). At one point it seemed that Slovakia would be left out of the enlargement process entirely according to the widely publicized 10+1-1 scenario, but Meciar's government did not appear overly concerned with this possibility. Indeed, Peter Weiss of the independent opposition Party of the Democratic Left (SDL) argued that the government coalition's anti-democratic measures and generally "loutish" behavior domestically and internationally ensured Slovakia would be left behind ("Former Communists" 17 December 1997).

Ultimately, the EU regulated Slovakia to the second tier of candidates rather than abandoning the state entirely. In mid-1997, the EU issued a report stating that Slovakia did not meet the political requirements of membership and therefore could not be in first group of candidates. This action would not have been necessary according to co-chairman Herbert Boesch if Bratislava had done what the joint committee agreed to six months earlier ("EP-Slovak" 26 November 1997). Although, President Kovac argued that the decision to regulate Slovakia to the second tier was "a failure of the present government" that was difficult to "perceive as anything other than an expression of the lack of confidence of developed Europe in the Slovak government coalition," Meciar's cabinet presented the decision as a success for Slovakia because Slovakia was still included in the enlargement process. Moreover, a great deal of change would be needed before membership, making accession in 2007 or even 2010 perfect for Slovakia ("Summit Decision" 17 December 1997; "Premier Worn" 18 December 1997).

From empty promises, actions that deliberately made accession more difficult, to an acceptance of distant rather than immediate EU membership, Meciar's sincerity about EU accession is questionable at best. A majority of the Slovak population supported EU membership throughout his rule, and to maintain power Meciar needed to appease some of them. By offering promises and lamenting the difficulty of accession, Meciar was able to deceive Slovaks successfully enough to win reelection in 1994. However, his interests as a short-term winner did not coincide with EU membership, and his actions rather than words reveal him to be insincere in his pledge to join the EU. Although the partial reform approach would not predict that Meciar's government would seek membership in the EU, his actions designed to undermine the possibility of accession while superficially promising to seek membership are compatible with this approach. As a short-term winner, Meciar wanted to continue the partial reform equilibrium rather than allowing reform to continue which would decrease his power and profits. Because EU membership would threaten this equilibrium but Slovaks supported EU membership, Meciar needed to do just enough to convince the voters that he was acting in their interests while in reality protecting his own.

### ***J-Curve***

There is little evidence to support the J-curve approach in this case. According to the J-curve, the short-term losers rather than winners threaten reform success because the losers face immediate, concentrated costs. The reforming government is more at risk to short-term loser opposition when the losers hold the government highly accountable, are

veto-players, or use mass uprisings. Each of these actions can weaken the government's dedication to reform, making reform success less likely, but there is scant evidence for Slovakia that any of these occurred in sufficient amount to threaten the government.

The first J-curve hypothesis is that reforming governments too accountable to the general populace are more likely to need outside help to protect the reform process. When reforming governments allow the public to influence decision making, the reform process will slow or halt because the general public does not want the economic hardships of transformation to continue. The Slovaks followed this pattern in that they supported slower economic reform than the Czechs (see Wightman 1993), but they were unable to hold the government highly accountable to their wishes. Meciar was able to derail the membership process and suppress any opposition for his policies until the 1998 elections even though the majority of Slovaks supported membership.<sup>22</sup>

From independence until 1998, Meciar was able to prevent and even weaken democratization within Slovakia, furthering the distance between the government and the public. The two indication that democracy was working in Slovakia were the elections and the frequent cabinet changes, but Meciar was able to decrease the public's potential influence through either of these mechanisms. For elections, Meciar often ignored the interests of the voters as discussed above, and sought to decrease the public's ability to voice their opinion. Meciar attempted to regain control over political expression in

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<sup>22</sup> Interview with spokesperson at Embassy of Slovakia, Washington, DC, July 10, 2001. The spokesperson also suggested that this complacency by the general public reflected a willingness to trust Meciar and let him take care of all concerns as the communists had rather than play an active role in a new democracy.

Slovakia by demanding that critical federal television and radio stations be closed down, re-nationalizing Danubiaprint, which prints most of Slovakia's newspapers, holding a court case challenging the ownership of the most independent-minded Slovak daily, *Smena*, and even trying to close the University of Trnava (Wightman 1993: 64; see also Crawford 1996). These various efforts succeeded in suppressing critics of the government, making it near impossible for them to act collectively against the government. With the public held immobile, Meciar was able to ignore polls showing their continued support for political reforms, and even removed the issue of "decommunisation" from the political agenda in 1993. Indeed, the government later stated that former communist officials should be allowed to hold positions of economic power (Crawford 1996: 172). A communist successor party even became part of the Meciar government following the 1994 elections.

The frequent cabinet changes also did not reflect the changing interests of the public as expected. Rather, the changes were made to strengthen the position of the HZDS at the expense of other coalition members (Boland 23 October 1996). Although the government may have seemed accountable to the public because of elections and cabinet changes, Meciar was largely able to ignore the voter's demands and use cabinet changes to increase his authoritarian power. The evidence from Slovakia reveals a government that was too distant from the public rather than too accountable as the J-curve approach expected.

Short-term losers can also threaten reform success if they act as veto-players in the society, but such players did not exist in Slovakia. Meciar was able to centralize

economic and political power to such an extent that he did not face a powerful domestic actor capable of vetoing his policies. Recognizing this, the German daily *Die Welt* condemned Meciar for governing like an autocrat by controlling the media and the secret services, forcing the EU to remind him constantly that he broke the basic laws of democracy (“Meciar Shows” 11 September 1997). Meciar even went to far as the transfer the authority to appoint school headmasters or head mistresses from local education authorities to the Education Ministry (“Slovakia Foresees” 12 April 1995). One veto-player expected by the J-curve approach is organized labor, but in Slovakia a committee of government, union, and employers’ representatives negotiated labor market reform, which took place without a single strike since 1990 (“Slovakia Says” 15 October 1997).

According to the third J-curve approach hypothesis, short-term losers can use mass uprisings to pressure the government to slow economic reform. Although rare, mass anti-government demonstrations did occur during Meciar’s rule. On November 16<sup>th</sup> 1995 demonstration to mark the anniversary of the 1989 Velvet Revolution were thousands shifted the chant from one of celebration to an antigovernment protest chanting ‘Slovakia, you’re turning Soviet’ (“Slovakia: Madness” 2 December 1995). The government responded to this ability of government opponents to use mass uprisings by passing a 1996 bill designed to combat subversive activity. Under the new law, speaking ill of Slovakia while abroad was a crime punishable by up to five years in prison. The law also limited the ability of gatherings to criticize the government (“European Parliament Disappointed” 4 April 1996). Some protests still occurred such as the

November 1996 demonstration where nearly 10,000 people protested Meciar's policies of harassing television producers, covering up dubious actions of the secret service, and favoring political cronies in the privatization process. Gradually, the economic achievements of the state were being overshadowed by these political problems and the return of economic hardship ("Slovakia's Chance" 25 November 1996). However, the mass uprisings were few in Slovakia, and Meciar was largely able to ignore them and use laws to limit their occurrence.

The evidence of the J-curve approach is largely nonexistent in Slovakia from 1993 until 1998. Short-term winners posed the threat to successful reform rather than short-term losers. The government was not highly accountable to the general public, but the distance between the government and the voters allowed Meciar to make Slovakia increasingly undemocratic. No veto-players existed in Slovakia that were able to prevent him from implementing his favored policies. And finally, mass uprisings were few and easily ignored by Meciar's government. Yet, economic reform was threatened in Slovakia. As predicted by the partial reform approach, the short-term winners attempted to and succeeded in locking Slovakia into a partial reform equilibrium to maintain their power and profits. Rather than seeking EU membership to protect the reform process, the government sought EU membership to appease the public and present a facade of reform to protect the gains of short-term winners.

## ***SLOVAKIA AFTER MECIAR***

After Meciar was defeated in the 1998 elections, the new government remained limited by the partial reform constraints because short-term winners continued to threaten reform success (see table twelve). As predicted by the partial reform approach, the reforming government used an international institution to block short-term winners from keeping Slovakia in a partial reform equilibrium. Short-term winners posed this threat because they continued to use public officials in their efforts to subvert reform implementation and attempted to re-capture the government. By seeking membership in the EU, the new government protected economic reform from these attacks.

The new government came to power as an evaluation report released by the European Commission found that the inappropriate level of government intervention and the lack of transparency of the privatization process ran counter to installing a functioning market economy (“EU Report Slams” 5 November 1998), indicating the ability of the short-term winners to lock Slovakia into a partial reform equilibrium. Privatization under Meciar consisted of secret deals where Meciar handed out shares to his favorites. State-owned banks were then ordered to finance many of these enterprise, burdening the banks with bad debt. The result was that Slovakia appeared on the verge of economic crisis with a current account deficit of ten percent of GDP (Anderson and Wagstyl 25 May 2000). The problems caused by the crony democracy that was procedurally democratic, but substantively authoritarian (Crawford 1996: 90) culminated in the 1998 elections. In the 1998 elections, citizens “rejected the ruling coalition’s



authoritarian political tendencies, which included disrespect for the rule of law, favoritism, corruption, the intertwining of crime with politics, and a confrontational nationalist policy” (Butora and Butorova 1999: 80).

After the 1998 elections, the Slovak Democratic Coalition (SDK) joined with the Party of the Democratic Left (SDL), the Party of the Hungarian Coalition (SMK), and the Party of Civic Understanding (SOP) to form the governing coalition on October 28, 1998 (“Premier Confirms” 2 November 1998). The governing coalition won 60 percent of the ballot against 26 percent for the HZDS, and together the coalition members controlled 93 seats in 150-seat parliament. Immediately after the 25-26 September elections, the new government confirmed its dedication to seeking EU membership (“New Slovak” 30 October 1998). Prime Minister Mikulas Dzurinda also began to revitalize the economic and political reform process, and engaged in heavy negotiations with the EU, following many EU recommendations, in an effort to protect reform measures should the coalition government fall. Reformists within the Dzurinda government such as Ivan Miklos, the deputy prime minister in charge of the economy, acknowledged that international support played a significant role in promoting reform (Anderson and Wagstyl 25 May 2000). Even today with the accession treaty signed and a successful referendum, Slovakia continues to link economic reform to EU membership. After the accession treaty was signed, Dzurinda declared that the next year would “be a year of devoting time to reforms, in particular, completing the public administration reform, speeding up education reform, and launching reforms of the health-care and pension

systems”(“Slovak Premier Says” 29 December 2003). To protect economic reform from the continued efforts of the short-term winners, the new government has linked reform measures to the accession process as predicted by the partial reform approach.

### ***Partial Reform***

Slovakia after Meciar supports the partial reform approach because the short-term winners sufficiently threatened the reform process to drive the reforming government to seek outside help. The democratic reversal under Meciar meant the once-favored candidate for EU and NATO membership disqualified itself (Butora and Butorova 1999: 85), and the short-term winners were able to block continued reform until the 1998 elections when Meciar was removed from office. The broad coalition that replaced Meciar in 1998 was united by their anti-Meciarism and sought the EU’s assistance in preventing the Meciar and his cronies from continuing to subvert the reform process. Reform was still at risk because Meciar remained a significant political force in Slovakia and his cronies remained highly placed in political and economic circles. Widespread problems with corruption and incompetent officials increased the difficulty of successfully reforming the economy. The left-right coalition government from 1998 until 2002 and the new center-right coalition government faced this continued threat to reform.

### ***Public Officials Subvert Reform Implementation***

The first partial reform hypothesis predicts that when short-term winners are able to prevent reform policies from being implemented, reforming governments will seek

outside help to protect the reform process. Short-term winners were still able to threaten the reform process because they retained powerful positions within Slovakia. Meciar, his judges, his favorites who profited from the shady privatization deals, and a corrupt civil service all worked together to allow the short-term winners to influence the implementation of economic and political reform policies.

Meciar remained a popular figure in Slovakia, and although he toned down his nationalist rhetoric, he continued to have an immense polarizing effect on everyday life in Slovakia and to retain influence throughout the country's still-fragile democratic institutions. For instance, courts remain stuffed with judges appointed by Meciar (Boyes 26 August 2002). The Meciar judges were thus in a position to block government reform. Meciar himself continued to attack government policy, specifically economic reform, even after his defeat in the September 2002 elections ("Slovak Ex-Premier" 12 November 2002). Specifically, Meciar charged that the new government has pandered to the interests of Europe at the expense of Slovakia's economic and political interests. Similar to his government's demands that Slovakia approach the EU as an equal rather than on its knees ("Ruling Party" 29 October 1997), Meciar's new complaints continued to question the wisdom of allowing foreigners to enter the Slovak economy and opening to the EU. His constant attacks exposed the government to the most-vocal member of the short-term winners and aid him in retaining some of his popularity.

Beyond Meciar who is discussed more below, short-term winners were still able to influence the reform process because the new government was unable to redress unfair privatization from Meciar's rule. In its first year, the new government did not deal with

suspect privatization plans carried out under Meciar nor the subsequent owner disputes and criminal prosecutions pending in the court system (“EU/Slovakia: Bid” 11 September 1999). Although the government later managed to reverse some of Meciar’s privatization deals and recovered assets, for the most part his favorites kept their gains, leaving them in powerful economic positions (Anderson and Wagstyl 25 May 2000). However, their ability to block continued reform gradually faded as they increasingly sold their shares to foreign investors in the following years.

The government’s ability to ensure that reform policies were implemented was the most significantly threatened by public officials. From Meciar’s rule, a general atmosphere of cronyism dominated the civil service. The problems of clientelism and corruption remained even after the new government had been in power for a year, and a government sponsored program to combat corruption was not enacted (“EU Invitation” 30 December 1999; “European Commission Says Slovakia” 11 September 1999). Even when the government attempted to proceed in a more transparent fashion, its efforts were limited by inept public officials, and Slovakia continued to lack transparent market economy institutions according to Francois Lamoureux, the European Commission’s Deputy Director-General responsible for Enlargement (“EU/Slovakia: Bid” 11 September 1999; “EU/Slovakia: Bid” 11 September 1999).

Some of the most glaring proof of the inept officials lies in the inability of Slovakia to use substantial funds from the EU designed to aid economic transformation. Slovak Deputy Prime Minister for European Integration Maria Kadlecikova openly discussed Slovakia’s difficulties with implementing economic reform projects cofinanced

by the EU. “Implementation (in the Instrument for Structural Policies for Pre-Accession ) is Slovakia's very weak point. To date we have practically not contracted any of the projects for which the funds were approved.” She added that even though financial memoranda were signed for the projects, tenders for suppliers were not carried out mainly because the implementation agency for the ISPA program was still being built (“Slovakia Has Problems” 20 February 2002). Slovakia, in short, lacked the administrative capacity to adopt and implement reform programs and the *acquis* (Anderson 15 September 1999).

Beyond slowing reform policies through ineptness, public officials also blocked reform policies because they were leftovers from Meciar’s network of cronies. The first ten months of the new government’s rule were marked by unfulfilled promises to stop corruption, and there were new corruption scandals every month. In an attempt to put a positive spin on this, Dzurinda argued that this reflected the new government’s willingness to discuss the issue openly rather than the previous government’s concealment of the problem (“Dzurinda Defends” 5 September 1999). However, a year later Transparency International rated Slovakia 52<sup>nd</sup> of 90 countries in terms of corruption, and the Dzurinda government was shaken by a scandal of its own when the defense minister resigned after failing to explain how he could afford a luxury villa. Acknowledging the continued problem of corruption, Deputy Prime Minister of the Economy Ivan Miklos said “[c]orruption is a problem in every country, but it is a bigger issue in transition countries like ours” (Lister 21 February 2001).

The high level of corruption made it difficult for Slovakia to enforce some economic reform policies (“Slovakia Overcomes” 3 December 2002). For instance, Jorg Wendisch from the German Agricultural Ministry warned Slovakia that capital was hesitant to return to Slovakia because the state still lacked predictability in customs duties and taxes in the long term and lacked an effectively functioning legislative system (“EU Has Sufficient” 8 December 1999). To overcome the entrenched short-term winners from Meciar’s rule, Dzurinda recognized that Slovakia needed further reform to restructure the financial sector and industry, including legislation on bankruptcies and increasing foreign investment (“Dzurinda Sees” 14 October 1999).

For the European Union, public procurement corruption in Slovakia was an especially serious concern because it deformed the business environment, and the potential for abuse of EU aid in the run-up to accession and afterwards remained large. The “Toth Affair” in 2001 led to the EU’s decision to suspend all pre-accession financial assistance when the chief local co-ordinator for the EU's PHARE aid program was accused (and subsequently cleared) of manipulating tenders for projects sponsored by EU funds (Anderson and Dombey 22 August 2002). By the end of 2001, the European Parliament voted to grant the entire 106 million euros of Instrument for Structural Policies for Pre-Accession and PHARE economic reconstruction aid allocated to Slovakia for 2002. The release of funds was conditioned with substantial progress in the fight against corruption and financial control, including 1,000 specially trained anti-corruption bureaucrats (“European Parliament Unblocks” 3 December 2001; “Anti-Corruption” 3 December 2001).

While Dzurinda's government has tried to fight corruption in several ways in an effort to combat short-term winners, every sale of state assets or large contracts has been surrounded by controversy. Even though the government introduced a public procurement law and has a procurement office to supervise implementation, lawyers say the law is vague, formalistic, lacks secondary legislation, confusing and unevenly applied. The central government's problems with public procurement while significant are small compared to the local level where contracts are often artificially divided so they fall beneath the procurement law's thresholds (Anderson and Dombey 22 August 2002).

Overall, Dzurinda's government was successful in slowly reversing the previous government's unchecked spending and cronyism, but the painful austerity programs left nearly 20 percent of the population unemployed as subsidies to the huge industrial sector have been cut off and many businesses left to collapse (Lister 21 February 2001). The reform process was made even more difficult by the continued ability of short-term winners to block policies because of high corruption levels and the general ineptness of some public officials. Recognizing these problems, the Dzurinda government sought membership in a liberal IO to protect reform from the threat posed by short-term winners.

Generally, seeking membership aided the reform process because the EU provided advisors, funds, and technical expertise on how to transform the Slovak economy. Using the joint parliamentary committee, evaluations from the European Commission, and visits from the European Parliament and European Council, the EU provided continuous support for the reform efforts, and guidelines on how to fight corruption as discussed in the resolution of the "Toth Affair."

Specifically for agriculture, Igor Kosir, Director-General of the Slovak Agriculture Ministry's international section, recognized that for the agriculture and agri-food sector to reform the Slovak parliament needed to back and implement a coherent program and policy for agriculture. In an evaluation of Slovakia, the European Commission found the institutional and administrative capacity of the Slovak Agricultural Ministry to be lacking and insufficiently addressed by the government, resulting in the government's inability to ensure that reform programs were successfully implemented. To rectify this situation, the EU instituted a new SAPARD program to aid agricultural development to EU standards. The SAPARD program in addition to German efforts to prepare Slovakia for the CAP and contributions from the PHARE program were designed to strengthen the relevant institutions for the CAP and reform the agriculture sector ("EU Enlargement: Slovakia" 8 December 1999). Thus, the EU was able to aid Slovakia in training more competent public officials who were able to implement reform policies successfully. By helping Slovakia train public officials and organize anti-corruption campaigns, the EU helped the Dzurinda government protect economic reform policies from short-term winners and their attempts to keep Slovakia in the partial reform equilibrium.

#### *Not Accountable to Transitional Losers*

According to the second partial reform hypothesis, reforming governments are more likely to seek membership in a liberal IO when they are not accountable to the short-term losers or the general public. When reforming governments exist in a state that



is too undemocratic, the short-term winners are more likely to capture the governments, preventing continued reform. While Meciar routinely ignored democratic rules and the opinion of voters, the situation is not as clear after Meciar was removed from power in 1998. If the hypothesis is correct, Meciar and his fellow short-term winners should have attempted to capture the government by utilizing the government's lack of accountability to the public. Yet, Meciar and his party the HZDS were more versatile than this, using and manipulating traditionally democratic tools to weaken the government's commitment to reform. As expected, the short-term winners sought to prevent continued reform, and the reforming government sought outside help to continue the reform program.

The Dzurinda government was elected in large part because it promised to bring back economic and political reform and meet the political criteria for EU entry within 100 days of taking office ("EU Decision" 17 December 1997). The speedy reform measures enacted in an attempt to catch-up to the forerunner candidate countries succeed in bringing Slovakia up to par with the other candidates, but they weakened the government's support, resulting in the prominent fear that Meciar would return to office following the 2002 elections. The coalition government recognized that the economic and social reform policies "adversely affect the citizens' social certainties" but that "without them no breakthrough in the constantly worsening situation in the economic sphere would be possible" according to Bela Bugár, deputy chairman of parliament and chairman of the government Hungarian Coalition Party (SMK) ("EU Invitation" 30 December 1999).

While necessary, the difficult economic policies resulted in the government's falling popularity and the HZDS's willingness to seize this government weakness as an opportunity to slow economic reform once again. Bela Bugar, deputy chairman of parliament and chairman of the government Hungarian Coalition Party (SMK), explained that the difficult reform process had caused a "trench war" with the opposition party, the HZDS ("EU Invitation" 30 December 1999). Meciar and his party attempted to blame the current government for all the economic troubles while claiming the all the government's successes were due to Meciar's efforts when he was prime minister. For instance, HZDS chairman Vladimir Meciar told the press that the EU's December 1999 decision to begin accession talks with Slovakia was the result of his government's actions and that Dzurinda's cabinet had made no contribution to this success. The new government was in fact to blame for the delay in the invitation because of its complaints abroad when Meciar led the government ("Ex-Premier Claims" 14 December 1999). The HZDS also made statements criticizing the government for its "decision-making process with regard to economic issues" ("Opposition Movement" 14 December 1999). In short, all the economic woes in Slovakia from unemployment to deficits were the result of the new government while the successes were based on efforts from the previous government.

Meciar and his fellow short-term winners in this way manipulated public opinion and democratic rules in their efforts to weaken the government's ability to push through economic reform. For instance, the HZDS routinely attempted to use no-confidence votes to slow reform and even trigger government collapse. The HZDS argued that the

no-confidence votes reflected the growing public dissent that the government ignored by continuing economic reform (“Slovak Deputy” 26 February 2002). A February 2002 vote of no-confidence against deputy premier for the economy, Ivan Miklos, if successful would have toppled the government. Dzurinda promised to resign if the vote passed, triggering early elections. At this time, the HZDS held over 30 percent voter support, with the Dzurinda’s SDK placing a distant third (“HZDS-Dzurinda” 21 March 2002; Holt 14 February 2002). To be truly democratic, the HZDS argued, the government would have to act more like the popular HZDS and slow the reform process.

Meciar also was one of the two final candidates in the May 1999 presidential election, and he openly campaigned to make the presidential post more powerful and act as a check on government policies that were painful for the majority of Slovaks. The HZDS campaign during this election attacked the constitutional limits imposed on the president that made the office-holder weak and unable to ensure that the government acting in the interests of the people. While he received 40 percent of the popular vote (“EU/Slovakia: Bid” 11 September 1999), voters selected the new government’s candidate Rudolf Schuster as president and thereby indicated their continued support of democracy, radical economic reform, and European integration rather than the HZDS platform (“Slovakia’s Entry” 1 June 1999). Meciar’s efforts to distort the democratic rules in Slovakia to install himself as a president above the constitution and thus able to slow reforms were blocked by the transitional loser, the general public, as the partial reform approach predicted.

Meciar's next attempt to slow reforms by distorting the democratic process was in November 2000. The HZDS together with the Slovak National Party (SNS) initiated a referendum to call for early elections even though there was no constitutional role that a referendum could play in determining when elections occur. The HZDS and SNS argument was that the majority of Slovaks continued to suffer from the painful reform process, and that a referendum calling for early elections would shame the government from continuing its current path and perhaps result in the government's removal. However, only 20 percent of citizens took part in a November 2000 referendum, and according to the daily *Sueddeutsche Zeitung* this indicated that "Slovaks did not let their names to be used in a senseless power struggle. The SNS and the HZDS of ex-premier Vladimir Meciar wanted to make a short work of the government of Mikulas Dzurinda" ("Results of Referendum" 13 November 2000). Rather than the public supporting the HZDS and pushing for the reform process to slow, the public acted as the partial reform approach predicted and held the government to the reform process.

The more recent threat from Meciar was during the September 2002 parliamentary elections. During the summer preceding the election, the HZDS was supported by 30 percent of the voters, and many observers expected him to return to power. The months before the election were marked with a flurry of activity as the government attempted to protect the reform process from Meciar and his fellow short-term winners should they succeed. According to an EU official, the EU membership process provided a "safe harbor" protecting economic and liberal reform by preventing

any extremist movement from completely halting or reversing the reform process.<sup>23</sup> Even if Meciar had been reelected in 2002, the policies enacted by the current government would have constrained Meciar, and limited his ability to make “irrational” policies although some key reforms, such as the restructuring of Slovenske Elektarne would have been at risk (Anderson 2001a; 2001b). Jan Figel, Slovakia’s chief negotiator with the EU, openly stated that the appeal of the EU was the need to consolidate economic reform so that changes in Slovakia became irreversible, regardless of who held government posts (“Slovak EU Negotiator” 15 October 1999). Milan Ftacnik, the Democratic Left education minister also recognized that the “next election is a real fight for survival to keep the country on the right track. In Slovakia the direction is not yet assured” (Anderson 4 July 2001).

Dzurinda’s continued success depended in part on the appearance of economic benefits from the austerity measures and encouragement from the EU according to Foreign Minister Kukan (Anderson 15 September 1999). Because both of these were apparent in September 2002, Dzurinda rather than Meciar returned as prime minister. Although Meciar won more of the vote, he was isolated politically and unable to form a coalition. Dzurinda’s party placed a surprising second, and he formed a center-right coalition with the Hungarian Coalition Party (SMK) of Bela Bugar, the Christian Democratic Movement (KDH) of Pavol Hrusovsky and the Alliance of a New Citizen

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<sup>23</sup> Interview with spokesperson at the European Commission, delegation to Washington, DC, July 9, 2001.

(ANO) of Pavol Rusko. Together the coalition commanded a narrow majority of 78 votes in the 150-seat Slovak parliament (“New Slovak Cabinet” 16 October 2002).

As expected by the partial reform approach, the short-term winners attempted to weaken the government’s dedication to reform. Surprisingly though, the short-term winners used some democratic rules for their purposes. By calling for no-confidence votes, a referendum, and taking part in elections, the short-term winners appeared to be using democratic tools that tied to reforming government to the general public in their efforts to slow reform. However, in most cases the short-term winners were manipulating democratic rules for their own purposes. When Meciar ran for president, he was not seeking the traditionally weak office the presidency had been since 1993. Meciar desired the presidency to become more powerful and limit the government’s ability to continue reform. Similarly, the HZDS tried to use a referendum in an unconstitutional manner. When Meciar and his party did follow the democratic rules of the game in September 2002, they were ultimately defeated as the majority of Slovaks voted for parties that identified themselves as anti-Meciar. However, because the short-term winners continued their attempts to distort the democratic process and slow the reform process, the government sought outside help and the “safe harbor” of the EU accession process to safeguard reform. Thus, the partial reform approach hypothesis is supported.

### *J-Curve*

According to the J-curve approach, short-term losers pose the greatest threat to successful economic reform. When short-term losers are able to hold the government highly accountable, act as veto-players, or use mass uprisings, they can slow the reform process. To avoid this outcome, reforming governments can seek outside help as Slovakia did under Dzurinda's leadership. However, the short-term winners rather than the short-term losers threatened reform success in Slovakia, and little evidence exists that indicates short-term losers acted as veto-players or used mass uprisings. Often it appeared that public dissatisfaction with the reform process would result in the reforming government's defeat, but each time more Slovaks supported the reformers than the HZDS, the party that promised to slow or even end the painful reform policies (see table twelve).

### *Too Accountable*

Realizing that the economic transformation is often a painful process for the general public, the J-curve approach suggests that governments insulated from the public will be able to continue reform policies while those closely tied to the public will give into demands that the reform policies be curtailed. Some of the evidence seems to support this because the HZDS enjoyed strong voter support in the 1998 and 2002 elections. In both elections, the HZDS received the largest vote-share but lacked coalition members to form a government with (Mortkowitz 30 September 1998; "Slovakia Has Helped" 24 September 2002). Following the 1998 and 2002 elections,

parties that campaigned as anti-Meciar were able to form coalition governments.

However, the coalition government following the 1998 elections slowed the reform process according to the European Commission because of fighting within the broad left-right coalition (“‘Government Unity’ EU” 11 November 2000; Anderson 24 October 2000). This weakness exposed the coalition to the HZDS efforts described above designed to slow the reform process.

Evidence of the relationship predicted by the J-curve approach appeared prior to the 2002 elections because the reform process had weakened the government’s support, making Meciar’s return more likely. Polls in 2001 and 2002 showed the HZDS enjoying 30 percent approval while even government supporters were becoming impatient with the reform process (Anderson 2001a). In part this support also reflected the increasing fear that the EU was beginning to run Slovakia, a popular theme used by the HZDS (Boyes 26 August 2002; Frydrych 28 February 2002).<sup>24</sup> The HZDS attempted to seize the opportunity presented by this popularity in early 2002 by calling for a vote of no-confidence against Deputy Prime Minister for the Economy Ivan Miklos that would have triggered the government’s collapse and early elections. Miklos defended the government’s economic policies saying they were necessary because of the economic and

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<sup>24</sup> During his travels, *Times* correspondent Roger Boyes encountered working Slovaks began to support Meciar because according to one taxi driver “They [the EU] won’t let Meciar be Prime Minister until after we join the EU; then he’ll come in and bring some order with those Jews.” When asked to explain what he meant, the taxi driver responded that while Slovakia lacked a large Jewish population, the Jews were “the ones who are running Brussels.” Boyes concluded that this general anti-EU, nationalistic, and anti-Semitic attitude was the result of economic hardship and made Meciar more appealing (Boyes 26 August 2002).



international crisis the Meciar government caused. “We said it right at the beginning that it would not be easy and that unpopular measures would have to be introduced. Today, naturally, we are paying a high price for this, because people are not happy with the situation” (“Slovak Deputy” 26 February 2002).

Meciar led Slovakia into an unsustainable debt-fueled boom that created government budget deficits of five per cent of gross domestic product (GDP) and current account deficits of 10 per cent. Dzurinda's government was able to stabilize the economy through painful austerity measures that increased unemployment but did bring the return of growth. GDP grew three percent in the first quarter of 2001, yet this was unevenly distributed throughout Slovakia. While Bratislava's economy was booming, unemployment in rural eastern districts reached 40 percent (Anderson 4 July 2001; “EC Evaluates” 20 January 2000). These economic hardships led to widespread fears that the September 2002 elections represented a risk that Slovakia would “take a backward step at those elections, which could slow down reform and damage the country's international ambitions” (Anderson 4 July 2001). These fears were largely in-line with J-curve approach because observers suspected that the general public would vote against the reformist parties to ease economic hardships. To protect existing reform policies, the government had deeply tied Slovakia to the EU. The changes made by the Dzurinda government were irreversible according to the J-curve proponents and constrained what a HZDS government could do. Tomas Kmet, chief economist of the large Slovak bank

Slovenska Sporitelna summarized this view by saying that “[w]hatever government will be here in 2002, the space for being irrational will be much more limited” (Anderson 4 July 2001).

While there was much discussion of J-curve ideas before the elections, the results support the partial reform approach because the majority of Slovaks supported continued reform. Meciar’s party, who received the highest voteshare in the September 2002 elections with 19.5 percent, was unable to form a coalition government, and the majority of Slovaks voted for anti-Meciar parties. Dzurinda’s party the Slovak Democratic and Christian Union (SDKU) received 15.09 percent and successfully formed a center-right coalition (“Slovakia Has Helped” 24 September 2002). The election outcome indicated that the public supported membership in the EU and continued reform according to European Commission representative to Slovakia, Eric van der Linden. Dzurinda's victory was “remarkable because its austerity measures had pushed unemployment close to 20 per cent” (Anderson 24 September 2002). Dzurinda’s pleas for patience and forbearance during the painful reform process was met by continued public support during the May 2003 referendum. Slovak and officials such as Eric van der Linden, head of the European Commission delegation in Bratislava feared that pains of economic transformation would discourage participation, invalidating the referendum (Holt and Pisarova 19 December 2002), but enough voters took part in the referendum and overwhelmingly voted for EU membership.<sup>25</sup>

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<sup>25</sup> Only 52.15 percent of eligible voters cast votes in the May 16-17 referendum on entry into the EU (European Union). But a resounding 92.5 percent of those said yes to the question: "Do you agree with Slovakia becoming part of the EU?" (Holt 19 May 2003).

### *Veto-Players and Mass Uprisings*

The other two hypotheses derived from the J-curve approach concern the influence of short-term losers when they are veto-players or use mass uprisings. Under either condition, the short-term losers can threaten the reform process sufficiently that reforming governments need outside help to protect the reform process. In Slovakia, short-term losers did not threaten the reform process in part because they did not act as veto-players or use mass uprisings.

First, there is little evidence that short-term losers were veto-players in Slovakia. As discussed in the Meciar section, economic reform began in Slovakia without a single strike, and organized labor did not act as a veto-player after Meciar's rule either. When strikes occurred after Meciar's fall, they were largely ineffectually in changing government economic policies. Over 75 percent of Slovak pharmacies took part in a one-week strike in late May 2001 to protest unpaid bills. The pharmacies were owed 6 billion Slovak crowns by health insurances companies and demanded government assistance. However, the government maintained that it could not cover the debt (Krosnar 22 May 2001), and was not swayed from its austerity measures. In 2002, unions began to lead strikes against painful economic reform measures and austerity packages including price hikes of up to 40 per cent in energy, water and heating that were not offset by corresponding wage increases (Holt and Pisarova 19 December 2002). Once again though, the government refused to sway from economic reform policies indicating that organized labor was not a veto-player in Slovakia, and no other short-term loser is apparent as a potential veto-player.

Second, mass uprisings continued to be rare in Slovakia although the government's policies have created a difficult life for many Slovaks. The Slovak National Bank announced in September 1998 that the government officially had no money left in its accounts. Combined with unemployment at 14.1 percent and a current account deficit of roughly 11 percent of the GDP resulting from the former government's "pre-election fiscal indiscipline", the new government needed to enact immediate, drastic reform measures (Mortkowitz 30 September 1998; "Fitch IBCA" 6 October 1998). While the new government was able to aid the economic recovery and Slovakia registered a slight growth in GDP, unemployment in some regions reached almost 20 percent ("EU Invitation" 30 December 1999). The corrective measures undertaken by the government to cut fiscal and external deficits led to a significant slowdown in economic growth while adjustments of regulated prices pushed up inflation ("EU/Slovakia: Economic" 14 July 1999).

Yet even with these conditions, mass uprisings rarely occurred in Slovakia. One protest occurred in December 2002 when roughly 300 Slovak farmers protested conditions under which is expected to join the European Union in 2004. The protest was organized by the SPPK, Union of Agriculture Cooperatives, Union of Farmers and Agricultural Businesses, and Agriculture Trade Unions, who demand that the unfair subsidies be improved after EU accession. The current arrangement initially provides Slovak farmers with 25 percent the subsidies existing members receive and gradually eliminates the difference over ten years. Slovak farmers argue that this disparity will undermine Slovak farmers because they will be unable to compete with heavily

subsidized imports from Western Europe ("Some 300" 4 December 2002). While this protest was important, it was not against the economic reform program, and the government was largely able to ignore the farmers' demands.

Overall, the J-curve approach does not correctly explain who threatened reform in Slovakia and why the reforming government needed outside help. The government was not held too accountable to the public or subjected to veto-players or mass uprisings. Simply put, the short-term losers did not threaten the reform process. Instead, the short-term winners, namely Meciar and his cronies, threatened reform success, and the government needed outside help to protect economic reform policies from these actors.

### *Alternative Explanations for Seeking*

Two additional reasons can explain why Slovakia sought membership in the EU after Dzurinda came to power. First, Slovakia quickly became economically tied to EU states, and in order to succeed economically, Slovakia needed to become part of the EU. This supports the neoliberal institutionalist thinking summarized in chapter one which finds the desire to join IOs is based on the desire to improve economic relations. Second, EU membership was desirable because it would strengthen Slovakia's political reforms rather than economic reforms. Again, this rationale uses the same logic as the J-curve and partial reform approaches. To protect favored policies, in this case political rather than economic reform efforts, the government sought membership in the EU. While both of these reasons were doubtlessly part of the Dzurinda government's decision to seek membership, the economic benefits immediately following membership were not

expected to be tremendous following the arduous process of becoming a member, and the defense of political reforms was usually discussed while also considering the importance of protecting economic reforms.

The Dzurinda government certainly supported EU membership to aid Slovakia economically as neoliberal institutionalists argue. Brigita Schmoegnerova, a leader of the left-wing opposition Party of the Democratic Left during Meciar's rule and later a member of the government, argued that if Slovakia was left in the second tier, the state would lose access to EU funds, the reputation of the EU would suffer, foreign loans would be less accessible, and foreign investments would diminish ("Left Leader" 8 August 1997). To succeed, Slovakia needed EU assistance and access to the EU market. The growth of exports to the West was the most effective means to expand the competitive parts of the Slovak economy while imports from the West was a quick way to insert competition into the sectors dominated by state monopolies (Pinder 1994: 130).

Additionally, Slovak business leaders recognized that to utilize overproduction, Slovakia needed solvent markets of the EU countries rather than markets in the development stage lacking finances to absorb overproduction ("Slovakia Needs Solvent" 24 September 1997). These attitudes led to Slovakia becoming one of the top exporting countries in central Europe by late 1998 with a trade deficit with the EU of 300 million euros. Exports, a significant engine of growth for Slovakia, reached 52 percent of GDP, and half of Slovakia's trade was with the EU. ("EU/Slovakia: Eurostat" 16 February

2000). Roughly 80 percent of Slovak exports went to EU members and first tier applicants, and total exports accounted for 50 percent of the GDP (“Slovakia to Lose” 23 September 1997; “EU/East Europe” 5 September 1996).

Finally, membership of the EU would bring hundreds of millions of euros in subsidies into the country of 5.4 million people and open the door to Slovakia joining the euro currency union, with all the trade advantages that would entail (Adler 20 September 2002). As Slovakia’s accession became more likely, some economic benefits already began to appear. For instance, of the candidate countries, Slovakia posted the biggest influx of foreign direct investments FDI as a share of GDP in 2000, representing more than nine percent of GDP. This was a marked change from 1996 until 1999 when the figure was below two percent (“Slovakia EU Candidate” 8 July 2002).

Yet, some of the most viable sectors of the economy were hindered by the EU. The economic problems in eastern European countries like Slovakia stem, in part, from EU barriers to free trade especially in agriculture rather than a lack of aid (Herring 1994: 94). The European Agreements, which are a crucial step to eventual membership, left so-called sensitive industries outside the Agreements’ scope. Most of the exemptions were designed to protect EU industry, such as steel, coal, textiles, and the all-important agriculture, but these were the same industries that were crucial to development of central European states such as Slovakia which enjoy a comparative advantage because of cheap labor. All told in 1994, the associated members faced the same obstruction to trade in the EU as in 1989, resulting in the cheap EU imports, especially in agriculture, aiding the impoverishment of once-thriving local industries (“A Good Deal” 1 December 1994).

The highly subsidized EU agricultural products robbed Slovak farmers of sales at home and abroad (Eatwell 10 October 1994). EU members ousted Slovak farmers from regional markets because of the low prices on EU food products based on the CAP. From 1991 until 1997, imports of EU food products increased five times while exports from Slovakia into the EU countries dropped by one third according to Slovak Agriculture Minister Pere Baco (“Slovak Farmers” 28 August 1997). Finally, the benefits from eventual membership in 2004 such as growth of five percent will be offset by consumer prices increasing 18 percent the year after accession and then 33 and 49 percent during the next two years (“Slovak Experts” 4 July 2002). Thus, while the economic benefits from membership are significant, they are limited because of remaining trade restrictions and unequal subsidies following accession and weakened by some high costs associated with membership.

The second alternative explanation for seeking membership in the EU is that membership protects political rather than economic reform. EU membership is clearly seen as a symbol that a country has arrived in terms of political liberalization but also in terms of economic liberalization. Instead of Slovak and EU officials focusing on just political reforms, they routinely explained that the EU would protect both transitions. European Commissioner Gunther Verheugen explained that the European Commission’s support for talks with Slovakia was based on the new government already fulfilling the political criteria and the strong likelihood it would soon meet the economic criteria, both of which are needed for accession to occur (“EU Allocates” 11 November 1999). Recognizing this, Slovak Foreign Minister Eduard Kukan called the expansion of the EU



not an increase in numbers but as expanding and strengthening of values which EU institutions personify, economic and political (“NATO, EU Membership” 21 June 2000).

Throughout its dealings with Slovakia, the EU focused on both economic and political reform. For instance, in 1996 the German press agency Deutsche Presse Agentur issued the warning that Slovakia would only be admitted to the EU if the government made some effort for both the sake of democracy and economy (“Slovakia’s Chance” 25 November 1996). Often the success of economic reform policies was the result of political reform. Investors considering Slovakia looked at the general situation rather than just economic indicators according to Danish Foreign Minister Niels Helveg Petersen (“Only Joint” 14 November 1997). When Meciar failed to reform politically, it weakened the economic reform policies already in place. The confusion regarding the use of PHARE funds was linked to the opaqueness of government institutions, the problems regarding implementation of reform was tied to poor administrative and judicial structures, and the slow privatization process was a result of the government’s decision to cancel the mass privatization program (“EU/Slovakia Difficulty” 15 March 1996; “Growing EU/Slovakia” 12 April 1996). Thus, the two transitions were inextricably intertwined under Meciar and after, making it impossible to say that accession was desirable to protect one transition but not the other.

At the same time, the EU’s dedication to supporting political reform was not always steadfast. Similar to the Spanish case after Franco, the EU often praised political reform but did little to aid democratization. The PHARE program was designed to establish a framework of institutions, cooperation, and law, which should aid

democratization, but actually did little to help this process of development “except indirectly through the assistance for economic transformation” (Pinder 1994: 132-133). Taken together, the evidence suggests that Slovakia sought membership to protect both its transitions.

The two alternative explanations provide viable rationales for the Dzurinda government’s decision to seek membership in the EU, but they do not deny the importance of the government’s desire to protect economic reforms. The neoliberal institutionalist argument is offset by considerable costs associated with membership, but the potential economic gains from accession are considerable. Even so, it is clear from government statements that the new leaders sought EU membership also to protect both economic and political reform.

### ***Slovakia Seeks Outside Help***

Slovakia sought membership in the EU from 1993 through 2002, but from 1993 until the 1998 elections, the Meciar government sought membership in the EU only in the loosest sense of the word. Rather than seeking membership in the EU to protect economic reform, Meciar’s government sought membership in the EU to protect the interests of the short-term winners. As was the case with Spain when Franco ruled, the government sought to maintain its political power at home, and used membership talks with the EU to keep support and to weaken opponents. While the same basic mechanism was at work in both cases where domestic leaders used an IO for their favored policies, those favored policies were not economic reform measures. Once Meciar was removed

from power, Slovakia followed the two predictions of the partial reform approach. First, short-term winners threatened reform success by using public officials to subvert reform implementation. Second, short-term winners attempted to re-capture the government. To counter these efforts, the Dzurinda government sought membership in the EU.

The reforming government sought membership in the EU in part to protect economic reform policies from the continued threat posed by short-term winners. Although ousted from power, Meciar and his fellow short-term winners remained a political and economic force that attempted to prevent reform policies from being implemented and manipulated the democratic process to weaken the government's dedication to reform. As predicted by the partial reform approach, when faced with both these conditions, the reforming government sought membership in a liberal IO to protect reform policies. At the same time, short-term losers posed little threat to reform success and did not hold the government accountable for painful economic measures by voting the coalition out of office, acting as veto-players, or using mass uprisings. Instead, the government won the 2002 elections, and was able to ignore any attempts of short-term losers to act as veto-players or use mass uprisings.

## ***CONCLUSION***

The J-curve approach correctly predicts Spain's decision to seek membership in the EU after Franco's death, and the partial reform approach correctly predicts Slovakia's decision to seek membership in the EU after Meciar's defeat. While each approach has significant failings in the earlier time periods, the fundamental mechanism supported by

the two approaches explains what occurred. Both approaches rest on the argument presented in chapter one that domestic actors can use international institutions to increase their political clout at home, and this how Franco and Meciar used the accession process. Rather than using the accession process to protect economic reform, these two leaders used it to protect their illiberal policies. The two governments after these leaders followed the fundamental relationship presented in this dissertation: they sought membership in the EU to protect economic reform.

The two Spanish and two Slovak cases are included because they rectify several shortcomings in the duration analysis from chapter three. First, the importance of seeking within Europe may be driving many of the results. To study this possibility closer, two European states were selected, and the comparative case studies reveal that in two of the four cases, the J-curve and partial reform approaches are wrong. For Spain under Franco, the state is coded as seeking but the government was not reforming. Moreover, Franco was adamantly opposed to weakening his control of economic and political life in Spain, two fundamental demands given by the EU. Franco's seeking membership in the EU was driven by the desire to protect his favored policies and his political power at home, but not to protect economic reform. For Slovakia under Meciar, the state is also coded as seeking but here the government was captured by short-term winners. In reality, Meciar was not serious about EU membership but was willing to declare his interest verbally to fool the voters into believing that he was acting in their

interests. These findings suggest that the definition of seeking presented in chapter three may be too broad and that whether the government is reforming is important for testing the two approaches.

Second, the dataset contains poor measures for veto-players and public officials subverting reform implementation. Spain after Franco tests the former relationship while both Slovak cases test the latter. The results indicate that veto-players other than organized labor played a significant role in threatening reform success in Spain as the J-curve approach expects. The Slovak case amply illustrates the ability of inept and corrupt officials in threatening reform policies as the partial reform approach suggests.

Slovakia and Spain are difficult cases to study because both followed a path of dual economic and political liberalization. While leaders in Spain and Slovakia emphasized the political rather than economic reasons behind their desire to join the EU, they often neglected to mention that economic reform is also a political process. By looking at cases where the governments are focused on economic reform, either because political reform is largely done or will not occur, the essentially political nature of economic reform can be the focus. The next two case studies of Vietnam to ASEAN and Chile to NAFTA were selected for this reason.

The findings from this chapter indicate that governments can seek membership in a liberal IO for an array of reasons. Rather than attempting to protect economic or political reform, Franco and Meciar both sought membership in a liberal IO to protect their illiberal policies and stave off opponents. By offering a superficial commitment to seeking membership in the EU, both leaders were able to convince domestic constituents

that they were making an honest attempt to act in the interests of their supporters. In reality, Franco and Meciar listened to EU demands and then promptly ignored them. Instead of acting in a manner to ensure that accession would occur, both leaders pursued policies that actively undermined negotiations.

After Franco's death and Meciar's defeat, the two states were led by governments dedicated to economic reform and EU membership. As the J-curve approach predicts, the new leaders in Spain sought EU membership to protect economic and political reform from veto-players such as organized labor and the military. The government also wanted to protect reform policies from short-term losers who attempted to use mass uprisings to weaken the government's dedication to continued reform. In Slovakia after Meciar's defeat, the new government followed the prediction of the partial reform approach, and sought EU membership to prevent the short-term winners from re-capturing the government. Because the short-term winners were able to subvert reform implementation and manipulate democratic rules to threaten the government's reform program, the new leaders needed outside help to stabilize the reform process. For both of these cases, the EU was able to aid the reforming governments during the accession process.

## CHAPTER 5

### VIETNAM AND CHILE PROTECT ECONOMIC REFORM

In this chapter I consider how the J-curve and partial reform hypotheses apply to two regions other than Europe. As discussed in chapters three and four, the dataset draws heavily on European cases, and much of the existing empirical research also focuses on Europe. Although the findings were largely consistent when Southeast Asia was dropped from the dataset, the single liberal IO in this region, the Association of Southeast Asian Nations (ASEAN), provides an excellent example of how the accession process can aid economic liberalization. The findings were not as consistent when Latin America was dropped from the dataset, and a closer analysis may explain this discrepancy. Both the North American Free Trade Agreement (NAFTA) and ASEAN are strictly economic organizations rather than being both economic and political organizations as the EU is. It is possible for the EU cases that the political membership requirements were more significantly influencing domestic liberalization, and by studying IOs with only economic requirements, this possible conflation can be avoided. NAFTA and ASEAN are both restrictive IOs with liberal economic membership criteria, and are therefore expected to enable domestic actors to use these institutions to increase their domestic political clout. Specifically for the two approaches presented in chapter three, reforming governments can seek membership in these respective IOs to protect economic reform

from the efforts of reform opponents. Finally, the two cases below focus on the two hypotheses poorly tested in chapter three. The indicators for veto-players and corruption (see table two) suffered from many faults which were covered in chapter three. To provide an adequate test for these hypotheses, better indicators are needed, and the comparative case studies below provide this.

The first case study is the relationship between Vietnam and ASEAN. From 1991 until 1995, Vietnam sought membership in ASEAN, and the accession process aided Hanoi in maintaining and controlling economic reform. Although Vietnam may appear to be a strong state with single party rule, the high level of corruption left the central government severely weakened and without control over economic policy. To regain control, Hanoi sought outside help from ASEAN. The case provides an excellent test for the partial reform hypothesis that reforming governments will seek membership in a liberal IO when public officials are unlikely to implement reforms (see table two).

A second reason to include Vietnam is that the case provides a contrast to the relationship between Slovakia and the EU. Although both were centrally planned economies (CPE), Slovakia began both economic and political reform while the Vietnamese communist party (CPV) remained firmly entrenched in politics. Additionally, Vietnamese domestic markets, from tolerated illegal parallel markets to legal or quasi-legal production at the margin by SOEs, had a much larger role in the economy than was the case in a traditional CPE (Truong and Gates 1996: 72). Finally, in contrast to European CPEs, “Vietnam started its transformation process with a rural economy on which 80 percent of the population was dependent. Concomitantly, high



unemployment/under-employment existed in Vietnam, which could only be absorbed through a massive transfer of labour in the traditional agricultural sector to a more productive industrial sector” (Truong and Gates 1996: 72-73). Therefore, Vietnam’s transformation is significantly different from changes in Eastern Europe because of the lower level of industrialization and the comparatively small state sector.

The second and final case study is the relationship of Chile to NAFTA. Chile began seeking membership in NAFTA in 1991 before the agreement was formally instated. Due to the coding rules for the dataset discussed in chapter three, Chile is coded as a seeker in 1994 immediately after NAFTA officially came into existence, but this misses the earlier efforts by Chile to be considered for membership. By late 1991, the founding NAFTA members had concluded the agreement and began to consider a ‘fourth amigo.’ Chile responded to this immediately and stated its desire to join the agreement. When the final agreement was signed in 1992, Chile had already begun lobbying the three founders for its inclusion.

Chile is an interesting case for two additional reasons. First, Chile was already a market economy when it sought membership in NAFTA. The issues under discussion were not the initial steps to economic transformation as in the Vietnamese case but additional liberalization policies that most market economies still face such as lowering trade barriers. Two major stages of economic reform occurred under General Pinochet’s leadership. The first stage of liberalization lasted from 1973 until the crisis of 1981-1982, and the second stage liberalization began in 1985 and lasted until the end of the regime in 1990 (Ffrench-Davis, Leiva, and Madrid 1992; Grugel 1999). By the early

1990s when Chile sought NAFTA membership, the Chilean economy was market-driven, export-led, and open to foreign investment (Grugel 1999: 144-145; Díaz 1996).

However, the Chilean economy could still reform by lowering protective barriers and extending privatization to areas under state control such as railroad freight, potable water and sewage, ports, highways, and airports (Oppenheim 1999). Thus, the Chilean case tests whether the logic of the J-curve approach continues to apply even after initial economic transformation occurs but some additional liberalization policies are considered. After Pinochet's removal, the new government continued to reform the economy by further limiting the state's role in the economy and increasing the openness of the economy to international economic transactions (see chapter one for a discussion of this definition).

Second, the Chilean case tests the predictions of the J-curve approach concerning veto-players. As discussed in chapter three, the dataset lacks an adequate measure of veto-players. To understand the role they play, a more detailed analysis is necessary. After the democratic transition in Chile, two groups (organized labor and the traditional, landed elite) attempted to regain their earlier roles as veto-players. Recognizing that both groups were opposed to the neoliberal economic program begun by Pinochet and continued under the democratic government, Chile sought membership in NAFTA to maintain these groups' impotence in politics.

By including these two case studies, several short-comings in the statistical analysis are addressed. The measures in the dataset for corruption and veto-players are not adequate for either of these concepts, and the cases studies presented in this chapter

and chapter four were selected to study each of these concepts more fully. To understand how corrupt domestic officials and veto-players can influence economic reform, the Vietnamese and Chilean case studies are needed. Additionally, the Vietnamese case study provides a contrast for the East European case study while the Chilean case also addresses the possibility that states where significant economic reform has already occurred may still act as predicted by the J-curve or partial reform approach.

### ***VIETNAM***

The Vietnamese case tests the predictions of the partial reform approach. The government fully supported *doi moi* (renovation), which began 1989 although it was first announced in 1986, and enacted a steady sequence of reforms over the next several years. Vietnam used this gradual pace of reform rather than shock therapy, and liberalized inward capital markets before creating a domestic market-oriented, institutional framework of property rights, commercial and company law, and legislative deregulating of factor markets such as labor, capital and land (Truong and Gates 1996: 73). This slow pace revealed the government to be cautious and willing to tolerate “inconsistencies, half measures and ambiguities that would be unacceptable to an ideologically motivated transformation” (Griffin 1998a: 13). The net result was that Hanoi facilitated the existence of ambiguities and market distortions that the partial reform approach argues tempt the short-term winners to prevent additional reform policies from decreasing their profits.

The partial reform approach applies because short-term winners not short-term losers threatened the reform process. Rather than easily identifying losers from reform as the J-curve approach suggests, the Vietnamese experience is one where the winners are apparent and outnumber the losers. Additionally, transitional losers beyond the central government are hard to identify (Fforde and de Vylder 1996: 272). According to the partial reform approach, short-term winners rather than losers threaten the reform process when they can prevent further reforms from being implemented and when the transitional losers are not politically influential. While the main transitional loser was highly influential, the short-term winners were able to prevent policy implementation because they used smuggling and corruption to weaken Hanoi's control over policy (see table thirteen).

To counter this threat to economic reform, Vietnam sought outside help as predicted by the partial reform approach (see figure one). From 1991 until 1995 when it became the seventh member, Vietnam sought membership in ASEAN. Before 1991, Vietnam had been ostracized by ASEAN because of the situation in Cambodia. ASEAN had made it clear that Vietnam would never be considered for membership until it withdrew its troops.<sup>26</sup> Once Vietnam did so and the Paris Accords on Cambodia were signed in 1991, ASEAN members began to normalize ties with Vietnam (Chongkittavorn

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<sup>26</sup> For example, see *Meeting of the ASEAN Heads of Government* (1987), especially "Opening Statement by H.E. General Prem Tinsulanonda" and *Twenty-Sixth ASEAN Ministerial Meeting and Post-Ministerial Conferences with Dialogue Partners* (1993).

12 July 1992).<sup>27</sup> Immediately following the accords, Prime Minister Vo Van Kiet was able to visit the various ASEAN member states, and concluded economic agreements with several members. By July 1992, Vietnam was able to sign the ASEAN agreement on mutual amity and cooperation, a necessary step in the membership process. Although Vietnam also became an observer in 1992, ASEAN officials stated that full accession was at least a year or two away (“Singapore Minister” 27 July 1992). Throughout this period of negotiations, Vietnam sought and received ASEAN assistance in reclaiming Hanoi’s control of internal economic affairs.

### ***Partial Reform***

According to the partial reform approach, economic transformation is threatened by short-term winners who gain large windfalls from market distortions and prevent reforming governments from continuing economic reform which would end these distortions. Specifically, corrupt officials can prevent additional reform policies from being implemented if they are short-term winners or receive side-payment from short-term winners. Reform policies are also more likely to be threatened when reforming governments are not highly accountable to the transitional losers (the general populace according to this approach), and therefore reforming governments are more likely to be captured by the interests of short-term winners. To avoid these problems, reforming

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<sup>27</sup> Although Vietnam did not officially apply for membership in 1992, Vietnamese officials such as Deputy Foreign Minister Le Mai repeatedly stated that Hanoi would eventually become a member of ASEAN, and that this was a long-term goal of Prime Minister Kiet (“Hanoi Interested” 17 November 1991).

governments can seek membership in a liberal IO as Vietnam did. Although it may seem that the reforming government was not accountable to the transitional losers, the largest threat to economic transformation came from smugglers and corrupt officials profiting from market distortions (see table thirteen).

During the 1980s, Hanoi lost control of economic policy, and economic reform originated as a bottom-up process where local officials began (illegal) fence-breaking activities that central authorities resisted (Fforde and de Vylder 1996). By 1989 the central government recognized that it must support economic reform to regain control. The loss of economic revenues from SOEs, from trade due to smuggling, and from the Soviet Union forced Hanoi to strengthen itself by taking the reins of economic reform. To reclaim its control over economic policy, the central government had to support a reform program it initially eschewed. Hanoi had opposed economic reform because it realized the main costs of reform would be borne by the central government, but by 1989, the costs of not reforming were greater. As discussed below, the central government faced economic failure if it did not support economic reform. Although many costs for the central government resulted from the reform process, the alternative of economic failure or even collapse was worse. To become a strong state once again, Hanoi had to limit its control of the economy and focus on doing fewer tasks better than it had before. In short, Hanoi had to support economic reform (Fforde and de Vylder 1996: 312). The seemingly strong central government had been eviscerated by the actions of its own officials and employees, and was unable to reclaim its control alone.

### *Public Officials Subvert Reform Implementation*

According to the partial reform approach, public officials prevent reform policies from being implemented when they are short-term winners or are bribed by short-term winners to block reforms. Each of these conditions are more likely when a strong black market and corruption exist. Both are indications that public officials are more likely to subvert reform measures because the officials receive substantial gains from the current system. In Vietnam, smugglers using the black market bribed public officials to block reform policies that would decrease their profits. Additionally, corrupt officials were often the biggest smugglers. Although Hanoi attempted to use domestic solutions to protect reform measures from these subversive actions, the central government needed outside help from ASEAN to protect reform measures from the efforts of short-term winners.

### *Smuggling and the Black Market*

One of the main indicators that a reforming government is unable to ensure that economic reforms are implemented is a large black market (see table two). When the black market is thriving, officials are more likely to subvert reform policies to make large profits through fence-breaking activities or ‘working outside the plan’ as occurred in Vietnam. As predicted by the partial reform approach, public officials who received bribes from smugglers undermined the central government’s reform efforts. Hanoi’s reform efforts were designed to decrease these illegal activities, but that would result in a loss of profits for bribed officials. To protect their economic interests, public officials

prevented reform measures from being implemented. A successful ‘outside’ economy or black market had developed and continued to thrive where “individuals, state enterprises, local authorities and even central ministries became involved in direct horizontal exchanges, in the form of barter or market transactions, as a means of overcoming some of the severe imbalances generated within the planned sector ” (Beresford and Phong 2000: 4). State officials and employees acted against the central government’s policy and became some of the biggest profiteers during this time (see table fourteen).

One of the areas where public officials profited the most from bribes was along the border with China. Smuggling across the long and porous border with China was initially petty stuff but steadily increased. Rather than fighting this illegal activity, Vietnamese customs officials took commissions in exchange for allowing smuggling to continue (Beresford and Phong 2000: 15). The smuggling grew to account for 60 percent of the goods available in the market and “cost tons of gold and hundreds of millions of U.S. dollars. The requirement of provinces to be financially self-sufficient forced many cadres to provide protection to smuggling operations with which 72 percent of the state-run installations became involved” (Tran 1994: 77). Vietnam became caught in a vicious cycle where increased smuggling decreased the government’s ability to provide goods and services for the provinces, making smuggling more appealing.

The central government was unable to provide goods and services for the provinces because it was facing economic collapse. At the same time smuggling became more rampant, the central government was more dependent upon revenues from international trade. During the 1990s, the government was heavily dependent on two



revenue sources: around half of the government's revenue came from taxes on SOEs and an additional quarter from taxes on external trade. Smuggling threatened both, representing a significant loss of revenue for the cash-strapped central government and undercutting the competitiveness of SOEs in the domestic and international markets (Beresford and Phong 2000: 16).

Faced with a growing deficit and potential economic collapse, the central government was forced to support economic reform in an attempt to regain control over economic activity even though the reform process would be costly for Hanoi. After reform began in 1989, provincial and local authorities were allowed and even encouraged to trade directly with foreign companies rather than through the state's centralized foreign trading corporations. The result was a increase from only 80 local state enterprises and state companies engaging in trade during 1987 to 600 by mid-1990 (Truong and Gates 1996: 83; Harvie and Van Hoa 1997: 58; Murray 1997). However, rampant smuggling continued even with these reform efforts (Truong and Gates 1996: 83). As the partial reform approach predicts, the short-term winners who gained from market distortions within the state were unwilling to allow the central government to complete economic reform that would cut their profits. Simply put, if all prices were freed and the price system well established, smugglers would not gain cheap, subsidized goods from the central government that they could then sell illegally for large profits.<sup>28</sup>

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<sup>28</sup> In March 1989, price controls were abolished on most goods and services, and no more than a dozen prices remained controlled (such as electricity, water and postage) (Leipziger 1992; Truong and Gates 1996: 79). The introduction of market-clearing prices reduced the role of the state in resource allocation and virtually eliminated CPE quantitative planning, but the price system and market adjustment mechanisms remained

As expected by the partial reform approach, the central government was unable to prevent the black market from continuing to thrive. When Hanoi attempted to curtail smuggling by increasing the volume of official trade, smuggling continued to increase as local authorities used it to supplement the shrinking central budget subsidies. Because the central government could not track these revenues, local officials increased their discretionary power over spending, and continued collecting extra-budgetary revenues even when central budget revenues rebounded to maintain this increased influence. “Contrary to the neo-classical presumption that corruption should decrease with the liberalization of economic activity as government controls are diminished, corruption and other forms of illegality (such as tax evasion) have in fact increased under the impact of reform” (Beresford and Phong 2000: 17; see also Tran 1994: 76-7). While neo-classical arguments such as the J-curve approach would not predict this occurrence, the partial reform approach expects it when short-term winners, smugglers in this case, are able to ensure their profits are maintained.

### Corruption

The partial reform approach predicts that short-term winners will prevent further economic reform by preventing policies from being fully implemented when the officials are corrupt. As mentioned earlier, this can occur when officials are bribed or when

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underdeveloped, displaying numerous distortions and non-competitive conditions. These were due primarily to supply bottlenecks, monopolistic structures and pricing, and an inefficient capital structure (Truong and Gates 1996: 79). These distortions allowed the short-term winners to continue to profit at the expense of the central government.

officials are short-term winners themselves. Both of these patterns are seen in the above discussion of smuggling. As discussed smugglers provided side-payments to local officials, and moreover officials were sometimes the main smugglers. For instance, the main agents smuggling industrial goods into the south and undercutting SOEs were the Mekong Delta provincial authorities (Fforde and de Vylder 1996: 270). Just as the partial reform approach predicts, the short-term winners also used the gradual pace of reform to strip assets and siphon off funds from SOEs. Overall, corruption was a widespread problem, weakening the central government's ability to ensure that reform policies were implemented as expected by the partial reform approach.

Evidence of corruption was widespread in Vietnam in part due to Hanoi's policy of decentralization. This policy was part of the reform process where the central government attempted to decrease the central planning of the economy and allow local officials to make economic decisions based on newly emerging market forces. Decentralization of public decision making and control usually causes distributional problems where the center and periphery vie for shares of the central revenue pie, especially when provinces control the amounts they transfer to the center. This form of decentralized control tends to emerge in reforming socialist economies, but it can be beneficial when local administrations are export-oriented and aid the movement to the market as was the case in Ho Chi Minh City. However, other provinces sought to protect loss-making enterprises by erecting internal protection against the trade of goods and services (Leipziger 1992: 20).

The increased local power also gave local authorities more opportunities to strip assets and siphon off funds from SOEs. For instance, SOEs managers in Tamexco and Nam Dinh textile mill were able to do this because of poor accounting and auditing systems. For instance, managers could sell assets at market value and only repay the book value into enterprise accounts, pocketing the difference or perhaps sharing some to payoff local officials (Beresford and Phong 2000: 18). In short, decentralized control also allowed local officials more opportunities to subvert economic reform entirely by demanding large side-payments or refusing to implement reform policies. With all these tactics available to them, officials were able to prevent the end of market distortions. To protect their ability to gather bribes and exist as short-term winners, the public officials used the decentralization policy to prevent further economic reform which would have ended the partial reform equilibrium.

Fiscal reform is one specific example supporting the partial reform approach where the central government was unable to ensure officials act as directed. Rather than following the dictates of the central government, public officials protected their economic interests and refused to implement reform policies. Fiscal reform was necessary because the budget deficit was the primary cause of inflation in Vietnam. Contributing to this growing problem were the decline of transfers from SOEs to the state and slow increase in tax collection from the non-state sector. Although government leaders recognized the need for fiscal reform, the implementation of reform was constrained because the central state apparatus was too weak and the bureaucracy controlling fiscal matters resisted

reform (Truong and Gates 1996: 82; Tran 1994: 71).<sup>29</sup> The central government's attempts to control investment of assets it supposedly owned also failed. Technically, investments by the coal companies or the army in hotels and restaurants "remain within the state sector, but the reality is that the central government's attempts to influence the direction of economic development through its plans are largely ignored in the short-term profit-oriented decisions of SOEs" (Beresford and Phong 2000: 18). As predicted by the partial reform approach, when the reforming government initiated reform policies that would decrease the profits of short-term winners, public officials and state employees such as SOE managers subverted these efforts. Rather than acting in the interest of long term economic growth, the short-term winners protected their short-term gains.

Another area of reform where the public officials subverted government efforts was tax collection. Again, the short-term winners protected their economic interests by preventing reform measures from being implemented. The central government wanted to improve tax collection to offset revenue losses from smuggling and falling profits from SOEs, but failed for two main reasons. First, Vietnam lacked trained personnel, making revenue collection from the private sector very limited (Truong and Gates 1996: 82). Second, tax codes were not implemented uniformly. For instance in agricultural tax collection, some "localities had violated the tax collection and policies. Some had lowered the land classification criteria. Others granted exemptions and tax reductions at variance with state regulation to those taxpayers who were not entitled to receive them.

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<sup>29</sup> Additionally, there was "very low social consciousness about tax responsibility" (Truong and Gates 1996: 82).

Some local cadres even refused outright to pay taxes” (Tran 1994: 74-75). Both of these factors reflect the partial reform approach predictions. As was the case in Slovakia under Meciar, the lack of competent officials provided short-term winners with a convenient excuse to block reform measures. When officials did implement reform measures, it was in a slipshod manner than increased the authority of local officials rather than increasing the ability of the central government to collect taxes. Using both these methods, the short-term winners ensured that tax reform, which would decrease their profits, was not implemented. The weak central government was unable to enforce tax collection and ensure that its public officials followed state policies.

The central government continued to have trouble enforcing reform policies as a banker with five years experience in Vietnam noticed and commented that “as you go down the pecking order, it’s apparent that socialist thinking is quite strong” (Montagnon 7 February 1995). Thus, Hanoi suffered from short-term winners attempting to maintain their profits and hardliners also reluctant to enforce further reform. Together, these two groups blocked continued reform and created a bureaucratic nightmare for Hanoi using decentralization as their main tool. Decentralization meant that central and local officials need to approve international projects, presenting many opportunities for even low-rank officials to hold up projects (Murray 1997: 53). The short-term winners and the hardliners were both able to prevent new projects which support further economic reform. While the hardliners did this to save socialism, the short-term winners continued to gain profits from their actions and did their fair share of preventing new reform policies.

## No Domestic Solution

To regain control of economic policy within Vietnam, Hanoi began a program of economic reform in 1989. Recognizing that the central government faced economic ruin and had lost control over economic activities, the government supported the costly reform program. However, by 1989, the pace of gradual if involuntary reform that began in the early 1980s had created a strong core of short-term winners. When Hanoi began to reform and attempted to curtail these winners, they blocked the central government. Using their previous economic gains from activities such as smuggling and powerful connections with corrupt officials, the short-term winners acted precisely as the partial reform approach predicts. According to Nguyen Trung Truc, managing director of Peregrine Capital Vietnam Ltd., the “biggest challenge facing the government is how to implement reforms effectively to reduce opportunities for corruption” (Murray 1997: 54). Or put differently, the central government had to decrease opportunities for short-term winners to stall further reform. Unfortunately for Hanoi, on its own the central government was unable to overcome the short-term winners.

The central government attempted domestic solutions to counter short-term winners, but these efforts largely failed. Although Vietnam improved the monitoring of SOEs and began to measure their performance by the size of their profits and tax contribution, “progress in introducing coherent, transparent, and independently audited accounts has been slow” (Dodsworth et al 1996: 14). As short-term winners were able to counteract these efforts, Vietnam became stuck in a partial reform equilibrium where the distorted segment of the economy continued to siphon off funds needed in the

reformed parts of the economy. Their success in preventing further reform made SOE managers believe that any economic reform against their interests could be circumvented (Leipziger 1992: 6).

Hanoi also attempted to reform the bureaucracy and streamline the approval channels for project so less opportunities for corruption existed, but the web of graft and corruption surrounding the economy continued to grow. Frustrated potential investors complained that “backhanders are needed to get any project through” (Murray 1997: 52). These backhanders knew who to talk to and who to bribe to receive approval, and by using these methods, the short-term winners continued to reap profits. Foreign investors thus continued the market distortions by bribing short-term winners. One typical solution for this bureaucratic tangle is to create supraministerial bodies, circumventing the vested interests of line ministries (Leipziger 1992: 19), but by the mid-1990s, the institutional reforms in Vietnam took place in existing ministries. The Vietnamese authorities created an interagency SOE reform committee and a department in the Ministry of Finance to manage SOEs’ assets (Dodsworth et al 1996: 14). Thus, the ministries were able to protect their vested interests, which often included large-side payments from short-term winners. Institutional reform in Vietnam was further slowed because there were few qualified personnel familiar with market economics and the government wished to avoid creating more strong central institutions (Leipziger 1992: 20). Hanoi’s own desire to maintain decentralization weakened its control of the economic reform. The local authorities continued to gain as short-term winners at the expense of the central government.



In summary, the public officials and state employees were able to undermine economic reform as they fought to maintain their profits. Prime Minister Vo Van Kiet admitted in that corruption and cumbersome bureaucracy harmed the reform process. During an address to the National Assembly in October 1994, Kiet said it was “very common that scarce state funding resources are used to build offices, buy expensive equipment or organise showy activities. Corruption and bureaucratism remain serious problems. Public administration reform is becoming an urgent issue” (“Vietnam: Review 1996” November 1995). The domestic solutions used by Hanoi to control the short-term winners largely failed, and corrupt officials continued to prevent reform policies from being implemented.

With the failure of domestic solutions to the corruption problems plaguing the state, Hanoi was forced to seek outside help. As predicted by the partial reform approach, when a reforming government is threatened by short-term winners and lacks domestic solutions, it is more likely to seek membership in a liberal IO to bind the state to reform. This is what occurred in Vietnam. Simply put, the hope was that pressure from ASEAN would force the Vietnamese economy to open by curtailing the maze of regulations and tariffs designed to protect weak state industries (Murray 1997). This would in turn decrease the opportunities for short-term winners to prevent reforms from being implemented.

## ASEAN Helps Hanoi

The Vietnamese central government found itself unable to control the actions of its officials and employees even after it began to support economic reform. By 1991 this failure was apparent, and Prime Minister Vo Van Kiet sought outside help. The 7<sup>th</sup> Congress of the Vietnamese Communist Party in 1991 ended with Vietnam adopting a new outlook on foreign policy that explicitly attached importance to relationships with neighboring states. Although Vietnam lagged behind ASEAN states in economic development and had significant ideological and political differences, Vietnam repeatedly expressed its desire to become a member of ASEAN in the hope that membership would aid Vietnam economically and diplomatically (Tuan 30 October 1993). The economic aid that Vietnam sought was more than the traditional desire to stabilize international trade because Hanoi also sought help reclaiming its control over Vietnam.

According to Kiet, Vietnam while dedicated to economic reform and development faced the danger of lagging further behind other economies (Chew, Ngoo, and Pereira 19 May 1994). Vietnamese officials attributed this danger to many factors, but Vietnamese Minister of Trade Le Van Triet found the lack of ‘competent’ officials to be one of the most significant problems. Writing in the state-run Vietnam News, Deputy Foreign Minister Bu Khoan said that the “limited skills and knowledge about the world and its languages, government bureaucracy, the isolation in foreign relations with some countries and organisations [sic], are now proving a hindrance in the development of the country” (“Vietnam Faces” 7 July 1995). While Vietnam could aid itself according to

Triet and Foreign Ministry officials, ASEAN advice, technical assistance, and investment was also necessary (“Asean, Vietnamese” 25 September 1994; “Vietnam’s Premier” 30 October 1992).

To secure this domestic assistance, Vietnam sought membership in ASEAN. As predicted by the partial reform approach, one of the main factors driving Vietnam to negotiate with ASEAN was the need to protect the reform process from corrupt and incompetent officials who undermined reform policies. According Vice Minister of Foreign Affairs Le Mai, one of the central reasons Vietnam sought membership in ASEAN because ASEAN provided the opportunity to push forward the reform process in Vietnam (“Vietnam Can” 20 December 1995). The government while dedicated to economic reform needed the accession process which allowed Hanoi to stabilize the reform process (“ASEAN to Boost” 22 February 1994). ASEAN could perform this function because it irrevocably tied the central government to the reform. No matter how strong the demands of the short-term winners were, Hanoi was forced to follow the capitalist path, ruling out nationalization and expropriation of foreign-owned factories and properties according to the managing director of Vietnam Business Corporation, Han Vo Ta (Ming 2 August 1995).

More specifically, from the period of late 1991 through accession in 1995, ASEAN offered significant assistance in the development of Vietnam’s market economy, a requirement for full membership (“Hanoi’s Readiness” 8 December 1993; “Vietnam” 9 August 1993; Templer 22 July 1994). To meet ASEAN standards, Vietnam sought trade, investment, and economic expertise from its non-communist neighbors to aid the

renovation (“Singapore’s Lee” 23 April 1992; “ASEAN to Help” 2 August 1993). When Singapore’s Senior Minister Lee Kuan Yew visited Vietnam in 1992, Vietnam sought his advice on economic reform (“Singapore’s Lee” 23 April 1992). Malaysian Prime Minister Mahathir Mohamad also visited in 1992, bringing a delegation of over 200 senior economic advisors and business executives. Malaysia led ASEAN in investment in Vietnam (totaling almost 71 million dollars, a significant increase from nearly zero in an 11-month period) and in supporting Vietnam’s bid for membership. During the visit, the two states signed three economic agreements covering telecommunications links and broader cooperation in addition to discussing ASEAN membership (Sherry 19 April 1992). Throughout this period ASEAN sent senior economic officials to resolve technical details relating to accession (Urakami 25 September 1995).

While Vietnam sought membership to stabilize its economic reforms, ASEAN itself was committed to helping Vietnam’s economic transformation, hoping it would become a model of economic liberalization for other emerging economies (Son 31 July 1995). At the end of the accession process, ASEAN drew lessons from the Vietnamese experience and released a statement setting four broad objectives for all states in the region. The objectives directed ASEAN on how to aid regional states making the transition to market economies so as to accelerate economic growth and development, and prepare them for participation in ASEAN Free Trade Area (AFTA) (“Vietnam Can” 20 December 1995). Specifically for the Vietnamese case, ASEAN attempted to aid Hanoi’s efforts to bring greater transparency to the government, especially the trade regime (“Asean Asks” 21 May 1995; Templer 28 July 1995). Vietnam recognized these

efforts in 1995. The Vietnamese National Assembly chairman Nong Duc Manh “attributed Vietnam’s achievement in its renovation process in recent years to the efforts by the Vietnamese people and state and to the assistance from fraternal and friendly countries, including Indonesia” (“Vietnamese parliamentary” 14 September 1995).

Throughout the accession process, Vietnamese and ASEAN officials maintained that this relationship was crucial in strengthening the Vietnam’s economic transformation. By providing aid and assistance, ASEAN helped Hanoi overcome the short-term winners efforts to subvert reform policies. While short-term winners were able to prevent Hanoi’s ability to push reform through alone, the added might gained from seeking membership in ASEAN overpowered the short-term winners. As the hypothesis derived from the partial reform approach predicts, the reforming government sought outside help to make economic reform successful, and this tactic largely succeeded.

#### *Not Accountable to Transitional Losers*

According to the second hypothesis from the partial reform approach, reforming governments are more susceptible to short-term winners if governments are not accountable to the transitional losers. This occurs when governments are too undemocratic, and the more democratic states are less likely to be captured by short-term winners. During this period in Vietnam, the CPV maintained its stronghold on political life, and seems to fit the partial reform hypothesis that the reforming government was not accountable the transitional losers. However, this conclusion misses the pattern of gains

and losses in Vietnam during its economic transition. Rather than the general public being the transitional loser, the populace largely gained from economic reform. Therefore, it should not matter that Hanoi was not accountable to the general public. At the same time, Hanoi was closely tied to the main transitional loser, itself. Although it seems likely that other short-term losers existed during this time, the available evidence suggests that the main losers was the central government. More specifically, the Council of Ministers headed by prime minister was the core of the central government and the actor that lost the most from the reform process. However, the alternative to supporting the costly reform process was economic failure and continued loss of control over economic activities within Vietnam, and the Council of Ministers determined the reform program was the better outcome.

Overall, this hypothesis derived from the partial reform approach misses the situation in Vietnam where if there was any clear loser, it was the central government not the general populace (Fforde and de Vylder 1996). Most of the evidence refers to the central government or Hanoi as a nearly monolithic force that is directed by the Council of Ministers. While lower echelons of the ministries fought against some reform efforts to protect their vested interests as discussed above, the core of the central government, the Council of Ministers, was fighting for its survival by supporting an economic reform program where the costs were mainly borne by Hanoi. However, the alternative for the central government was worse.

The partial reform approach expects the general populace to be the transitional loser, but in Vietnam poverty decreased, real living standards improved, and access to

consumer goods increased (Fforde and de Vylder 1996: 309-310). While the situation was not ideal in Vietnam, the average life the Vietnamese improved once the Hanoi supported economic reform, but the situation in Hanoi worsened. As discussed above, Hanoi lost significant amounts of revenue, faced rampant corruption, and had an increasing deficit. To solve these problems, the central government was forced to enact economic reform policies that it did not inherently support. The ruling Communist Party remained dedicated to one party rule and continued to use rhetoric about the ‘construction of socialism’ (Fforde and de Vylder 1996: 272).

Although Vietnam was firmly committed to economic liberalization after 1989, political liberalization continued to be anathema to the current regime. Open dissension towards the Communist Party became a criminal offense; surveillance of dissidents was increased; the press was instructed to publish articles condemning party critics, and; the appointment of editors became subject to government approval. Through its actions and statements, the Vietnamese government made it clear that while it was committed to a path of economic liberalization, political liberalization remained impossible (Fforde and de Vylder 1996: 84). The few political reforms that occurred followed a pattern “with piecemeal liberalization measures followed by periodic attacks on dissidents” (Fforde and de Vylder 1996: 304). Thus, the near total lack of any political openness in Vietnam makes the case seem ideal for the partial reform hypothesis. Under this view a highly undemocratic state is more likely to be captured by the short-term winners because it is not accountable to the transitional losers or the general public. Yet, in Vietnam the transitional loser was Hanoi itself.

### *J-Curve*

According to the J-curve approach, short-term losers are concentrated and suffer immediate costs during economic transformation, and as a result they pose the greatest threat to successful reform. Specifically, if reforming governments are too accountable to the general populace, face opposition from veto-players, or must withstand mass uprisings against reforms, governments are more likely to cave under the pressure. To avoid this outcome, reforming governments can seek membership in a liberal IO to bind themselves to the reform process. For Vietnam, none of these conditions existed, yet Hanoi still sought membership in ASEAN.

The CPV is not highly accountable to the general public through the traditional indicators used such as elections and executive changes. The Vietnamese government has been able to liberalize the economic structure of the state without a corresponding liberalization of the political structure. Throughout the early 1990s, the Vietnamese government was able to maintain control over the political scene while liberalizing the state's economy. Political dissidents were placed under surveillance, arrested, and removed from government positions. Rather than being too accountable, the Vietnamese government was quite distant from the general populace as the J-curve approach prefers, yet the government needed outside help to maintain economic reform contrary to J-curve expectations.

The central government also did not face veto-players who actively opposed economic reform. The two traditional veto-players most often studied are the military and labor unions. Although the military was greatly weakened following the withdrawal



from Cambodia, it did retain some influence, and in January 1989 a near uprising by army soldiers “against the cut in the rice price subsidy led to its reinstitution ‘specially’ for them” (Tran 1994: 67). However, while the military demanded special protection during economic reform, it also recognized the danger of economic backwardness (Murray 1997: 234). In short, the military played a minor role during this time and did not attempt to halt economic reform.

Labor unions were also not a threat to economic reforms because they were illegal until a new labor code went into operation on January 1, 1995. This granted workers the right to form trade unions and to strike, but they remained weak and unable to enforce regulations (Murray 1997: 222). From 1990 until 1995, there were about 100 strikes, most being illegal. After the new labor code came into force, 46 strikes occurred in 1995, an increase from 28 the previous year, and all but eight of the 1995 strikes involved foreign companies rather than domestic firms.<sup>30</sup> The main cause of the strikes appears to be low wages. “Other reasons cited include strict working regimes, long hours without overtime pay, management refusal to grant medical and other social benefits as stipulated by law, and direct physical abuse by employers” (Murray 1997: 221). Whatever the cause of the strikes, they were not numerous, and most that did occur were against foreign companies rather than threatening domestic firms. Moreover, these were localized strikes

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<sup>30</sup> These numbers may underestimate the occurrence of strikes because they do not include disputes of short duration that did not attract official attention through the arbitration process (Murray 1997: 221).

rather than general strikes that paralyze the economy. The labor unions were too new and poorly organized to orchestrate large-scale strikes that could halt economic activities within the state.

The final hypothesis derived from the J-curve approach suggested that reforming governments confronted with mass uprisings are more likely to seek outside help. Again, there is little evidence of this in Vietnam. Although public sector employment dropped from over 4 million in 1988 to less than 3 million in 1992 (Dodsworth et al 1996: 12), the disgruntled former state employees were unable to use antigovernment protests or riots as a protest against economic reforms. About 85 percent of this decline in employment was due to cuts in SOEs. Employment in SOEs “was reduced by half, from nearly 1.5 million in 1988 to 0.75 million in 1994” (Dodsworth et al 1996: 12). In 1988, over 12,000 SOEs existed; the number had dropped to over 6,000 due to merging SOEs or closing them. Jobs security also decreased during this time because Hanoi was now willing to allow SOEs to fail (Truong and Gates 1996; Dodsworth et al 1996). This decreased job security and job opportunities is a significant contributor to mass uprisings according to the J-curve approach, yet the mass uprisings did not occur.

Rural cooperative cadres, bureaucrats, state employees, and some party officials lost their jobs, but they often used their existing networks to enter business on their own. While unemployment remained a problem, “the fact that retrenchment met with so little organized opposition from the people can only partly been explained with reference to the still oppressive nature of the Vietnamese politics and society. Many people simple found a better life outside the state” (Fforde and de Vylder 1996: 309). Although income

differences increased and illiteracy returned as some children especially girls were taken out of schools due to rising costs, overall poverty decreased, real living standards improved, and access to consumer goods increased (Fforde and de Vylder 1996: 309-310). Simply put, the general populace was a net winner from reform rather than a transitional loser.

Overall, the J-curve approach does not provide an adequate explanation for why Vietnam sought membership in ASEAN. This approach expects reforms to be threatened by short-term losers when governments are too accountable to the public, opposed by veto-players, and face mass uprisings. Under these conditions, governments are more likely to seek outside help to protect the reform process. Vietnam faced none of these threats, yet Hanoi repeatedly stated that seeking membership in ASEAN would protect the reform process.

### ***Alternative Explanations For Seeking***

Two additional reasons explain why Vietnam was interested in joining ASEAN. First, the process and eventual membership stabilized and expanded trading relationships that are key in sustaining development (Harvie and Van Hoa 1997: 191). As expected by the neoliberal institutionalist argument presented in chapter one, Vietnam sought membership in ASEAN to improve economic relations. Second, by presenting a joint front with other states, Vietnam became more powerful in relationship to China (Boås and Hveem 2001; Murray 1997). To protect favored foreign policies as expected by the first relationship between domestic actors and international institutions presented in

chapter one, domestic leaders sought membership in ASEAN. Rather than seeking membership to protect economic reform policies, the government used the accession process to strengthen its position with respect to China. Although these reasons are significant, they do not entirely explain Vietnam's dedication to the accession process. While Vietnam wanted membership to improve trading relationships, Hanoi and ASEAN officials recognized that economic reform must continue to ensure stable trading relationships. Additionally, Vietnam normalized relations with China while seeking ASEAN membership, and did not solely rely on ASEAN when dealing with China.

As expected by neoliberal institutionalists, Vietnam sought membership in ASEAN to improve its economic relations with member states. Vietnam heavily relied on ASEAN countries for trade and investment in the 1990s as Vietnam's traditional markets dried up in Russia and Eastern Europe ("Hanoi" 17 December 1993). Suffering significant economic difficulties at the end of the 1980s as discussed earlier, Hanoi's sudden loss of aid and trade ties with the former Soviet bloc forced Vietnam to expand its economic ties with ASEAN (Isberto 28 February 1992; Beresford and Phong 2000). From 1990 to 1995, Vietnam's trade with ASEAN rose 27 percent yearly, and ASEAN states take in up to 50 percent of Vietnam's exports. Both Singapore and Malaysia are among the top six investors in Vietnam since 1988 (Son 31 July 1995). By becoming a member, Vietnam could protect and increase these trends, such as stabilizing foreign direct investment (FDI) over the medium term (Dodsworth et al 1996; Ming 2 August 1995). Additionally, Secretary General of the Vietnam Chamber of Commerce and Industry (VCCI) believed tariff cuts and other effects of ASEAN entry would benefit

Vietnam by increasing competitiveness and access to new markets (Templer 23 July 1995). However, these economic gains while undeniable are for the long-term; the short-term gains were political (Murray 1997). Seeking membership in ASEAN offered immediate benefits by stabilizing the reform process and reclaiming government control over economic policy as discussed above.

Second, domestic leaders used the accession process to strengthen their favored policies regarding China. This mechanism was presented in chapter one where leaders use international institutions to strengthen their international bargaining position. Singapore Minister for Information and the Arts and Second Minister for Foreign Affairs George Yeo argued that ASEAN offered Vietnam a way to re-balance its historically difficult relationship with China (“Asean urged” 8 December 1993). Specifically, according to Deputy Prime Minister Tran Duc Loung, ASEAN constituted a very important factor for peace and stability in the region (“Vietnam Presses” 5 December 1993). Loung stated that the ASEAN Regional Forum (ARF) was crucial for cooperation on security issues in addition to scientific and cultural projects. The main security issue facing the group was the division of the Spratly Islands claimed in part or whole by China, Vietnam, Taiwan, Brunei, Malaysia, and the Philippines. After normalizing relationships with China in 1991 following a small but bloody 1988 engagement in the Spratlys, Sino-Vietnamese relationships were strained again when China made an oil exploration deal with the Denver-based Crestone Energy Corporation. Additionally, the

Chinese legislature passed a territorial waters law claiming Chinese sovereignty over the Spratlys, and the military set up a sovereignty post in the disputed area (Chongkittavorn 12 July 1992).

However, while Hanoi sought closer ties to ASEAN, it also improved its bilateral relationship with China. According to one regional analyst, this indicated that Vietnam did not see ASEAN as a counterweight to China. Instead, improving relationships with both ASEAN and China allowed Vietnam to diversify its relationships with all regional countries (Truan 30 October 1993). Moreover, ASEAN has never been a security organization, and many see it as a military lightweight compared to China and even Japan (Isberto 26 January 1994). This situation is exacerbated because ASEAN members have several internal security problems. For instance, Malaysia, Brunei, and the Philippines each have claims on the Spratlys, and several additional conflicting territorial claims have harmed intra-ASEAN relations. “The row between Malaysia and the Philippines over Sabah is perhaps the most prominent example, but there are similar disputes troubling ties between Malaysia and Singapore, between Malaysia and Thailand, and between Malaysia and Brunei” (Isberto 26 January 1994). These conflicts within ASEAN further weaken it in terms of military cooperation and make it less of a counterweight to China, regardless of Vietnamese membership. Indeed, once Vietnam entered ASEAN, the number of territorial conflicts within ASEAN increased.

Although these two alternative explanations may have played a role in Vietnam’s decision to seek membership in ASEAN, they do not receive as much attention as the problem protecting Vietnam’s economic transformation. Additionally, there is no reason

why the Vietnamese government could not have considered both international *and* domestic reasons for joining ASEAN. The arguments presented in this dissertation are not meant to supplant international reasons for joining IOs, but are meant to show that states also have strong domestic factors driving their foreign policy choices.

### ***Vietnam Seeks Outside Help***

Vietnam sought membership in ASEAN from 1991 until 1995 to protect economic reform. Initially, Hanoi did not support economic reform, but the bottom-up reform movement forced the government into launching an economic reform program in 1989. Because Hanoi was being economically eviscerated by short-term winners, the central government needed to use reform policies in an attempt to regain control of economic decision making within Vietnam. When the central government embarked upon this path, public officials and state employees who had gained large profits as short-term winners subverted government policies. Hanoi attempted domestic solutions to overpower the short-term winners but ultimately needed ASEAN's assistance in protecting the reform process.

The Vietnamese economic transformation illustrates the importance of domestic factors such as corruption and a thriving black market in foreign policy decision making. Hanoi and ASEAN officials recognized the difficulties caused by these factors and openly discussed how the accession process could aid the central government in reclaiming its control over economic policy. While much support for the partial reform approach is found, the J-curve hypotheses do not fare as well. The central government

was the main transitional loser during economic reform, but Hanoi's commitment to reform did not waver after 1989, contrary to the J-curve predictions. As expected by the partial reform approach, short-term winners slowed the reform process, and Hanoi sought outside help to overcome this obstacle.

## ***CHILE***

According to the J-curve approach, the short-term losers from economic reform pose the greatest threat to successful economic policies. Highly concentrated and motivated to prevent reform, short-term losers threaten reform the most when they are veto-players, the government is too accountable to the general public, or when the losers use mass uprisings to halt reform. While the Chilean government was distant from the public and there was little evidence of mass uprisings, during the 1990s short-term losers attempted to reclaim their traditional roles in Chilean society as veto-players. Two groups, organized labor and the landed elite, had played prominent roles in Chilean politics for over a hundred years until the military coup in 1973. Under the military dictatorship of General Pinochet, both groups were removed from politics, and after the democratic transition of 1989-1990, they sought to regain their position as veto-players in Chilean politics. These groups' repressed demands for reform reappeared with a vengeance, and political parties had to contend with demands for change that were more powerful than existed before the military intervention (McDonald and Ruhl 1989: 207).

While organized labor and the landed elite sought more power, the new democratic government was dedicated to the neoliberal economic program Pinochet's



regime began. To withstand the threat posed by these potential veto-players, the government sought outside help in the form of NAFTA. The Chilean government sought NAFTA members for a variety of reasons ranging “from the desire for approval from the U.S. to a wish to liberalize further the Chilean economy, especially public-sector services and government procurement. Attributing liberalization to pressure from the U.S. was seen as a way to depoliticize the debate inside Chile” (Grugel 1999: 153). By removing economic liberalization from the domestic level to the international level, the government insulated economic reform from the short-term losers, as the J-curve approach predicts.

Chile became interested in NAFTA as early as 1991, long before the agreement was signed on December 17, 1992, and concluded a free trade agreement with Mexico that same year.<sup>31</sup> After NAFTA formally came into existence in January 1994, the member states invited Chile to seek membership in December that same year. Yet, Finance Minister Eduardo Aninat, Chile’s chief NAFTA negotiator, stated that NAFTA negotiations would be ‘dead’ by March 1, 1996 if the U.S. Congress did not grant the U.S. president fast-track authority. Without fast-track, there was no deal said Aninat (Walker 11 August 1995; Banales 9 June 1995).

The U.S. made some progress when the U.S. House Ways and Means Committee approved fast track authority for U.S. trade negotiations with Chile but excluded the clauses covering the environment and labor (“Government Satisfied” 26 September 1995; McCarthy 26 December 1994). However, the U.S. Congress never approved fast-track

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<sup>31</sup> Chile and Mexico signed a free trade agreement covering trade in goods on September 22, 1991, which entered into force on January 1, 1992 (see Robert 2001 for a discussion).

authority. U.S. officials admitted that the problems surrounding NAFTA expansion were unrelated specifically to Chile but due to increasing protectionism within the U.S. Realizing these troubles, Foreign Minister Jose Miguel Insulza admitted that the government was increasingly skeptical of NAFTA membership by early 1996 (Grugel 1999: 154).

Chile retained some hope of membership through 1996 by forming a bilateral free trade agreement with Canada in an attempt to pressure U.S. action and by hoping the November 1996 elections would result in a more trade-friendly congress. Chile joined with Canada in a final effort to save NAFTA negotiations when they formed a free trade agreement in 1996, attempting to spur U.S. action and facilitate Chile's accession to NAFTA (Robert 2001: 88; McCarthy 19 November 1996). Beyond this, Chile was forced to wait until the November elections. U.S. Ambassador to Chile Gabriel Guerra Mondragon did not expect any progress on free trade negotiations with Chile until the November 1996 elections, and during a February visit to Chile, Secretary of State Warren Christopher did not discuss NAFTA ("Christopher Will Not" 21 February 1996). When the November elections and the bilateral agreement with Canada failed to change the attitude in the U.S., President Frei stated that while Chile had been willing and ready to join NAFTA in 1994, this was no longer a priority for Chile ("President Plays" 3 November 1996). In early 1997, Chile turned its attention to forming a bilateral free trade agreement with the U.S. rather than continuing its futile efforts to join NAFTA

(Oppenheim 1999; Robert 2001).<sup>32</sup> Yet, Chile's efforts to join NAFTA succeeded in minimizing the influence of two potential veto-players, who opposed economic reform.

### *J-Curve*

Short-term losers threaten the policies of reforming governments because the losers are concentrated, easily identified groups that are usually organized already. The short-term losers face immediate costs from economic reform while the benefits are only potential at some indeterminate time in the future and diffuse. To protect their economic interests, short-term losers can use their influence as veto-players, or potential veto-players in the Chilean case, to prevent specific reform policies. As expected by the J-curve approach, the two groups of short-term losers, organized labor and the landed elite, were organized and faced concentrated and immediate costs to reform policies, specifically trade liberalization and more generally Pinochet's neoliberal economic program that the democratic government continued. The two groups attempted to regain their traditional roles from before Pinochet's regime and use their influence as veto-players to prevent these policies.

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<sup>32</sup> The main sources for coding seeking contained clear statements that Chile was viewed as a potential member of NAFTA but did not mention additional states. While other sources may mention states such as Venezuela and Columbia as potential members of NAFTA and indicate that these and other Latin American states expressed their interest in NAFTA membership, the members of NAFTA only conceded that Chile was a potential member in the early 1990s (Weintraub 2001: 95-96). While the accession clause of the accord does not contain geographical limitations (McConnell and MacPherson 1994), officials from the U.S., Canada, and Mexico focused on Chile.

The democratic transition of 1989-1990 allowed the two past veto-players an opportunity to reclaim their previous role in Chilean politics, but the new government blocked these efforts using domestic and international solutions. The pacted transition between the Pinochet regime's elites the new democratic elites created an atmosphere where agreement and consensus were paramount (Oxhorn 1995: 264). The conservative tendencies and even an authoritarian culture remained strong and became more deeply embedded (Díaz 1996: 254), and the new regime continued many of the programs originating in Pinochet's rule which the hopeful veto-players opposed. Specifically, the *Concertacion* coalition governments led Presidents Aylwin and Frei sheltered the economic changes carried out by the military regime and designed further steps to deepen economic liberalization (Riveros 1998: 140; Valdéz 1995: 280). Both administrations continued economic reform and sought to protect reform from actors that threatened the program. The government quickly formed a policy coalition in foreign economic policy making that excluded some social groups such as organized labor and the traditional agricultural interests from this policy area while facilitating the influence of others such as export producers (Grugel 1999: 149; Petras and Leiva 1994: 184-185). These domestic solutions were one tool the reforming government used to overpower the short-term losers.

While the government was forced to deal with potential-veto players that opposed continued reform, the more general public did not take part in mass uprisings although its members considered themselves losers from economic reform. The general public was also unable to influence economic decision making through traditional methods such as

elections because the government insulated this policy area from the populace. Although these two predicted relationships did not exist in Chile, the J-curve approach is supported by the role veto-players played in Chile during the 1990s.

### ***Veto-Players***

Short-term losers who bear concentrated, immediate costs from economic reform can threaten reform success when they are veto-players. Although organized labor and the traditional, landed elite were not veto-players during Pinochet's rule, they sought to reclaim this role following the democratic transition. Organized labor and the traditional agricultural interests (the landed elite) were two important groups within society that resisted continued liberalization measures. Organized labor sought to reclaim its influence with the return of rights to organize and bargain collectively while the landed elite represented farm interests that opposed reducing protective barriers. The traditional agricultural interests in wheat, beef and milk (Grugel 1999: 156-157) opposed continued liberalization while the export-oriented agricultural producers actively pressured the government for continued reform.<sup>33</sup> To protect economic reform from the short-term

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<sup>33</sup> Nonneman (1996b) provides the general argument that forms the basis for this analysis. According to Nonneman, important groups within society may resist economic reform, but the situation is made more complex because the groups are subsets of broader segments in society. While one group may oppose reform, another group within the same segment of society may support it. "The often contradictory efforts will target different elements of liberalization programs: Some groups may favor privatization while opposing the liberalization of foreign trade, for instance, thus clashing with the interests of other exporters and importers" (Nonneman 1996b: 39). This insight applied to the Chilean case where the agricultural sector was divided between the traditional agricultural elites and the export-oriented agricultural producers.

losers constant efforts to slow or halt reform measures, the Chilean government insulated economic decision making from the veto-players. When domestic solutions were not enough to protect economic reform, the government sought outside help in the form of NAFTA as predicted by the J-curve approach.

Although the government sought to protect continued reform by seeking NAFTA membership, these two groups were adamantly opposed to membership, and the union of the Central Workers Confederation broke off conversation on economic matters with the government in December 1994 after the government was invited to seek membership (Gonzalez 28 December 1994). The NAFTA opponents argued that Chile would face costs similar to Mexico from membership with the burden carried by the poorest and least privileged members of society and by individuals geographically removed from the manufacturing and service border areas and the capital city (Grugel 1999: 140). Membership would make the wealthy wealthier and the poor poorer according to organized labor (“Another Free Trade” 17 November 1996), but the government ignored these protests and continued to isolate the potential veto-players from economic policy decision making.

### Organized Labor

The J-curve approach expects short-term losers to threaten reforms when they are veto-players. Using their influence as veto-players, they can prevent reforming governments from enacting or continuing economic policies the losers oppose. While organized labor was not a veto-player during Pinochet’s regime, organized labor had

traditionally played a significant role in Chilean politics and wished to regain this position. By becoming a powerful actor again in Chilean politics, organized labor would be able to prevent the government from continuing Pinochet's neoliberal economic program wholesale. To curtail labor's efforts, the reforming government sought outside help as predicted by the J-curve approach.

Soon after the Pinochet's removal, organized labor returned as a powerful force in Chilean politics and tried to slow economic reform. When Pinochet led Chile through economic reform, the groups with the strongest interests in the old system such as unions were repressed (Nelson 1993; Siavelis 2000: 81). Strikes were not allowed and the plight of workers generally became worse during this time. Worker benefits and job security decreased while at the same time poverty vastly increased (Petras and Levine 1994). In the newly democratized regime, labor unions reemerged as powerful organizations and demanded improved working conditions, but the President Aylwin attempted to use a domestic excuse for not meeting labor's demands.

Aylwin argued that his hands were tied by the institutional framework to continue existing economic programs, but his actions revealed him to be a dedicated reformer. While Aylwin's campaign denounced the dogmatism and social and ethnic indifference of Pinochet's economists (Valdés 1995), his efforts did not fully meet labor's demands. In fact, the economic policies under Aylwin preserved the development strategy of the previous regime according to Jaime Guzmán, chief ideologue of the Pinochet dictatorship. The president of the right-wing National Renewal party (RN) went even further and claimed that cabinet members such as Finance Minister Foxley and

Economics Minister Ominami could have been members of Pinochet's cabinet (Petras and Leiva 1994: 46). Rather than changing Pinochet's economic program to improve the welfare of average Chileans, the new government continued the economic reform policies begun by Pinochet.

Aylwin's claims that the domestic institutions tied his hands were further weakened by the fact that while "constitutional reforms in 1989 and 1991 limited some of the powers originally granted to the president, the Chilean presidency remains one of the most powerful in Latin America and the world, with broad powers to control the legislative process" (Siavelis 1997: 322). Recognizing the power of the presidency and Aylwin's dedication to the neoliberal model regardless of the institutional structure of the state, labor did not believe Aylwin's claim that his hands were tied, and a general perception emerged that the Christian Democrats and Socialists could but were unwilling to increase worker rights (Petras and Leiva 1994).

This perception was also supported by the government efforts to continue the neoliberal economic program even in the context of widespread poverty and to repress organized labor by supporting Pinochet's labor code. Both "were seen as betrayal of the redistributive and combative traditions of the past" (Monteconis 1998: 136), and made organized labor a short-term loser during this period. Some *Concertación* theorists explicitly supported this conclusion by stating that the government had to make the workers feel they participated in and benefitted from the new system while ensuring that workers did not demand wage increases, which would endanger international competitiveness. Simply put, the government expected "the Chilean trade union



movement to accept capital's unobstructed access to the exploitation of labor and abide by key components of labor flexibility enshrined in Pinochet's 1981 labor code" (Petras and Leiva 1994: 119). Thus, organized labor was overall a short-term loser. Even though organized labor gained some from the democratic transition, many limitations continued to be imposed on workers' rights because Pinochet's labor code was largely upheld, and the new government marginalized organized labor's role in decision making.

The center-left coalition's economic program essentially rested on this ability to coopt labor (Petras and Leiva 1994: 119; Haggard 1997: 128), making this group a short-term loser. According to Aylwin's minister of labor, almost 70 percent of major trade unions' leaders were active participants in parties forming the governing coalition (Petras and Leiva 1994: 121). Because they were core party members, the leaders supported the government's policies. Specifically, the leadership of the trade union movement actively supported the interests of the employers and confined worker demands to prevent threats to the export-oriented interests (Petras and Leiva 1994: 120; Martínez and Díaz 1996: 141). Overall, the new regime has generally sided with the interests of employers rather than with workers. Supporting the neoliberal view that a flexible labor force is necessary for economic growth, the new regime did not greatly restrict the employer's power to fire workers. Indeed, there was an increase in firings during the first six months of Aylwin's presidency while the new government ignored trade union protests. In the agro-sector the new government also sided with owners in opposing municipal unions and strikes during harvest, arguably the only time they would have any effect (Petras and Leiva 1994: 90).

As the perception of betrayal grew stronger in Chile and labor recognized it was a short-term loser from continued economic reform, some unions increased their demands for increased worker rights and protection. These demands to soften reform measures were often ignored. For instance, officials from a union representing small and medium-sized packing plant workers waited over three months for an official reply to a report on industry abuses. This complaint was the latest in a series that had been ignored. Each contained the same issues:

“no respect for working hours; no breaks; working hours from dawn until 10 p.m., or later; no place to sleep; no drinking water; no toilet facilities; workers forced to eat beside pesticide storage areas; no written contracts; no benefits; workers in contact with pesticides with no protective clothing, no masks; and verbal mistreatment of the workers” (Diebel 27 May 1995).

When complaints failed, some workers turned to strikes, and a May 1996 strike paralyzed Codelco, the state owned copper mining company (Mastroberardino May 1996). While some workers were able to use strikes to gain the attention of government officials, workers in many sectors such as those in export-oriented agricultural companies had no right to organize, further reflecting their status as a short-term loser (“Another Free Trade” 17 November 1996).

While the government routinely ignored the demands of labor, it recognized that its continued dominance of national politics rested on support of those who voted it into office, including the very constituency that felt betrayed. Jorge Millan, director of CUT, argued that the government was unwilling to take the union movement seriously and had “a strong business profile, caring for the business sector with incredible jealousy and leaving the big problems of workers to one side” (“Chile Labor” 9 December 1994).

With this prevailing perception among workers, labor blamed the government for its troubles. To coopt the labor movement fully, the government needed to convey the image that its hands were tied, and that labor's woes were not the fault of the government. Aylwin's initial attempt to use domestic excuses to convey this image failed, and labor did not believe that the domestic structure limited his economic policies. To project this image successfully, Aylwin and later Frei needed outside help: NAFTA.

When democracy returned to Chile, organized labor sought to regain its previous power and return as a veto-player in Chilean politics. The new democratic governments continued economic reform and tried to persuade labor that the domestic institutions prevented the government from meeting labor's demands. When these efforts failed, the government tried to depoliticize the debate by shifting economic policy from the domestic level to the international level (Grugel 1999: 153). To bind itself to economic reform, the government sought membership in NAFTA. Thus, organized labor, a potential-veto player, would be unable to prevent the continuation of the neoliberal economic program.

NAFTA critics recognized that Chile would have less control over its own economic policies, including regulation of its economy, and argued that membership would lock-in an economic system that ignored environmental issues and workers' right and continued to deplete Chile's natural resources. However, that appeared to be the goal according to some NAFTA supporters. While some supporters such as former Canadian ambassador to Washington, Allen Gotlieb praised NAFTA for bringing about a new world order where the nation-state would wither away (Diebel 29 May 1995), the

Chilean government supported a less extreme position. Rather than end the dominance of the state-system, the Chilean government recognized that NAFTA provided a mechanism to prevent organized labor from threatening economic reform. The very result that NAFTA opponents feared was the result the government desired. When its sovereignty was limited, the government would have its hand tied, binding it to economic reform regardless of organized labor's demands (see Mora 18 November 1993).

NAFTA supporters such as the president of the Confederation of Production and Trade (CPC), which included big business firms and industrial associations, banks, mining and trading firms, opposed the inclusion of a labor clause in the agreement. A labor clause would defeat this central purpose of NAFTA membership because it would contain standards that no longer applied to Chilean laws, such as obligatory unions and salary negotiations between management and employees (Gonzalez 25 May 1994). Critics charged that NAFTA membership without a labor clause would encourage Chile to continue its anti-union regulations (McCarthy 19 November 1996), and "laws under which sectors of the labor force, including farm workers, do not have the right to unionize. Under these laws, individual contracts take precedence over collective contracts, and temporary and part-time workers have little protection" (Collymore 6 June 1995). However, the critics did not fully realize that this was the very goal of NAFTA membership talks: to limit the influence of organized labor in economic decision making.

The government recognized that essentially the critics were correct. Seeking NAFTA membership was a way for the government to continue its support for Pinochet's labor code and shift the blame for labor's troubles to the international level away from

the government. Instead of responding directly to these criticisms, the government attempted to shift the focus to how NAFTA would aid workers from how NAFTA would continue the oppression of organized unions. For instance, when *Central Unitaria de Trabajadores* (the United Workers Confederation–CUT) voiced its concerns about NAFTA, Vice President Carlos Figueroa argued that NAFTA offered Chilean workers a ‘great opportunity’ and the chance “to resolve the serious problems within Chilean society” (“Government Dismisses” 14 December 1994). President Frei argued that entering NAFTA would mean “better jobs and better wages for our people” (Raum 11 December 1994). And Finance Minister Aninat defended Chilean labor’s status pointing out that labor was doing well in Chile because wages, after discounting inflation, rose four percent per year over five years (Haliechuck 8 June 1995).

Labor responded to these claims by also attempting to gain international allies against NAFTA membership and leading the domestic organized opposition to NAFTA (Escobar 25 December 1994). The *Confederacion de Sindicatos y Federaciones de Trabajadores de la Industria Metalurgica, Ramos Similares y Conexos* (CNSTRAMET), *la Confederacion Minera de Chile*, and the United Steelworkers issued a joint statement demanding that labor standards be included in any free trade agreement with Chile. The workers in the mining and metal sectors argued that freedom of association and collective bargaining were essential to protecting workers’ rights (““Attention News” 25 January 1996). The CUT also cooperated with AFL-CIO to influence NAFTA negotiations to ensure that freer trade benefitted the majority of people rather than just corporate and political elites (Anderson 11 May 1995). The two issued a joint statement announcing

their opposition to any free trade agreement that “provides extensive and enforceable protections for corporate and financial interests, while shunting the interests of workers to weak and unenforceable ‘side agreements’” (Banales 9 March 1994). Labor also led domestic opposition to NAFTA membership and attempted to project the image that Chile would suffer as Mexico suffered from membership. Manuel Bustos, head of the CUT, said Chile had learned from Mexico’s experience in NAFTA that membership “only served to provoke layoffs and more misery for the Mexican workers, and did not help to overcome poverty or improve their living standards” (“Chilean Unions” 24 January 1996).

While organized labor used international allies and led the domestic opposition, the government was able to use its international allies to continue ignoring labor. Although President Frei admitted that Chile had “to defend the country’s interest and even more the interests of the more vulnerable sectors of society,” he did not guarantee any such protection for workers and only promised to hold ‘discussions’ with labor (“Chile-Trade” 13 December 1994). However, the government did not consult with social organizations about free trade agreements. The coalition called the Chilean Network for a People’s Initiative (RECHIP) attempted to make the concerns of its members (unions, farmers, women’s groups, students, environmentalists, and NGOs) known to the government, but they were ignored (“Another Free Trade” 17 November 1996). Using its external allies, the government protected economic decision making from the demands of organized labor, which threatened the neoliberal economic program

Pinochet started. By seeking membership in NAFTA, Aylwin and Frei were both able to convey the image that their hands were tied: continued economic reform was irreversible.

### Landed Elite

The landed elite also attempted to return as veto-players after the democratic transition. They opposed economic reform that would expose their agricultural products to increased international competition. As predicted by the J-curve approach, this concentrated and organized group faced immediate costs due to the government's continued support of economic reform, and tried to reclaim their role as a veto-player to prevent reform. The reforming government responded to this threat using the same mechanisms described above. First, the government attempted to isolate the landed elite from economic decision making. Second, the government sought outside help.

The traditional, landed elite were weakened under Pinochet, but attempted to reemerge as a force in Chilean politics after the democratic transition. Until 1973, this group dominated Chilean capitalism with a focus on the production of wine, beef, and milk for domestic consumption. During Pinochet's reforms, the opening economy prioritized export leading to agricultural diversification and changed to business atmosphere where market-oriented values such as hard work and merit were rewarded rather than birth. Together, these changes created cleavages within Chilean business between the modern producers and traditional elite, and the continued social dominance and political power of Chile's traditional elite was threatened, making it a short-term

loser. Although the traditional elite were able to force Pinochet to retain some favored policies such as a price band for wheat, overall they lost influence during his reign. This trend continued as the new democratic government maintained the neoliberal economic program, and the family networks, kinship, and cultural values that underlie aristocratic social privilege in Chile continued to be slowly eroded (Grugel 1999: 147).

Even though the traditional, landed elite were short-term losers, Pinochet was unable to obliterate all of the landed elite's influence, and was forced to protect core interests of the landed elite. For instance, even during Pinochet's rule, wheat was protected with a price band mechanism (French-Davis, Leiva, and Madrid 1992: 41). The agricultural sector continued to be heavily subsidized and appeared to be uncompetitive internationally because of this (Díaz 1996: 260). Yet, overall the Pinochet regime had a close relationship with business and agricultural producers within the new export industries rather than the traditional, landed elite, and the new leaders continued this alignment (Grugel 1999).

The decision makers of the new regime largely continued this alignment because they sensed that "the profound restructuring which was carried out in Chile cannot be undone. As a result, they have pushed for economic and regionalist policies to be made in conjunction with the private sector and they have actively sought to involve export-oriented groups in decision-making" (Grugel 1999: 148). At the same time, private sector business groups were also willing to work with the center-left government, and a



policy coalition<sup>34</sup> emerged, which further marginalized the landed elite. The cooperation between the groups has continued in part because the current technocrats shared an interest in growth with the business elites (Grugel 1999: 148-9). As discussed earlier, the government formed a policy coalition in economic decision making that excluded groups opposed to continued reform such as the landed elite and emphasized groups supporting continued reform such as the export-oriented agricultural producers. The new administration shared “with the Pinochet’s Right the need to maintain and promote ‘efficient farmers,’ i.e., the agro-export elite” (Petras and Leiva 1994: 88) at the expense of short-term losers such as the landed elite.

To protect their economic interests as expected by the J-curve approach, this group of short-losers sought to halt economic reform in their traditional areas of interests. Specifically, the landed elite attempted to regain their pre-1973 prominence by securing continued protection of the traditional agricultural goods (wheat, beef, and milk). To continue tariffs and subsidies, the landed elite tried to persuade the government that the survival of these inefficient farms was in the national interest (see Jilberto and Mommen 1996: 1). Chilean wheat farmers especially acted as a veto-player in economic decision making (“NAFTA’s Progress” 25 February 1995). For instance, the landed elite was able to change agreements with MERCOSUR to protect domestic cattle, wheat, and dairy

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<sup>34</sup> Grugel (1999) defines policy coalitions as “pragmatic and contingent alliance between groups located inside the state and non-government elites. They constitute an informal arrangement which brings non-governmental elites into regular and sustained, but unstructured, policy-based discussion with representatives from government, closing these policy areas from the rest of civil society” (149).

interests from Argentine competition (Oppenheim 1999). Chile bargained to gain up to 18 years where wheat and flour were completely exempted from free trade in order to protect Chilean backward grain farmers (“South America” 29 June 1996).

By reclaiming their role as a veto-player, the landed elite guaranteed their continued protection. Even though the government structured economic decision making to exclude the interests of the traditional agricultural producers, the landed elite were able to prevent economic policies that created immediate costs. As predicted by the J-curve approach, the government was forced to seek outside help to overcome the threat posed by this veto-player. The Chilean government was less successful using domestic solutions to ignore the landed elite than it was in ignoring organized labor. Although economic decision making had been insulated from the landed elite, they were still able to act as a veto-player and significantly influence economic decision making. For instance, wheat continued to be protected. To resist the landed elite’s demands to act against the neoliberal economic program, the government sought membership in NAFTA. Although this succeeded in weakening the influence of the landed elite, this group remained more powerful in Chilean politics than the successfully eviscerated labor movement.

The government worked with the export-oriented agricultural producers to seek NAFTA membership in an attempt to protect economic reform from the efforts of the landed elite. By studying the exports and imports, a list of which interests the government listened to and a list of which interests the government ignored is apparent (see Grugel 1999: 143). While Chile exported copper, wines, fishmeal, and cloth to

Canada, it imported machinery, wheat, paper pulp, iron, and steel (“Chilean Unions” 24 January 1996). Chile exported fruits, vegetables, copper products, seafood, forest products, minerals, and wine to the U.S., and imported earth moving equipment, motor vehicles, computers, grain, fertilizers, and telecommunications equipment (Munroe 10 May 1995). As Chile sought NAFTA membership, the government turned to top exporters for aid in the accession process and further marginalized the landed elite from the decision making process. In this way, NAFTA membership talks aiding the government in protecting economic reform from the short-term losers.

During the accession talks, the government worked with export-oriented interests but not with the short-term losers. For instance, the team negotiating NAFTA membership came out of the Ministry of the Treasury, and throughout 1995, Minister Eduardo Aninat held talks with several business associations on how they could aid the accession process. The *Confederacion de Produccion y Comercio* (CPC—the Federation of Producers and Traders) and the *Camara Chileno-Norteamericano de Comercio* (AMCHAM—the US-Chile Chamber of Commerce) were especially helpful in meeting with the official negotiating team to coordinate common positions on policy, on how to lobby in Washington, on how to pay for lobbying efforts, and on responses to U.S. Trade Representative Committee (USTR) statements. While the policy cooperation was significant, these two business groups contributed greatly to the accession effort by bearing much of the burden and expense of lobbying in Washington (Grugel 1999: 153).

At the same time, the government attempted to ignore the demands of the landed elite. According to Member of Parliament Eugenio Munizaga, the farming sector stood

to suffer the most if Chile joined NAFTA (Canihuante 20 December 1994). Specifically, the traditional agricultural interests of the landed elite would be threatened. A seven volume study by the National Agricultural Society (SNA) concluded that if the Chilean government did not adopt protectionist measures, the country's 14 traditional crops 'could disappear' due to competition by NAFTA and MERCOSUR ("NAFTA" 18 April 1995). SNA president Eduardo Correa argued that Chilean wheat, corn, beets and vegetable oil would be adversely affected by entry into NAFTA (Gonzalez 25 May 1994). Recognizing this further economic harm from the reform program, the landed elite sought to halt reform in these traditional agricultural areas.

Specifically, the landed elite attempted to influence the NAFTA debate as it influenced the MECOSUR debate and retain the protection of these traditional agricultural interests such as wheat. During July 1995, Chilean farmers demonstrated against NAFTA membership because farm subsidies among the three NAFTA countries gave farmers there an unfair advantage against Chilean farmers ("Anti-Free Trade" 5 July 1995). Manuel Bustos, a labor leader, said the protestors were predominately "the big farmers that made a lot of money in the last few years, and now they're making less" rather than small, lower class farmers ("Anti-Free Trade" 5 July 1995). Chile's foremost farm lobby, the 154-year-old SNA, represented a \$7-billion-a-year farming industry that as whole declined since 1988. Because of this decline, the SNA fought to protect some of its members further threatened by NAFTA (Escobar 25 December 1994).

The umbrella business associations found that their membership was divided over NAFTA membership. While the traditional and increasingly weak producers of

traditional agricultural products such as grain and sugar feared competing with the U.S. and Canada, Chilean manufacturers of fruit concentrates hoped that 35 percent tariffs in the U.S. would disappear under NAFTA (Escobar 25 December 1994). Routinely, the government emphasized the interests of the export-oriented producers over the traditional agricultural producers. Ambassador Juan Salazar, the director of the international economic-relations section and the Foreign Ministry, recognized that some sections of the farm industry “will be able to compete and some of them won’t have any way to compete, and they will have to disappear. And this is obviously a political decision that is very complicated” (Escobar 25 December 1994). Throughout this period, the government made its opinion known by continuing to marginalize the landed elite from the decision making process as much as was possible.

While Chile was willing to expose its traditional agricultural producers to cheaper grain from North America, already a significant proportion of imports from Canada and the U.S., the government intended to continue built-in protection for sugar and wheat producers. Although the U.S. government pressured Chile to eliminate these protections, the Chilean government made it clear that this was non-negotiable (Escobar 25 December 1994). But this was the only continued protection that the government sought for the landed elite. While this veto-player was able to retain some protection from foreign competition, the landed elite was overall weakened by the government’s efforts to become part of NAFTA. The government may have struggled with the ‘complicated’ political decision of which interests to favor according to Ambassador Juan Salazar, but the end result was the continuation of the policy coalition formed under Pinochet. The

new democratic government continued to support the interests of the export-oriented agricultural interests, often at the expense of the landed elite who produced less competitive traditional agricultural products.

### *Too Accountable*

Significant evidence supports the role of veto-players as the J-curve approach predicts, but the relationship between the general public and the government does not support the J-curve approach. According to this view, economic reform is threatened when the government is too accountable to the general public. The general public often does not support continued economic hardship under economic reform for the vague promise of future benefits, and seeks to halt the reforms by using tools such as elections to change the government's economic policies. To avoid this outcome, the government can insulate economic decision making from the general public by seeking outside help, but the Chilean government did not require this aid because the general public was already removed from economic decision making. As discussed above, Chile's decision to seek membership in NAFTA further depoliticized economic decision making and further insulated the government from short-term losers. However, this effort was in response to the threat posed by veto-players rather than the mass public.

The government used domestic solutions to insulate economic decision making from the mass public. By using policy consensus networks, the influence of additional political actors was largely negated (Grugel 1999). The influence of the technocrats, some with strong ties to the earlier Chicago Boys, remained almost monolithic in general

economic policy making (Centeno and Silva 1998; Montecinos 1998). Although the influence of the Chicago Boys decreased following 1985, ‘neoliberalism-as-discourse’ continued to be largely hegemonic in Chilean society even after the democratic transition (Díaz 1996: 262; Valdéz 1995). In Chile, as was common throughout Latin America, the

“economists have successfully excluded other occupational groups from much of the policymaking arena and have consolidated their control over various sources of professional power. They enjoy broad access to state resources and bureaucratic influence. They have achieved cultural legitimation, as carriers of the skills and image that are necessary to operate in complex and rapidly changing environments. They also have the language, international exposure and contacts that are necessary to negotiate trade pacts and cooperate with regional partners” (Monteconis 1998: 128).

Economists retained this influence in Chile by occupying several ministerial positions and expanding their presence at the top of party leadership on the right, center and left (Monteconis 1998: 134).<sup>35</sup>

The insulation of economic decision making from the general public was further facilitated by the government’s significant distance from its voters. Democratization in Chile was criticized as restricted because the government “[b]arely listens to popular movements, non-governmental organizations, women and the poor. The formation of a policy coalition between state elites and export capital around the contour of economic policy has made it particularly difficult for labour or social movements to influence the debate (Grugel 1999: 158). Although the center-left coalition was supported by most of

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<sup>35</sup> Under President Aylwin’s leadership, economists headed the ministries of Finance, Economy, Public Works, Education, and Labor. Additionally, while only one economist was a member of Congress before the military coup, the number has grown to 16 after the 1989 elections and 13 after the 1993 elections (see Monteconis 1998, especially footnotes 13 and 14).

the population, the government was able to ignore the general public because Chilean civil society was still largely silent and disorganized. At this time, the parties had not sufficiently developed to have adequate channels of communication with the rank and file, and the center-left coalition operated with the technocrats to create an elitist political style (Monteconis 1998: 135-6). Civil society was able to express itself through relatively few public actors, and the government had as its main reference 'public opinion' voiced through mass communications media, almost overwhelmingly controlled by economic elites and conservative forces (Díaz 1996: 253).

Because the government was largely able to ignore the general public's demands due to the policy coalition and poorly organized civil society, the domestic level provided adequate insulation from the public. The government was not too accountable to general populace and did not need outside help in protecting economic reform from the threat posed by the public. Although the public may have suffered under continued economic reform, the government was sufficiently insulated from the public's demands that the short-term losers were unable to garner enough influence to halt economic reform. Yet, the government still needed outside help to protect economic reform from short-term losers who were veto-players.

### *Mass Uprisings*

The economic and social hardships surrounding economic liberalization existed in Chile as supporters of the J-curve approach predict, but the mass uprisings resulting from these troubles did not occur. While economic growth was substantial under Pinochet and



Chile was touted as an exemplar for development, the human cost of economic liberalization was significant.<sup>36</sup> Even with some significant economic improvements under the democratic government, the general public continued to suffer from severe economic hardships, but did not used mass uprisings to halt the government's continued support of economic reform.

There were economic improvements under the new regime with falling inflation, rising investment, and a drop in unemployment (Valdéz 1995). While it continued the economic program begun by Pinochet, the new government increased spending on social programs by 30 percent in real term between 1990 and 1993. The increases in government expenditures mainly occurred in the areas of housing, health, and vocational training (Siavelis 2000: 77). The increased social spending could also have influenced the decrease in the number of Chileans living below the poverty line. According to the North-South Institute, an Ottawa research group, this number fell from 40 percent in 1990 to 28 percent in 1994 (Lamey 21 August 1995).

Yet, even with these improvements, several indications can be found that economic woes continued in Chile. For instance, income distribution remained more skewed following the transition than it was in 1968, when it was already significantly asymmetrical (Díaz 1996: 252-253). Under the new democratic regime, the minimum wage was still only \$156 a month in 1996-97 with at least ten percent of the

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<sup>36</sup> For instance, overall poverty increased, the gap between the rich and poor increased, foreign debt soared, natural resources were plundered, the percentage of people lacking adequate housing nearly doubled, and the national health care system was gutted (see Collins and Lear 1995; Petras and Leiva 1994).

economically active population earning less than that and most working in temporary agricultural production or in the unskilled or semi-skilled sectors of the economy (Grugel 1999: 158-159). The working and living conditions for most Chileans in the formal and informal economy, in the factories, urban slums, and fields did not improved (Petras and Leiva 1994: 187). Reflecting these continued economic hardships, the percentage of Chileans living in poverty remained higher in 1992 than it was in 1968 (Petras and Leiva 1994: 196).

The J-curve approach predicts that those suffering from economic and social hardships during economic reforms may see mass uprisings as their only hope to influence government policy. On the surface, this seems to describe the situation in Chile during the 1990s when the main presidential candidates such as Frei and Alessandri admitted that there were no significant economic differences between the left and right coalitions and the working class had been eviscerated by the old and new regimes. With continued economic woes, Chileans were left with only one way to influence the government: mass uprisings, yet they did not occur. Although the mobilization of teachers, health workers, copper miners, Mapuche Indians, ecological groups, workers, and students continued during Aylwin's presidency, the mobilization did not have a significant breakthrough in the social and political coordination of these movements (Petras and Leiva 1994: 199). Independently, groups such as environmentalists and indigenous groups opposed the continuation of the neoliberal economic reform model but used courts rather than mass uprisings (Chatterjee 14 December 1995).

The popular sectors (often the source of mass uprisings)<sup>37</sup> especially the community organizations were asked to wait until the political and economic situation could accommodate their demands. Although the new minister of planning and cooperation promised the government was dedicated to helping the homeless and the unemployed, Sergio Molina also noted that the government would be unable to solve the problems of 17 years immediately. The government created the *División de Organizaciones* (DOS) to act as an interface between the government and community organizations (Oxhorn 1995: 261-262). Thus, the government was able to coopt the popular sectors as it did the labor movement. As with the labor movement, this potential source of strong anti-reform opposition was given vague promises of future benefits, and current improvements were touted as proof that the government cared about the concerns of the short-term losers. This potential source of mass uprisings was weakened even more than the labor movement; the popular sectors did not attempted to create a popular social movement or influence governmental policies. In short, the popular sectors were demobilized (Oxhorn 1995: 273).

Even when the popular sectors feared NAFTA membership, they were still unable to coordinate mass uprisings against government policies. For instance, although environmentalists feared that pesticide use would increase under NAFTA according to Maria Elena Rozas, an investigator for the NGO Institute of Political Ecology in Santiago (Diebel 27 May 1995), no mass uprising occurred. Because the agricultural sector was

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<sup>37</sup> In Latin American, popular sectors refers to the disadvantaged groups in highly segmented, unequal societies (Oxhorn 1995: 299).

one of the most dynamic sectors in the economy, the U.S. Department of Agriculture noted in a 1995 analysis that Chile could expand its production of horticultural products to increase exports to the U.S. Over the past 15 years, Chile continually expanded its production in this sector as more markets became available, and it seemed likely this trend would continue if Chile increased its excess to the U.S. market (“U.S.DA” 5 September 1995). To support the increased markets, environmentalists feared that the agricultural industry would increase its use of chemicals and pesticides that were banned in the markets the goods were being sold. The use of these chemicals and pesticides allegedly led to increased birth defects. “Physicians at the Rancagua hospital, in the heart of Chile’s fruit growing region, say babies have three times greater risk (compared to Chile’s national average) of being born with swollen brains damaged by water retention, deformed hands and feet and exposed or twisted spine” (McBrearty 22 April 1996). Yet, even with the threat of increased exposure to these chemicals and pesticides, the popular sectors were unable to use mass uprisings as the J-curve approach expected.

While the J-curve approach was supported in that the reforming government sought outside help to overcome the threat posed by veto-players, organized labor and the landed elite, the predicted relationship between accountability and seeking was not found. Nor was the predicted relationship between mass uprisings and seeking found. The government was able to use domestic solutions to distance itself from the general public and prevent mass uprisings, but no domestic solution was sufficient to overcome the threat posed by the veto-players. To protect economic reform from the two veto-players, the Chilean government needed outside help.

### ***Partial Reform***

According to the partial reform approach, the short-term winners rather than the short-term losers threaten the success of economic reforms. The short-term winners are concentrated and gain immediate benefits when reform begins. Their benefits gradually taper off as economic reform continues and market distortions disappear. To prevent this loss of profit, short-term winners attempt to halt economic reform. Although the Vietnamese case provided ample support for this pattern, the Chilean experience supports the pattern predicted by the J-curve approach. The short-term losers, specifically the veto-players, were concentrated and organized in their opposition to reform. Short-term winners who profited from market distortions are less easily identified. The winners from economic reform were mainly the export-oriented agricultural producers who provided the core support for continued economic reform and often paid for efforts to join NAFTA as discussed above. Although the predicted relationships suggested by the partial reform approach had the opportunity to emerge, they did not because the pattern of winners and losers followed the J-curve expectations rather than the partial reform expectations.

According to the partial reform approach, corrupt officials that gain from market distortions directly or through bribes subvert further economic reform to maintain their profits. While there was significant potential for government officials and employees to act this way, they were not motivated to do so. The pacted democratic transition protected the civil bureaucrats appointed by the dictatorship who received their positions as rewards for their loyalty rather than their competence. Faced with a bureaucracy that

opposed many government policies, Aylwin's government was often held captive by the bureaucrats. Using discretionary powers, the bureaucrats were capable of delaying, distorting, or even undermining government actions (Petras and Leiva 1994: 87). The autonomous powers such as the role of the military, the National Security Council, and the Constitutional Tribunal created by the 1980 constitution also provided many opportunities for state officials and employees to obstruct government policy (Siavelis 2000: 189).

Even with the entrenched bureaucrats and autonomous powers, none these actors subverted the new government's economic program. During Aylwin's presidency, the government was able to use the comparatively strong presidency to negotiate and implement policies with the legislature and opposing parties (Siavelis 1997). Moreover, the new leadership largely continued the neoliberal economic model of Pinochet's regime (Valdéz 1995: 256; Riveros 1998), making the entrenched bureaucrats and autonomous powers, which often maintained close ties to the old regime, less likely to oppose government economic policies. Overall, the government proved its 'capacity' or capability to implement its chosen policies (Grugel 1999: 158). Although the reforming government did not face state officials and employees who subverted economic reform, the Chilean government still expressed its need for outside help in continuing economic reform.

The other partial reform approach prediction is that a government not accountable enough to the general public, the short-term losers, will be more likely to be unable to continue economic reform. Reform will stall because the government will be captured by

the interests of the short-term winners who require market distortions to keep their profits rolling in. When domestic solutions to increase ties between the government and the general public are impossible, the reforming government will need outside help to prevent its capture by short-term winners. On the surface, the Chilean case may seem to support this prediction. The government was distant from the general public, and it sought membership in NAFTA to protect economic reform. Yet, a closer analysis reveals that the risk to economic reform was posed by the short-term losers rather than the short-term winners.

Members of the Chilean government admitted that the government had lost its connection to the general populace. Interior Minister Enrique Klaus argued that “the parties deactivated themselves, the parliamentarians have had to learn the work of congressmen and the government has been preoccupied with its tasks in its office, and we have distanced ourselves from the social base” (Oxhorn 1995: 271). According to the partial reform approach, this distance exposed the Chilean government to short-term winners, who seek to stall economic reform. To maintain successful economic reform and economic growth according to the partial reform approach, Chile needed a free civil society and a more representative and democratic political system (Díaz 1996: 263).

Although this seems to support the partial reform approach, the short-term winners that threaten economic reform are not apparent in the Chilean case. The main winners from economic reform were arguably the export-oriented agricultural interests who provided a key part of the policy coalition in economic decision making as discussed earlier. Any other short-term winners are not easily identified. At the same time, the

general populace seemed to oppose continued economic reform, hence the need for the government to insulate itself from the public as the J-curve predicted above. “Indeed, all the polls carried out prior to the 1988 plebiscite and the 1989 elections showed that most Chileans favored state intervention and were suspicious of market mechanisms” (Valdéz 1995: 266). Following the democratic transition, Chileans were largely unable to express their interests collectively, but those that did were opposed to the government’s continuation of Pinochet’s neoliberal economic program and felt betrayed by the government’s actions.

Little evidence of the partial reform’s predicted relationships is found in the Chilean case. The short-term winners are not easily identified and did not threaten continued reform. First, even though the pacted transition provided state employees and officials with the opportunity to subvert economic reform, they did not do so because they largely agreed with the new government’s economic policies. Second, the distance from the general public actually protected economic reform rather than risking it as the partial reform approach expects.

### ***Alternative Explanations***

As was the case with Vietnam, two additional reasons emerge to explain why Chile sought membership in NAFTA. First, membership in NAFTA could improve the overall economic welfare of Chile as expected by the neoliberal institutionalist argument presented in chapter one. For instance, by increasing the exposure of Chilean businesses involved in manufacturing to international competition, this sector would become a



highly competitive and more profitable sector. Second, Chile would tie itself to the large U.S. market and gain a seal of approval from the economic giant that symbolized the success of Chile's economic reform (Grugel 1999: 153). This rationale for seeking NAFTA membership included both typical neoliberal institutionalist economic gains and an argument more similar to the fourth relationship presented between domestic actors and international institutions. For the latter, membership would symbolize that Chile had met the demands of the prevalent force in the world and successfully become a democratic, market-driven state.

First, Chile sought membership in NAFTA to improve economic relations as expected by the neoliberal institutionalists. NAFTA was seen as way to improve the economic welfare of Chile by protecting new markets for Chilean exports. While Chile had diversified its exports to protect its economic interests, the new markets for wine and fruit were far from assured. Yet, even with NAFTA membership the new markets could have a ceiling in terms of which Chile may already have been approaching (Grugel 1999: 145). Although Finance Minister Eduardo Aninat supported NAFTA membership in part because the NAFTA countries absorbed between 30 and 33 percent of Chilean exports (Banales 9 June 1995), the California wine growers were active in preventing Chile from increasing its wine exports to the U.S. Most of the export-oriented agricultural products of Chile did not threaten American farming interests because of the seasonal difference between the U.S. and Chile, but the Chilean goods could have already been already approaching their ceiling in the U.S.

The director of bilateral affairs at Pro-Chile, a government-run trade agency said NAFTA would also benefit Chile's economic status because Chile would be more attractive for foreign investment and give Chile assured market access to North America (MacLeod 17 September 1993). While the latter is discussed below, the evidence for the former is weak at best. Because the Chilean economy was already one of the most open economies in the region, trade and investment between NAFTA members and Chile was already high. Initial predictions of the magnitude by which trade would increase under NAFTA were often greatly exaggerated, and slowly a general consensus emerged that the direct impact of membership would be slight (Grugel 1999: 153). For instance, trade between Canada and Chile amounted to \$347 million in 1992, with the most Canadian investment in the Chilean mining sector. Several Canadian business leaders concluded from the existing trade relations that NAFTA would not have a huge impact on trade because Canadians already had free access for the most part (MacLeod 17 September 1993).

The second alternative reason for seeking membership in NAFTA was that Chile wanted to guarantee its place in the U.S. market and obtain an international symbol for its economic reform. This argument reflects more traditional neoliberal institutionalist concerns, but also indicated the need to follow the dictates of existing international institutions and receive approval from their propagators. Specifically, the prevailing norm of democratization and economic liberalization pushed by the U.S. aided Chile's transformation, and now Chile deserved the reward of joining the inner club. For the economic aspect, the original origin of NAFTA was the growing fear in Canada and

Mexico that a resurgence of U.S. protectionism would devastate their economies (Pastor 2001: 30), and this same fear could have driven Chile to seek NAFTA membership in an effort to protect its interests in the American economy. For the symbolic aspect, Andres Velasco, former chief of staff of the Chilean Ministry of Finance and member of Chile's advisory group, found prestige and credibility to be the most important benefits to joining NAFTA. While more tangible benefits included increased investment and trade, the recognition from joining a club like NAFTA would be the most significant advantage (Munroe 10 May 1995).

However, even when Chile sought NAFTA membership, the U.S. was not its main foreign market. The decision to seek membership was based on more than the current destination of Chilean exports (Weintraub 1994: 91). Overall, Chile was a small, remote open economy that traded surprisingly little with the U.S., and while the government pushed for NAFTA membership, the business community increased business with neighboring economies. Rather than a grand, U.S. strategy, the natural place for growth was with close neighbors (Dornbusch and Edwards 1994: 103; Díaz 1996: 257). Furthermore, opportunities for coproduction were also limited both because of distance and Chile's modest industrial structure (Weintraub 1994: 95).

Assistant Secretary of State Alexander Watson acknowledged this situation and feared that if the U.S. did not expand NAFTA to Chile, "the balance of interest and commitment in Latin America may well start to shift away from us" (Watson 25 October 1995). NAFTA had served to lock Mexico firmly into the U.S. economy, and other Latin American states such as Chile could also be tied to the U.S. through NAFTA. This

would restructure and protect the “hegemonic position of the U.S. economy with respect to the Latin American continent and eliminate definitively the formally independent associations such as the Latin American Free Trade Association (LAFTA, later renamed the Latin American Integrated Association or LAIA)” (Jilberto and Mommen 1996: 20). Instead of Chile seeking membership to protect its interests in the U.S. economy, more evidence suggests that it was the U.S. seeking to protect its position in Chile and Latin America more generally.

While free trade agreements can facilitate economic progress and NAFTA membership offered a status symbol for Chile, the traditional international factors that drive states to form free trade agreements seem to be largely missing in the Chilean case. Because the Chilean economy was already open, trade and investment was not expected to increase significantly once the initial euphoria surrounding the accession process faded. While some increase was expected, the Chilean goods may have already been approaching their ceiling in the U.S. economy. However, Chile would obtain an international status symbol if it did become part of NAFTA as Andres Velasco argued. Because the international factors do not clearly explain why Chile sought membership in NAFTA, especially as the initial euphoria faded and expansion slowed due to U.S. domestic politics, the domestic factors must be analyzed to understand the government’s dedication to accession.

### ***Chile Seeks Outside Help***

Chile sought membership in NAFTA from 1991 through 1996 to protect economic reform as predicted by the J-curve approach. Specifically, the reforming government needed outside help to overpower the efforts of organized labor and the traditional, landed elite. These two groups attempted to regain their previous role as veto-players in Chilean politics and weaken economic reform to protect their economic interests. When domestic solutions were insufficient to counter this threat, the government turned to NAFTA.

Rather than short-term winners threatening economic reform as they did in Vietnam, the Chilean case illustrates how short-term losers can act as veto-players, and force a reforming government to seek outside help in an attempt to protect economic reform. The short-term winners that threaten economic reform from the partial reform approach are not easily identified while the short-term losers are. As expected by the J-curve approach, the short-term losers were concentrated and highly organized. To protect the reform process against potential veto-players, the Chilean government sought membership in NAFTA to depoliticize economic policy by removing it from the state level to the international level. Thus, the government could bind itself to economic reform and ignore the demands of the veto-players.

### ***CONCLUSION***

The partial reform approach correctly predicts the Vietnamese decision to seek ASEAN membership while the J-curve approach predicts the Chilean decision to seek

NAFTA membership. In both cases, the reforming government sought outside help to protect the reform process from reform opponents. Thus, the central mechanism was the same, but the governments faced different reform opponents. For Vietnam, the short-term winners were blocking successful reform while in Chile the short-term losers posed the greatest threat.

The two case studies presented in this chapter are essential for understanding the relationships predicted by the J-curve and partial reform approaches. Specifically, the large-N measures for corruption and veto-players are not adequate for either of these concepts. The Vietnamese case study illustrates how the partial reform approach is correct in predicting that the reforming governments whose policies are threatened by corrupt officials and employees seek outside help to protect economic reform. The Chilean case study illustrates how the J-curve approach correctly predicts that reforming governments whose policies are threatened by the veto-players seek outside help to protect economic reform. While additional factors may have also motivated governments to seek membership in these IOs, the need to protect the reform process from reform opponents was often a central component of this decision.

The two cases provide clear support for each of the competing arguments, just as the Slovak and Spanish cases did. Although the central relationship posited by this dissertation exists in that reforming governments sought outside help to protect economic liberalization, the reasons behind need for external assistance are vastly different. With the results from the three empirical chapters in mind, a general trend emerges that while the J-curve approach is supported more in a broad cross-national analysis, closer

inspection reveals that both approaches are correct in explaining under what conditions reforming governments seek membership in a liberal IO. To synthesize the results from the empirical chapter, we now turn to the conclusion.

## CHAPTER 6

### CONCLUSION

Recognizing that liberalizing governments can use international institutions to provide a credible commitment to reform, the central issue for this dissertation was when are governments more likely to seek outside help during economic transformation. While earlier works focused on the creation of international institutions and the process of economic transformation, few studies addressed the relationship between joining existing international institutions and stabilizing economic reform policies. The idea that IOs can aid economic liberalization during the accession process is widely discussed but seldom studied in a rigorous manner. Although academics and practitioners realize that IOs can bolster governments' credibility during economic reform, we did not know when IOs have this influence. Simply put, when do reforming governments need outside help?

Substantial work has been done to explain when economic reform is at risk due to credibility problems. The dominant viewpoint, the J-curve approach, suggests that short-term losers threaten economic reform because they suffer immediate, concentrated costs. These costs will not be offset in the near future as the reform benefits are in the distant future and spread throughout society. To prevent continued economic hardship, short-term losers pressure reforming governments to change their economic policies. When short-term losers are highly influential in society because governments are highly



accountable, the losers are veto-players, or the losers use mass uprisings, governments are unable to provide a *domestic* credible commitment to reform. Yet, governments can still protect economic reform if they are dedicated reformers. By seeking membership in a liberal IO, governments can obtain an *international* credible commitment to reform. The accession process reveals which governments are dedicated reformers who seek outside protection from the short-term losers.

The J-curve approach has recently been criticized by the proponents of the partial reform approach. According to this approach, the payoff structure from reforms is closer to a reversed J-curve; the dominant approach has the logic almost backwards. Instead of short-term losers, short-term winners pose the greatest threat to economic reform. The winners receive immediate, concentrated benefits from reform while the costs are spread throughout society. Alas, these benefits taper off over time as governments continue economic reform. To prevent this loss of profits, short-term winners pressure governments to halt or slow reform policies. When short-term winners are highly influential in society because governments are too undemocratic or the winners use corrupt officials to prevent reform policy implementation, governments lack a *domestic* credible commitment to reform. Again, dedicated reformers can protect economic transformation by seeking an *international* credible commitment.

Both of the approaches covered in this dissertation predict when states will seek outside help during economic transformation, but they often yield contradictory hypotheses. According to the J-curve approach, reform policies are more at risk when governments are too accountable to the general public. Therefore, a higher level of

democracy means reform is more difficult without external aid to protect the process from short-term losers. Supporters of the partial reform approach argue exactly the opposite, and find reform policies to be at risk when governments are too distant from the general public, the short-term losers. Reform is more likely to succeed and not need external aid when states have a higher level of democracy.

### ***EMPIRICAL FINDINGS***

This dissertation began with the effort to test whether the partial reform approach or the J-curve approach accurately predicted when reforming governments require outside help to ensure successful economic reform. The central question was when are states more likely to seek membership in a liberal IO to protect economic reform. Using both duration analysis and comparative case studies, the findings presented in the previous chapters indicate the J-curve approach explains the dominant pattern of economic transformation and seeking membership in a liberal IO. Yet, in some cases the partial reform approach is supported rather than the J-curve approach. Although the partial reform conditions are less prevalent throughout the world, some reforming governments exist under these conditions.

From the duration analysis (see table nine), the findings supporting the J-curve approach more than the single finding supporting the partial reform approach. The first finding that supports the J-curve approach is that governments highly accountable to short-term losers are more likely to seek membership in a liberal IO. Governments are highly accountable when non-elites have a high-level of influence on policy making

(measured by participation competition). Second, governments facing mass uprisings by short-term losers are more likely to seek membership in a liberal IO. Short-term losers can use anti-government demonstrations to pressure governments to change economic policies, weakening the reform process. To protect reform from these demands, states are more likely to seek membership in a liberal IO. While this finding is not as robust as the first, it suggests that governments see mass uprisings as a threat to reform policies. The partial reform approach is supported by a single finding (see table nine). When governments are closely tied to the general public, the losers, they do not need outside help during economic reform. Legislative elections provide this connection between governments and the public, and therefore states where legislative elections occur in a given year are less likely to seek membership in a liberal IO.

While the findings cannot conclusively show that one approach is definitively correct, they do indicate that the conditions expected by the J-curve approach are dominant. If a state is randomly selected, it is more likely that the reform process in that state will follow the J-curve pattern where short-term losers rather than short-term winners threaten reform success. Yet, there are several problems with the dataset, suggesting that the hypotheses from the two approaches were not adequately tested. First, the dataset may have provided a too-difficult test for the approaches. Each of the approaches assumes that the government is reforming but the dataset uses “state” in a given year as the unit of analysis, regardless of whether the government in power was a reformer or not. Second, the indicator for the J-curve concept of veto-players is not an adequate measure of all veto-players in a society. Using only general strikes in the

duration analysis ignores other potential veto-players, and ignores the influence labor may have through negotiations, localized strikes, and other tactics beyond general strikes. Third, the indicator for the partial reform concept of corruption is also inadequate. Purges are used because they seemed to indicate a higher level of corruption that was being fought through purges. However, one can easily envision states where corruption is at the highest level, and therefore purges are unlikely to occur. Better measures of corruption and veto-players are needed to provide a better test of the hypotheses.

Each of these problems is addressed in the comparative case studies. All of the cases selected were of states that sought membership in a liberal IO, although this was not always predicted. The cases were also selected to study the two concepts poorly measured in the dataset, veto-players and corruption. Finally, the cases included in chapters four and five represent three distinct regions of the world where liberal IOs exist. The Middle East was not included because the single liberal IO, the Arab Common Market (ACM), is largely a defunct organization. The ACM still exists on paper and was coded for the dataset, but its influence is minimal at best. Africa was also not included because many of the liberal IOs in this region are also defunct. Additionally, materials necessary for a case study are often unavailable for African IOs.<sup>38</sup>

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<sup>38</sup> Using interviews, IO documents from the Library of Congress, and government statements available from Lexis/Nexis, substantial materials for ASEAN, the EU, and NAFTA were obtained. However, the Library of Congress and Lexis/Nexis had few materials on liberal IOs in the Middle East and Africa, with the notable exception of East African Community (EAC). The lack of written materials may reflect the defunct status of many liberal IOs in these regions. Additionally, IO and government representatives were unavailable in Washington, D.C. during July 2001 when all interviews were conducted.

The relationship between Spain and the EU is studied as two cases: under Franco and after Franco (see table ten). Neither the J-curve approach nor the partial reform approach can explain Franco's decision to seek membership in the EU because he was not a reformer as defined in chapter one. He maintained a high level of state intervention into the economy and maintained protective barriers against imports, yet Spain sought membership in the EU during this period. States were coded as "seekers" if they applied for membership in a liberal IO, held membership talks with IO officials, or announced their interest in membership. Franco was pressured by business leaders to seek membership in the EU, and met with EU representatives to discuss membership throughout the 1960s and 1970s. The EU repeatedly explained their membership criteria, and Franco repeatedly ignored their instructions. Several times, the EU called off membership talks with Spain to punish Franco for disregarding the EU and wasting the time of its officials. This indicates that Franco was never committed to seeking membership in the EU. Instead, he offered business leaders at home empty platitudes that he was meeting with the EU to discuss membership while in reality he was doing little to ensure membership was feasible in the future. Although Spain under Franco is coded as a "seeker," it seems that he was not truly interested in EU membership.

After Franco's death, seeking is predicted because the short-term losers were able to threaten economic reform. As predicted by the J-curve approach, the new government sought membership in the EU to protect reform policies from losers who could act as veto-players (see table ten). Organized labor and the military were concerned about economic reform under the new regime and attempted to protect their interests,

sometimes at the expense of economic reform. Additionally, new and more frequent elections held the government accountable to the general public, putting reform policies at risk according to the J-curve approach. To protect reform from these threats, the government sought membership in the EU. While substantial evidence is found that short-term losers threatened economic reform in Spain during this period, there is little evidence that short-term winners posed a risk.

The relationship between Slovakia and the EU is also studied as two cases: under Meciar and after Meciar (see table ten). Under Meciar the government initiated economic reform to create a crony capitalist system similar to Russia. Although the partial reform approach assumptions are met, seeking is not predicted because the short-term winners had successfully captured the government. Slovakia became trapped in the partial reform equilibrium predicted by the partial reform approach. Meciar's government was similar to Franco's governments in that while they both expressed a general desire to join the EU and engaged in talks with the EU, both government ignored EU directives. The EU also censured Meciar's government as they had Franco's and halted talks, but this failed to upset Meciar as he never was truly dedicated to joining the IO.

Once Meciar was removed from power through the democratic process, the new government sought EU membership as predicted by the partial reform approach (see table ten). To prevent the short-term winners from re-capturing economic decision making and using public officials to subvert reform implementation, the new government sought an external commitment to economic reform. Because the government remained

too distant from the general public, the losers, and corruption still existed, outside help was needed to withstand the short-term winners. In Slovakia, the short-term winners threatened economic reform rather than the short-term losers.

The relationship between Vietnam and ASEAN also supports the partial reform approach (see table thirteen). Engaging in only economic liberalization rather than both economic and political liberalization as Spain and Slovakia did, Vietnam's economic reform policies were threatened by short-term winners. State officials and employees prevented economic policies from being fully implemented to protect their profits accrued when market distortions existed. Corrupt officials and a high-level of smuggling indicated Hanoi's inability to control economic relationships within the state. In Vietnam, the short-term losers did not threaten economic reform, but the short-term winners were able to stall economic reform, resulting in a partial reform equilibrium. To ensure that reform policies were implemented, Vietnam sought membership in ASEAN.

The J-curve approach is supported by the final case study: Chile's relationship with NAFTA (see table thirteen). Much economic reform had already occurred under Pinochet's dictatorship, but the new democratic government endeavored to continue the neoliberal economic program. Pinochet had been able to suppress potential veto-players who opposed economic reform, but the new democratic government did not have access to these often brutal tactics. Because the new democratic structure provided reform opponents with the opportunity to act as veto-players, the government needed to shift economic liberalization from the domestic level to the international level. By seeking

membership in NAFTA, reform policies were protected from short-term losers. At the same time, short-term winners are not easily identified in Chile and posed little threat to continued reform.

From this summary, it is clear that the findings are mixed. While the duration analysis provided more support for the J-curve approach, two case studies support the partial reform approach, and two support the J-curve approach. Two of the case studies, Spain under Franco and Slovakia under Meciar, also reflect the inability of either approach to predict when states seek membership in a liberal IO. To understand why these contradictory patterns have emerged once we looked past the statistical results, a broader view is needed.

### ***SEEKING PROTECTS FAVORED POLICIES***

From the review of existing literature in chapter one, four relationships between domestic actors and international institutions were clear. First, domestic leaders can use international institutions to increase their political power at home. The J-curve and partial reform approaches build on this relationship and posit that reforming governments seek membership in a liberal IO to protect economic reform when this favored program is at risk. Second, domestic actors use international institutions to improve international economic transactions according to a traditional neoliberal institutionalist argument. Third, domestic actors use domestic constraints to improve their international bargaining position as expected by the two-level games literature. Rather than international factors improving domestic conditions as posited by the first relationship, domestic factors



improve international conditions. Finally, domestic actors change state institutional structures in response to international institutions. According to this top-down approach, the international institution is the prime mover causing the domestic actors to take actions favored by the international institution.

Substantial support is found for the first two relationships in this dissertation. Even when the J-curve and partial reform approaches do not explain why a government sought membership in a liberal IO as Spain did under Franco and Slovakia under Meciar, the central relationship between domestic actors and international institutions remained the same. For both approaches and these deviant cases, domestic actors used the accession process to protect their interests and even increase their political power. For the majority cases, this mechanism was used to protect economic reform and, simultaneously, political reform in the Spanish case after Franco and the Slovak case after Meciar. The deviant cases of Spain under Franco and Slovakia under Meciar sought membership in the EU for the same fundamental reason: they desired to increase or protect their political power and favored policies. This suggests that this central mechanism is much broader than presented in chapter two. Rather than only seeking membership in a liberal IO to protect reform, governments can seek membership in IOs to protect their position and policies, even when those policies are sometimes directly contradictory to the IO's position. For instance, Franco and Meciar used membership talks with the economically and politically liberal EU to protect their respective illiberal policies.

Support for the second relationship posited by neoliberal institutionalists was not as widespread. The economic controls included in the duration analysis were never significant, but improved economic relations were often mentioned in the comparative case studies as the reason driving states to join an IO. Yet, a close examination often revealed that significant economic costs were associated with membership such as the case of Spain and its accession to the EU. Sometimes these costs may even outweighed potential benefits. While the goal of improved economic relations in the long-term may have been a component of a government's decision to seek membership, the high costs suggest that other factors are necessary for governments to decide accession is desirable.

Little support is found for the two remaining relationships. The third relationship presented in chapter one posits that states seek membership in IOs to improve their international bargaining position. While not controlled for in the duration analysis, the evidence from Vietnam suggests that the government may have sought membership in ASEAN to improve its bargaining position in relationship to China. However, the evidence supporting this argument is weak at best considering the military inadequacy of ASEAN compared to China and the security disputes prevalent among ASEAN members. Moreover, Vietnam actively engaged in bilateral negotiations with China during this time rather than relying on ASEAN assistance. While ASEAN representatives routinely cited Vietnamese accession as a means to act as a counterweight to China, Vietnamese representatives emphasized ASEAN's ability to aid economic development and ignored potential security benefits.

The fourth relationship where the international institutions are the prime movers is contradicted by many of the findings from the case studies. For instance, the EU voiced its desire to foster political reform in both Spain and Slovakia, but was willing to forego this ability in favor of the EU's economic interests. Moreover, the case studies support the argument that the domestic actors rather than the international institutions are the prime movers. It is the domestic actors who turn to international institutions to further their own favored policies, sometimes illiberal, and strengthen their position. Often when an IO such as the EU has the opportunity to act as the prime movers and foster liberalization, conflicts within the organization prevent it from doing so. The U.S. also had the opportunity to use NAFTA membership as a seal of approval for the democratization of Chile, but, as was the case in the EU, the U.S. was driven by domestic concerns that outweighed any potential symbolic benefits of expanding NAFTA.

While the support for the first relationship is substantial, neither of the two specific approaches emerges as the victor. Clearly, the fundamental relationship exists: domestic actors use international institutions to further their own political goals, or more specifically, reforming governments seek membership in liberal IOs to protect economic reform from reform opponents. But who are these reform opponents that drive governments to the 'safe harbor' offered by a liberal IO?

The key difference for the case studies is the pattern of winners and losers. The predictions of each approach rest on contradictory assumptions concerning this pattern. The J-curve approach assumes that the short-term losers are concentrated and organized, facing immediate costs, and the benefits from reform are long-term and diffuse. The

partial reform approach takes an opposite view and assumes that the short-term winners are concentrated and organized, gaining immediate benefits, and the costs of reform are diffuse. The large-N findings indicate the J-curve approach is generally more prevalent, but the analysis fails to address the contradictory assumptions that form the basis for the approaches. To understand when a specific approach applies, the case studies are needed. By using a detailed analysis of economic reform in a given state, the central questions can be asked. Who are the short-term winners? Who are the short-term losers? Are either or both concentrated and organized?

The Vietnamese case and the Slovak case after Meciar reveal states where the short-term winners were concentrated and organized. If any short-term loser existed in Vietnam, it was the central government, which supported economic reform after 1989. For Slovakia, the short-term winners were highly organized by Meciar's HZDS, and short-term losers were largely ineffectual. The Chilean case and the Spanish after Franco illustrates a different pattern of losses and gains where the short-term losers were concentrated and organized. No short-term winners are easily identified. For Chile, the one group that could potentially be a short-term winner, export-oriented agricultural producers, supported continued economic reform. There are no large-N measures that capture this fundamental distinction between the two approaches, but the case studies reveal which pattern exists in a given state. Whichever pattern is evident, the respective approach then correctly predicts the relationship between conditions that allow the reform opponents to threaten reform and seeking membership in a liberal IO.

Each approach rests on initial assumptions about the conditions within a reforming state. For the Vietnamese case and the Slovak case after Meciar, the pre-conditions of the partial reform approach are met; for the Chilean case and the Spanish case after Franco, they are not. On the other hand, the pre-conditions of the J-curve approach are met in the Chilean case but not in the Vietnamese case. The two approaches are equally true in different cases. Instead of asking which is approach objectively true, the results from chapters four and five suggest that we should ask which approach has the assumptions that match the conditions of the country being studied. We should not be surprised that the J-curve approach fails to predict the circumstances and process of economic transformation and seeking membership in a liberal IO in a state such as Vietnam where none of the essential pre-conditions of the J-curve approach are present.

It follows that the large-N results indicate that the conditions for the J-curve approach are more prevalent in the world rather than indicating that the J-curve approach is objectively true at the expense of the partial reform approach. This suggests that one-size-fits-all economic policy is not appropriate during economic transformation. To understand which approach applies and consequently what government policies are needed to protect economic reform, the pre-conditions must be identified. The findings from the two case studies in this chapter illustrate that both the J-curve and partial reform patterns exist in the world, and the conditions under which each approach applies is inextricably tied to the assumptions each approach makes. Because the J-curve approach is more prevalent in the world, it is hardly surprising that it has received more attention, but this approach fails to explain economic transformation and seeking when the pre-

conditions of the partial reform approach exist. The assumptions for the approaches provide the scope conditions explaining when each approach applies to a reforming society. To reconcile these two empirically supported patterns, a grand theory of economic transformation is needed.

### ***SYNTHESIS***

The question driving this dissertation was under what conditions is economic reform sufficiently threatened that governments need outside help. The answer found in the previous chapters is that governments are more likely to seek outside help when short-term losers threaten reform... usually. Short-term losers rather than short-term winners more often threaten economic reform sufficiently that outside help is needed to protect reform. Yet, in a minority of cases, the short-term winners threaten reform. When short-term winners rather than short-term losers are easily identified and concentrated, governments are also likely to seek membership in a liberal IO to protect the reform policies. The seemingly contradictory findings presented in this dissertation suggest three fundamental observations about economic reform and IO accession. First, one-size fits all policy recommendations during economic transformation are ill-advised. Second, the relationship between institutional structure and civil society is essential in determining reform success. Finally, the institutional structure of a state suggest what type of reform governments should undertake and if they will require outside assistance to commit credibly to the reform process.

We cannot provide blanket policy recommendations during economic transformation because reforming governments face vastly different troubles based on the identity of reform opponents. From the empirical findings, we know that short-term losers are more likely than short-term winners to threaten economic reform sufficiently that governments need an external mechanism to bind themselves to reform. By seeking membership in a liberal IO, reforming governments can protect reform from short-term losers. Yet, when short-term winners threaten economic reform, governments are also likely to seek this external aid. While little past research has rigorously studied how the accession process can aid economic liberalization, this dissertation indicates that regardless of which group threatens economic reform, reforming governments are likely to respond to threats by seeking membership in a liberal IO, believing this will protect economic reform. More often, the threatening group is short-term losers, but both groups can scare governments into seeking an external solution to domestic reform troubles.

States where reform is threatened seem to face opponents that are easily identified, concentrated, and face immediate effects from reform, and short-term winners or short-term losers meet these criteria, but both do not in the same state. The threats faced and corresponding solutions needed are fundamentally different for states where short-term losers oppose reform and states where short-term winners oppose reform. Although seeking membership provides an external mechanism to bind reforming governments to economic transformation, the specific mechanisms IOs provide governments are substantially different depending on what threatens reform policies. Reforming governments threatened by short-term losers who can act as veto-players, exemplified by

the Chilean government in the 1990s, need economic decision making to be removed from the domestic arena to exclude the threatening groups. Reforming governments such as Vietnam threatened by short-term winners who prevent the implementation of reform policies need aid in monitoring policy enforcement. The specific aid that governments need differs by which group threatens reform and how they threaten reform. Thus, one-size-fits-all economic policy suggestions are inappropriate.

We must first ask which group is easily identified, concentrated, and faces immediate harms from reform. Then we must ask how this groups threatens reform. If the short-term losers threaten reform, is it because the government is too accountable, the losers are veto-players, or mass uprisings occur? If the short-term winners threaten reform, is it because reform policies are not implemented or the government is too distant from the losers or general public? Governments seek membership in liberal IOs to protect economic reforms under both the J-curve and partial reform patterns, but for IOs to aid economic liberalization, they must recognize which pattern a reforming government faces and provide the functions needed in that state.

Second, the relationship between institutional structure and civil society significantly influences the outcome of economic transformation. The findings from cases following the J-curve approach suggest that legislative elections do not weaken reform policies so long as the election outcomes do not greatly change the economic policies. When competing parties or leaders support the same economic policies, policy continuity will exist regardless of who is elected. The legislative elections in Spain after Franco and in Chile followed this pattern. However, if non-elites are allowed a high



level of continuous influence in decision making as measured by participation competition, the more active civil society threatens reform success. If the civil society is active in the streets and has a continuous mass influence on decision making, this also harms economic reform. Essentially, the public can participate in government when the public's choices have no real influence on decision making where the different candidates support the same basic economic platform, but when the public is able to influence what economic policies are chosen, reform is at risk. The cases following the partial reform pattern suggest that legislative elections are good when the populace is more sedate (or a weak civic society exists) as in Slovakia and Chile, but again a high level of non-elite influence in decision making allows to many opportunities for reform opponents to threaten economic reform.

Finally, this relationship between institutional structure and civil society indicates what type of reform a government should undertake. Rather than finding that authoritarian or democratic states are better suited to economic transformation, the findings presented here illustrate that both types of regimes have difficulty successfully liberalizing economies. What specific difficulties reforming governments face is linked to their institutional structure, which in turn influences whether reformers need outside assistance.

When states have a porous institutional structure, the short-term losers threaten reform success as expected by the J-curve approach. Short-term winners do not threaten reform success because they are unable to capture the government. Reforming governments existing in an open state must recognize that short-term losers pose the

greatest threat to reform, and therefore tailor reform to mitigate both the desire and the opportunities for short-term losers to influence reform policies. For the former, reforming governments can follow the incremental path of economic transformation and lessen or spread out the harms from reform. If the short-term losers incur less cost during the reform process or the costs are not as immediate and concentrated, they will be less motivated to oppose reform. For the latter, reforming governments can remove economic decision making from the domestic level to the international level, resulting in short-term losers having fewer opportunities to influence reform. If reforming governments existing in an open state use the big bang approach or shock therapy, the short-term losers will be highly motivated to oppose reform because they will face high, immediate costs. To overpower this opposition, governments will need outside help.

As suggested by the partial reform approach, short-term winners threaten reform when states have a closed institutional structure. The large group of short-term losers are unable to influence decision making in this type of state while the concentrated and organized short-term winners can capture the government. For this type of state, the predominant concern during reform is that short-term winners will hijack reforming governments, and therefore reforms must be tailored to prevent short-term winners with the opportunity to do so. By using the big bang approach or shock therapy, reforming governments can limit the existence of market distortions and shorten the time period where short-term winners reap large windfalls which strengthen their influence on

government decision making. To implement reform policies quickly, governments may need outside help. If governments with this type of institutional structure use the incremental approach, they are more likely to require outside assistance to liberalize.

Succinctly put, one-size-fits-all policy recommendations do not work during economic transformation. To understand the desirable pace of reform, the institutional structure must be categorized. Governments existing in an open state will be more likely to reform successfully if they use the incremental approach. Outside help may still be necessary to provide a credible, long-term commitment to the reform process by limiting the role short-term losers play in economic decision making. Governments existing in a close state following the big bang approach are more likely to reform successfully. By turning to an IO, the governments can quickly implement the needed reforms. If, however, governments do not follow these suggestions, reform opponents are emboldened to threaten the reform process, and governments will more heavily rely on outside assistance to reform.

### ***FUTURE RESEARCH***

To understand the relationship between economic transformation and IOs, the flaws in this study must be rectified and the logic extended to new applications. The findings here illuminate the need for a grand theory of economic transformation and the role of IOs. Additionally, the coding problems discussed earlier must be addressed.

Finally, the central argument can be extended to the granting of international loans and the next step in the argument should be analyzed to assess the influence seeking has on reform success.

To reconcile the findings presented in chapters three, four and five, we need a comprehensive theory that predicts when short-term winners will be easily identified and concentrated and when short-term winners will have these characteristics. Neither the J-curve approach nor the partial reform approach is definitively correct; both groups can threaten economic reform. For any given state, we need to identify which group poses the threat. The threatening group is easily identified, concentrated, and usually faces immediate effects (costs for losers, profits for winners) from reform. A grand theory of economic transformation could provide scope conditions for each group.

One initial area to consider is past regime type. The pattern emerging from past research and the results presented in chapters four and five suggests that past regime type influences whether the J-curve or partial reform pattern is followed. The two former command economies followed the partial reform approach while the two post-authoritarian cases followed the J-curve approach. The existing literature on the two approaches suggests that this pattern is widespread. On the one hand, much of the existing research on the partial reform approach focuses on post-communist Eastern Europe and the former Soviet Union. The majority of these cases follow the partial reform predictions (Hellmann 1998). Research on third world or lesser developed countries, on the other hand, tends to support the J-curve approach (for example, Bates

and Krueger 1993b; Nelson 1989). These states often have experience with authoritarian rather than communist regimes. The central finding of the dominant J-curve pattern where short-term losers threaten reform may reflect that more states have experience with authoritarian regimes rather than communist ones. Future research could test whether regime type plays this significant role.

Any future research should also address the errors of this dataset. The coding of “seeking” should be reconsidered to handle cases such as Franco and Meciar. Although these leaders expressed interest in membership in a liberal IO and even engaged in membership talks, neither was truly dedicated to joining the EU. Both routinely ignored EU directives and were often accused of not being ‘serious’ about membership. Additionally, better measures for concepts such as veto-players and corruption should be obtained.

Future research could also consider whether the J-curve or partial reform approach provides more accurate prediction concerning the relationship between borrowing states and foreign loans from international actors such as the International Monetary Fund (IMF) and the World Bank. When loans are considered, the granting or withholding of loans could provide functions similar to seeking membership in a liberal IO. Rather than the accession process into the IMF or World Bank providing a credible commitment to reform, the loans serve this function. Joining the IMF and World Bank is simple compared to the liberal IOs included in this dataset, but receiving loans is more difficult process and closer to obtaining membership in the liberal IOs. Kahler (1992) found that IMF conditionality influences economic reform only in cases where reform is

not impossible nor a given, but he does not find what conditions make reform possible but difficult in these cases. Do the short-term losers or the short-term winners threaten reform? It would be significant to find that loans also follow the pattern emerging from this study that a key determinant of which group threatens reform is past regime experience

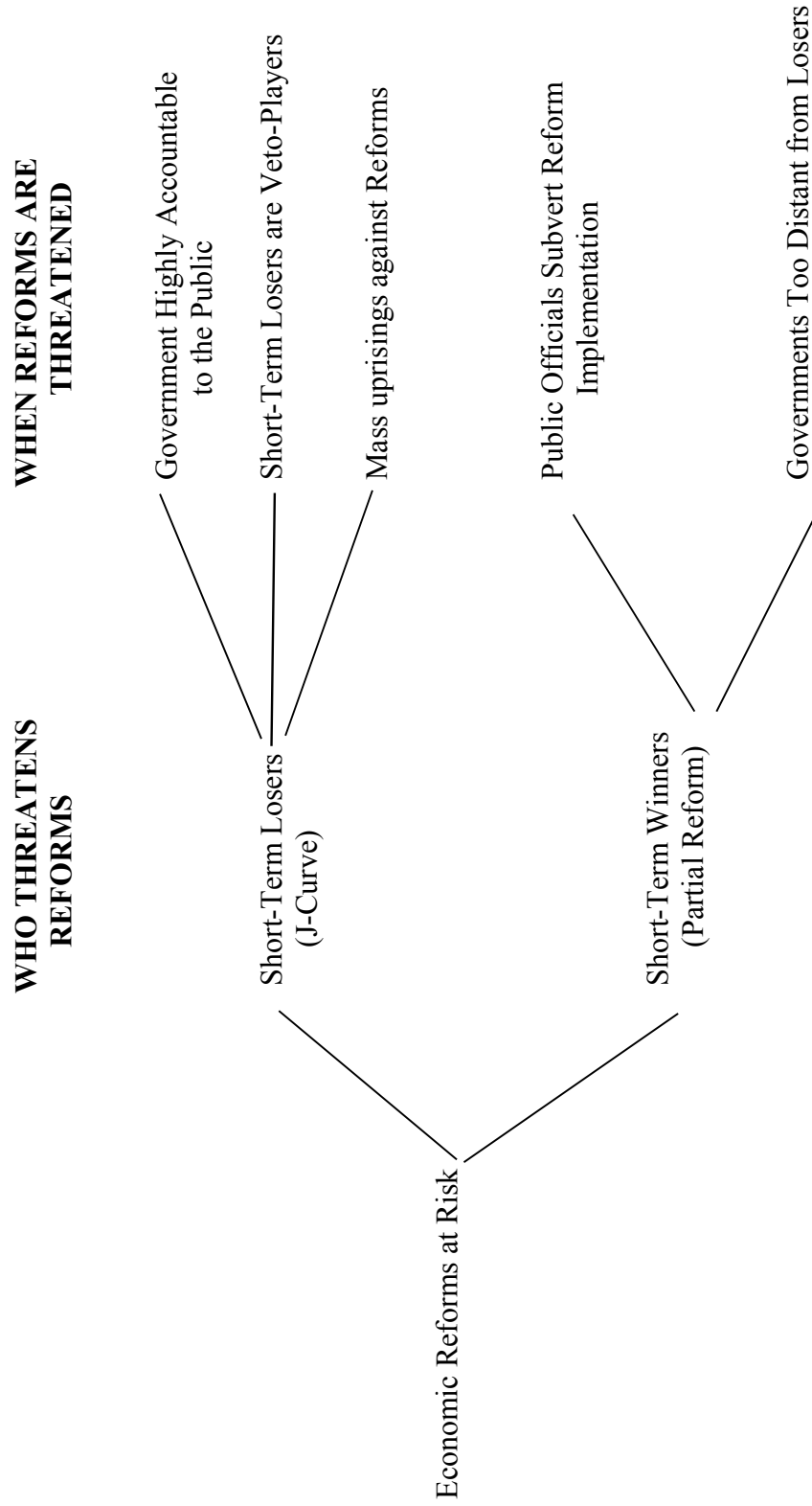
This dissertation focused on governments' decision to seek membership in a liberal IO to counter threats to successful economic reform, and suggested mechanisms through which IOs could protect reforms. These mechanisms are addressed in the case studies (such as Vietnam's increased ability to monitor policy implementation due to ASEAN aid), but they not comprehensively studied throughout the dissertation. A future project could focus on what mechanisms IOs offer to reforming governments to provide a credible commitment to reform. Which mechanisms are used more often? Which are more successful? More generally, a study of the next stage is needed. Now that we empirically know governments where reform policies are threatened seek membership in liberal IOs with the goal of protecting reform, we can ask whether seeking membership increases economic liberalization.

Neither the J-curve approach nor the partial reform approach is objectively true and predicts seeking membership in a liberal IO to the exclusion of the other approach. Instead, we seem to live in world where short-term losers usually threaten reform, but sometimes short-term winners are the threatening group. When either group threatens reforms, governments lacking domestic solutions are significantly likely to seek an external commitment mechanism through the accession process into a liberal IO. More

often, the driving force is the risk short-term losers pose. When reform policies come under attack from reform opponents, short-term losers or short-term winners, dedicated reformers can reveal their type by looking to the international level to protect reform. For IOs to encourage this behavior and therefore foster economic liberalization, they need to provide the functions needed by reforming governments to protect continued reform from the specific threats posed by reform opponents.

## APPENDIX A: FIGURE





**Figure 1:** When Economic Reforms are at Risk according to the J-Curve and Partial Reform Approaches

## APPENDIX B: TABLES

| IO Name  | Year Founded | Restrictiveness  | Restriction Type                 |
|--|--------------|------------------|----------------------------------|
| African Development Bank   | 1964         | restrictive      | Lib Econ                         |
| Andean Community of Nations  | 1969         | restrictive      | Lib Econ                         |
| Asian-Pacific Economic<br>Co-operation                                     | 1989         | restrictive      | Lib Econ                         |
| Asian Development Bank   | 1966         | restrictive      | Lib Econ                         |
| Association of South East Asian<br>Nations                                 | 1967         | restrictive      | Lib Econ                         |
| Bank for International<br>Settlements                                      | 1930         | restrictive      | Other                            |
| Caribbean Community &<br>Common Market                                     | 1973         | restrictive      | Lib Econ                         |
| Central American Market  | 1960         | restrictive      | Lib Econ                         |
| Common Market for Eastern &<br>Southern Africa                             | 1993         | restrictive      | Lib Econ                         |
| - successor to Preferential<br>Trade Area for Eastern &<br>Southern Africa | 1981         | restrictive      | Lib Econ                         |
| Commonwealth   | 1947         | semi-restrictive |                                  |
| Commonwealth of Independent<br>States                                      | 1991         | restrictive      | Other                            |
| Communaute Economique de<br>l'Afrique de l'Ouest                           | 1974         | restrictive      | Lib Econ                         |
| Cooperation Council for the Arab<br>States of the Gulf                     | 1981         | restrictive      | Lib Econ &<br>Cultural/Religious |
| Council of Arab Economic Unity   | 1957         | restrictive      | Cultural/Religious               |

**Table 1:** Major IOs and Liberal Membership Criteria

(Continued)

Table 1 (Continued),

| IO Name  | Year Founded | Restrictiveness  | Restriction Type              |
|--|--------------|------------------|-------------------------------|
| - subset with Arab Common Market                                 | 1964         | restrictive      | Lib Econ & Cultural/Religious |
| Council of Europe  | 1949         | restrictive      | Lib Pol                       |
| Economic Community of West African States                        | 1975         | restrictive      | Lib Econ                      |
| European Bank for Reconstruction & Development                   | 1990         | restrictive      | Lib Pol & Lib Econ            |
| European Free Trade Agreements                                   | 1960         | restrictive      | Lib Econ                      |
| European Space Agency  | 1975         | restrictive      | Resource/Energy               |
| European Union, EC, ECSC   | 1951         | restrictive      | Lib Pol & Lib Econ            |
| The Franc Zone   |              | restrictive      | Other                         |
| Inter-American Development Bank                                  | 1959         | restrictive      | Lib Econ                      |
| International Atomic Energy Agency                               | 1957         | semi-restrictive |                               |
| International Bank for Reconstruction & Development (World Bank) | 1945         | restrictive      | Lib Econ                      |
| - subset with International Development Association              | 1960         | restrictive      | Lib Econ                      |
| - subset with International Finance Corporation                  | 1956         | restrictive      | Lib Econ                      |
| - subset with Multilateral Investment Guarantee Agency           | 1988         | restrictive      | Lib Econ                      |

(Continued)

Table 1 (Continued),

| IO Name   | Year Founded | Restrictiveness  | Restriction Type   |
|---|--------------|------------------|--------------------|
| International Civil Aviation Organization                   | 1947         | unrestrictive    |                    |
| International Fund for Agriculture Development              | 1977         | unrestrictive    |                    |
| International Labour Organization                           | 1919         | restrictive      | Lib Pol            |
| International Maritime Organization                         | 1982         | restrictive      | Resource/Energy    |
| - successor to Intergov. Maritime Consultative Organization | 1959         | restrictive      | Resource/Energy    |
| International Monetary Fund                                 | 1945         | restrictive      | Lib Econ           |
| International Organization for Migration                    | 1951         | unrestrictive    |                    |
| International Seabed Authority                              | 1994         | restrictive      | Resource/Energy    |
| International Telecommunications Union                      | 1865         | restrictive      | Communication      |
| Islamic Development Bank                                    | 1973         | restrictive      | Cultural/Religious |
| League of Arab States                                       | 1945         | semi-restrictive |                    |
| Nordic Council  | 1952         | unrestrictive    |                    |
| Nordic Council of Ministers                                 | 1962         | restrictive      | Lib Econ           |
| North American Free Trade Agreement                         | 1994         | restrictive      | Lib Econ           |
| - successor to US-Canadian free trade agreement             | 1989         | restrictive      | Lib Econ           |

(Continued)

Table 1 (Continued),

| IO Name  | Year Founded | Restrictiveness  | Restriction Type                    |
|--|--------------|------------------|-------------------------------------|
| North Atlantic Treaty Organization                   | 1949         | restrictive      | Alliance                            |
| Organization for Economic Co-op & Development        | 1961         | restrictive      | Lib Pol & Lib Econ                  |
| - subset with International Energy Agency            | 1974         | restrictive      | Resource/Energy & Lib Econ          |
| - subset with OECD Nuclear Energy Agency             | 1958         | restrictive      | Resource/Energy & Lib Econ          |
| Organization for Security and Co-operation in Europe | 1994         | unrestrictive    |                                     |
| - successor to CSCE                                  | 1972         | unrestrictive    |                                     |
| Organization of African Unity                        | 1963         | semi-restrictive |                                     |
| Organization of American States                      | 1948         | unrestrictive    |                                     |
| Organization of Arab Petroleum Exporting Countries   | 1968         | restrictive      | Culture/Religious & Resource/Energy |
| Organization of the Islamic Conference               | 1971         | restrictive      | Cultural/Religious                  |
| Organization of Petroleum Exporting Countries        | 1960         | restrictive      | Resource/Energy                     |
| - OPEC Fund for International Development            | 1976         | restrictive      | Resource/Energy                     |
| Pacific Community                                    | 1947         | unrestrictive    |                                     |
| South Pacific Forum                                  | 1971         | unrestrictive    |                                     |
| - subset with South Pacific Forum Secretariat        | 1973         | unrestrictive    |                                     |

(Continued)

Table 1 (Continued),

| IO Name   | Year Founded | Restrictiveness  | Restriction Type |
|---|--------------|------------------|------------------|
| Southern African Development Community                            | 1992         | restrictive      | Lib Econ         |
| - successor to South African Development Co-ordination Conference | 1979         | restrictive      | Other            |
| Southern Common Market  | 1991         | restrictive      | Lib Econ         |
| United Nations  | 1945         | semi-restrictive |                  |
| Union Dounariere des Etats de l'Afrique de l'Ouest                |              | restrictive      | Lib Econ         |
| Union Douaniere et Economique de l'Afrique Centrale               | 1966         | restrictive      | Lib Econ         |
| UN Education, Scientific, & Cultural Organization                 | 1946         | semi-restrictive |                  |
| UN Industrial Development Organization                            | 1967         | unrestrictive    |                  |
| Unrestrictive Postal Union  | 1874         | restrictive      | Communication    |
| Western European Union  | 1955         | restrictive      | Alliance         |
| World Health Organization   | 1948         | unrestrictive    |                  |
| World Intellectual Property Organization                          | 1967         | unrestrictive    |                  |
| World Meteorological Org  | 1956         | unrestrictive    |                  |
| World Trade Organization  | 1995         | restrictive      | Lib Econ         |
| -successor to General Agreement on Tariffs and Trade              |              | restrictive      | Lib Econ         |

(Continued)

Table 1 (Continued),

|  |    |   |
|--|----|---|
| TOTAL RESTRICTIVE INTERNATIONAL ORGANIZATIONS: | 51 |   |
| TOTAL RESTRICTIVE WITH                         |    |   |
| LIBERAL ECONOMIC REQUIREMENTS:                 | 34 |   |
| LIBERAL POLITICAL REQUIREMENTS:                |    | 5 |
| CULTURAL/RELIGIOUS REQUIREMENTS:               | 5  |   |
| RESOURCE/ENERGY REQUIREMENTS:                  | 9  |   |
| COMMUNICATIONS REQUIREMENTS:                   | 2  |   |
| ALLIANCE REQUIREMENTS:                         | 2  |   |
| OTHER TYPES OF REQUIREMENTS:                   | 4  |   |
| TOTAL Restrictive IOs with TWO Categories:     | 8  |   |
| TOTAL Included in this study                   | 21 |   |



| <b>Approach</b>  | <b>Conditions When Reforms Are Threatened</b>           | <b>Indicators That Governments Will Need Outside Help</b>          |
|--|---|--|
| J-Curve:<br>Short-term losers threaten reforms         | Governments are highly accountable to the public        | Elections(+)<br>Cabinet changes(+)<br>Participation competition(+) |
|  | Short-term losers are also veto-players                 | Strikes(+)   |
|  | Mass uprisings against reforms                          | Protests(+)<br>Riots(+)  |
| Partial Reform:<br>Short-term winners threaten reforms | Public officials prevent reforms from being implemented | Corruption(+)<br>Purges(+)<br>Black market(+)                      |
|  | Governments are not accountable to the losers           | Elections(-)<br>Cabinet changes(-)<br>Participation competition(-) |
| Both   | Democratization   | Democratic transition(+)   |

**Table 2:** Hypotheses and Indicators

|                              | Full Model<br>Seeking    | Variant One<br>Seeking   | Variant Two<br>Seeking   |
|------------------------------|--------------------------|--------------------------|--------------------------|
| Democratic<br>Transition     | .8149874**<br>(.3759838) | .8229596**<br>(.3591556) | .7747157**<br>(.3700313) |
| Legislative<br>Elections     | -1.498286*<br>(.8373798) | -1.501294*<br>(.8370168) | -1.533438*<br>(.8380553) |
| Cabinet<br>Changes           | .3024509<br>(.4542768)   | .3008125<br>(.4535182)   | .3404571<br>(.4376151)   |
| Participation<br>Competition | .8325741**<br>(.3480966) | .834262**<br>(.3471303)  | .7945351**<br>(.3443109) |
| General Strikes              | .3436522<br>(.2306592)   | .3430315<br>(.2309368)   | -----                    |
| Purges                       | .0364459<br>(.0364459)   | -----                    | -----                    |
| Anti-government<br>Protests  | .38396*<br>(.2133606)    | .3851357*<br>(.2131362)  | .446697**<br>(.1887908)  |
| Riots                        | -1.192974<br>(.7780061)  | -1.195768<br>(.7786088)  | -.8855318<br>(.6012849)  |
| Executive<br>Constraints     | -.4373218*<br>(.2662121) | -.4398274*<br>(.2640122) | -.4335696*<br>(.2632114) |
| GDP per capita               | -.0000119<br>(.00014)    | -.0000111<br>(.0001393)  | -3.16e-06<br>(.0001356)  |
| Potential<br>IOs             | .710776**<br>(.2991893)  | .7133046**<br>(.2978464) | .7167301**<br>(.2929665) |
| Imports+Exports              | -3.39e-11<br>(2.66e-11)  | -3.39e-11<br>(2.66e-11)  | -3.22e-11<br>(2.60e-11)  |
| N: 782                       |                          |                          |                          |
| * p#.1 **p#.05               |                          |                          |                          |

**Table 3:** Results from a Cox Model (with the Efron method for ties)

|                              | Full Model<br>Seeking    | Variant One<br>Seeking   | Variant Two<br>Seeking   |
|------------------------------|--------------------------|--------------------------|--------------------------|
| Democratic<br>Transition     | .6046895<br>(.3953877)   | .6218401*<br>(.3697925)  | .5402285<br>(.3674564)   |
| Legislative<br>Elections     | -1.47288*<br>(.8766079)  | -1.485252*<br>(.8731905) | -1.445516*<br>(.8733305) |
| Cabinet<br>Changes           | .4184951<br>(.4616734)   | .4202017<br>(.4609967)   | .4170081<br>(.4554833)   |
| Participation<br>Competition | .9228912**<br>(.3404459) | .9278153**<br>(.3383863) | .8850741**<br>(.3357902) |
| General Strikes              | .4900847<br>(.3261558)   | .4910293<br>(.3262947)   | -----                    |
| Purges                       | .0648112<br>(.4956896)   | -----                    | -----                    |
| Anti-government<br>Protests  | .370635<br>(.2572002)    | .3682636<br>(.2579958)   | .5020072**<br>(.2197884) |
| Riots                        | -1.178093<br>(.8668225)  | -1.190486<br>(.8735054)  | -.8271041<br>(.6796611)  |
| Executive<br>Constraints     | -.4916892*<br>(.2825172) | -.5004523*<br>(.274413)  | -.4901383*<br>(.2703566) |
| GDP per capita               | -.0001112<br>(.00021)    | -.0001128<br>(.0002098)  | -.0000943<br>(.0002055)  |
| Potential<br>IOs             | -.0530397<br>(.4583241)  | -.0527312<br>(.4577901)  | -.0501729<br>(.4546551)  |
| Imports+Exports              | -3.65e-11<br>(2.76e-11)  | -3.66e-11<br>(2.76e-11)  | -3.49e-11<br>(2.73e-11)  |

**Table 4:** Results from a Cox Model with Regional Dummy Variables (with the Efron method for ties)

(Continued)

Table 4 (Continued),

|         | Full Model<br>Seeking     | Variant One<br>Seeking    | Variant Two<br>Seeking   |
|---------|---------------------------|---------------------------|--------------------------|
| Euroreg | .901336<br>(1.121329)     | .9415236<br>(1.073192)    | .8891441<br>(1.058106)   |
| LAreg   | -2.392988**<br>(1.186101) | -2.384442**<br>(1.184289) | -2.17855**<br>(1.082181) |
| MEreg   | -36.42168<br>(4.48e+07)   | -45.59129<br>(--)         | -45.24732<br>(--)        |
| SEAreg  | -38.18946<br>(1.46e+08)   | -45.22986<br>(--)         | -45.47244<br>(--)        |
| N: 782  |                           |                           |                          |

\* p#.1

\*\*p#.05

|                              | Full Model<br>Seeking     | Variant One<br>Seeking   | Variant Two<br>Seeking    |
|------------------------------|---------------------------|--------------------------|---------------------------|
| Democratic<br>Transition     | .8529649**<br>(.3979146)  | .8141289**<br>(.3904962) | .7579327**<br>(.383572)   |
| Legislative<br>Elections     | -1.620604*<br>(.8714133)  | -1.589622*<br>(.8610435) | -1.604218*<br>(.8600571)  |
| Cabinet<br>Changes           | .3779438<br>(.4539454)    | .374411<br>(.454960)     | .408181<br>(.4376854)     |
| Participation<br>Competition | .9956485**<br>(.3803758)  | .9802785**<br>(.3790625) | .932487**<br>(.373415)    |
| General Strikes              | .3556315<br>(.2410905)    | .3574356<br>(.2386115)   | -----                     |
| Purges                       | -.1840346<br>(.5580047)   | -----                    | -----                     |
| Anti-government<br>Protests  | .3546444<br>(.2232991)    | .3514502<br>(.2211749)   | .4163204**<br>(.1941686)  |
| Riots                        | -1.341713<br>(.8482548)   | -1.310854<br>(.8301177)  | -.9732405<br>(.641260)    |
| Executive<br>Constraints     | -.5961162**<br>(.2948088) | -.5743984**<br>(.287945) | -.5638271**<br>(.2837544) |
| GDP per capita               | -.0001335<br>(.0001953)   | -.0001316<br>(.0001953)  | -.0001139<br>(.0001875)   |
| Potential<br>IOs             | .275555<br>(.4260788)     | .2835109<br>(.4262659)   | .2863001<br>(.4241126)    |

**Table 5:** Results from a Cox Model with Euroreg (with the Efron method for ties)

(Continued)

Table 5 (Continued),

|                 | Full Model<br>Seeking   | Variant One<br>Seeking  | Variant Two<br>Seeking  |
|-----------------|-------------------------|-------------------------|-------------------------|
| Imports+Exports | -3.68e-11<br>(2.80e-11) | -3.65e-11<br>(2.80e-11) | -3.46e-11<br>(2.75e-11) |
| Euroreg         | 1.511374<br>(.9920908)  | 1.426044<br>(.964032)   | 1.390082<br>(.9466616)  |
| N: 782          |                         |                         |                         |
| * p#.1          |                         |                         |                         |
| **p#.05         |                         |                         |                         |

|                              | Full Model<br>Seeking    | Variant One<br>Seeking   | Variant Two<br>Seeking   |
|------------------------------|--------------------------|--------------------------|--------------------------|
| Democratic<br>Transition     | .8163236**<br>(.3625816) | .819689**<br>(.347133)   | .7839986**<br>(.3424599) |
| Legislative<br>Elections     | -1.504259*<br>(.8413096) | -1.505746*<br>(.8403065) | -1.546925*<br>(.839635)  |
| Cabinet<br>Changes           | .3109999<br>(.454655)    | .3103047<br>(.4540147)   | .356565<br>(.4437026)    |
| Participation<br>Competition | .7757043**<br>(.3402138) | .7765357**<br>(.3391819) | .7354471**<br>(.3345281) |
| General Strikes              | .3054799<br>(.2274111)   | .3051283<br>(.2273341)   | -----                    |
| Purges                       | .0156295<br>(.473296)    | -----                    | -----                    |
| Anti-government<br>Protests  | .3801389*<br>(.2066324)  | .3807131*<br>(.2059987)  | .4283609**<br>(.1843746) |
| Riots                        | -1.167797<br>(.7728161)  | -1.168834<br>(.7726568)  | -.8669637<br>(.5971038)  |
| Executive<br>Constraints     | -.4341884*<br>(.2628879) | -.4354143*<br>(.260206)  | -.4296335*<br>(.2567665) |
| GDP per capita               | .0000486<br>(.0001679)   | .0000491<br>(.000167)    | .000064<br>(.0001651)    |
| Potential<br>IOs             | .5911035**<br>(.2993667) | .5920889**<br>(.2980479) | .588891**<br>(.2930527)  |
| Imports+Exports              | -3.53e-11<br>(2.77e-11)  | -3.53e-11<br>(2.77e-11)  | -3.41e-11<br>(2.74e-11)  |
| N: 627                       |                          |                          |                          |
| * p#.1 **p#.05               |                          |                          |                          |

**Table 6:** Results from a Cox Model without the Middle East (with the Efron method for ties)

|                              | Full Model<br>Seeking    | Variant One<br>Seeking   | Variant Two<br>Seeking   |
|------------------------------|--------------------------|--------------------------|--------------------------|
| Democratic<br>Transition     | .7368517*<br>(.3867161)  | .7772003**<br>(.3592948) | .7266704**<br>(.3547938) |
| Legislative<br>Elections     | -1.460937*<br>(.8303346) | -1.472131*<br>(.8322436) | -1.500202*<br>(.8329209) |
| Cabinet<br>Changes           | .283032<br>(.4557735)    | .2783151<br>(.4546352)   | .3033878<br>(.4420622)   |
| Participation<br>Competition | .8432471**<br>(.3480001) | .8461957**<br>(.3464643) | .8143867**<br>(.3428544) |
| General Strikes              | .306741<br>(.2377065)    | .3082724<br>(.2385707)   | -----                    |
| Purges                       | .1613037<br>(.44809)     | -----                    | -----                    |
| Anti-government<br>Protests  | .4451179**<br>(.2153793) | .4408866**<br>(.2156857) | .506444**<br>(.1913036)  |
| Riots                        | -1.195811<br>(.752656)   | -1.204543<br>(.7593396)  | -.9269735<br>(.5924599)  |
| Executive<br>Constraints     | -.4267993<br>(.2648217)  | -.4369771*<br>(.2626703) | -.4322882*<br>(.2598289) |
| GDP per capita               | -.0000208<br>(.0001416)  | -.0000171<br>(.0001398)  | -.0000103<br>(.0001363)  |
| Potential<br>IOs             | .6019848*<br>(.314979)   | .624281**<br>(.3090611)  | .6160697**<br>(.3032573) |
| Imports+Exports              | -3.49e-11<br>(2.74e-11)  | -3.48e-11<br>(2.71e-11)  | -3.37e-11<br>(2.68e-11)  |
| N: 746                       |                          |                          |                          |
| * p#.1 **p#.05               |                          |                          |                          |

**Table 7:** Results from a Cox Model without Southeast Asia (with the Efron method for ties)

|  | Full Model | Variant One | Variant Two |
|--|------------|-------------|-------------|
|--|------------|-------------|-------------|



|                           | Seeking                   | Seeking                   | Seeking                  |
|---------------------------|---------------------------|---------------------------|--------------------------|
| Democratic Transition     | .8324627**<br>(.4065621)  | .8516219**<br>(.3859095)  | .6753509**<br>(.372645)  |
| Legislative Elections     | -1.499619*<br>(.8802279)  | -1.5006*<br>(.8785192)    | -1.280608<br>(.8305458)  |
| Cabinet Changes           | .4065269<br>(.4540061)    | .4039961<br>(.452133)     | .3523345<br>(.4313591)   |
| Participation Competition | .9304983**<br>(.3422315)  | .9342317**<br>(.3406145)  | .842419**<br>(.3422686)  |
| General Strikes           | 1.206547**<br>(.5936903)  | 1.195718**<br>(.5894537)  | -----                    |
| Purges                    | .0862997<br>(.5011634)    | -----                     | -----                    |
| Anti-government Protests  | .0808932<br>(.2642306)    | .0832907<br>(.2661888)    | .4083555*<br>(.2135809)  |
| Riots                     | -1.470292**<br>(.7287043) | -1.468302**<br>(.733145)  | -.7361923<br>(.6681728)  |
| Executive Constraints     | -.5452058*<br>(.2812964)  | -.5522908**<br>(.2778221) | -.5131383*<br>(.2750922) |
| GDP per capita            | -6.69e-06<br>(.000128)    | -5.11e-06<br>(.0001271)   | -.0000131<br>(.0001285)  |
| Potential IOs             | .6211577*<br>(.3351442)   | .6319529*<br>(.3308517)   | .7069223**<br>(.3087297) |
| Imports+Exports           | -4.82e-11<br>(3.34e-11)   | -4.78e-11<br>(3.29e-11)   | -3.40e-11<br>(2.69e-11)  |
| N: 584                    |                           |                           |                          |
| * p#.1 **p#.05            |                           |                           |                          |

**Table 8:** Results from a Cox Model without Latin America (with the Efron method for ties)

### **J-Curve**

- The more non-elites are able to influence decision making (participation competition), the more likely states are to seek membership in a liberal IO.
- The more anti-government demonstrations occur, the more likely states are to seek membership in a liberal IO.

### **Partial Reform**

- The more often legislative elections occur, the less likely states are to seek membership in a liberal IO.

**Table 9:** Main Findings From Duration Analysis

|                 | J-Curve                          |                 | Partial Reform                                     |                 |
|-----------------|----------------------------------|-----------------|--|-----------------|
|                 | Short-Term Losers                | Expect Seeking? | Short-Term Winners                                 | Expect Seeking? |
| <b>Spain</b>    |                                  |                 |  |                 |
| under Franco    | Weak groups<br>(Organized labor) | NO              | Few if any   | NO              |
| after Franco    | Organized labor<br>Military      | YES             | Few if any   | NO              |
| <b>Slovakia</b> |                                  |                 |  |                 |
| under Meciar    | Not concentrated groups          | NO              | Government<br>Nationalists<br>Government cronies   | NO              |
| after Meciar    | Not concentrated groups          | NO              | Meciar's party<br>Nationalists<br>Meciar's cronies | YES             |

**Table 10:** Who Posed a Threat in Spain and Slovakia?

|                  | J-Curve                     |                   |   | Partial Reform       |                             |
|------------------|-----------------------------|-------------------|---|----------------------|-----------------------------|
|                  | Too Accountable             | Veto-Players      | Mass Uprisings  | Corruption           | Too Distant from Losers     |
| After Franco YES | YES                         | YES               | NO  | NO                   |                             |
|                  | - elections                 | - organized labor | - riots   | - low corruption     | - elections                 |
|                  | - few cabinet changes       | - military        | - antigovernment demonstrations                         | - no purges          | - few cabinet changes       |
|                  | - participation competition |                   | - political violence                                    | - small black market | - participation competition |
|                  |                             |                   | - not a significant increase from before Franco's death |                      |                             |

**Table 11:** Independent Variables for Spain After Franco

|                    | J-Curve                         |                                     |                | Partial Reform                        |                           |
|--------------------|---------------------------------|-------------------------------------|----------------|---------------------------------------|---------------------------|
|                    | Too Accountable                 | Veto-Players                        | Mass Uprisings | Corruption                            | Too Distant from Losers   |
| Under<br>Meciar    | NO                              | NO                                  | NO             | YES                                   | YES                       |
|                    | - few elections                 | - few strikes                       | - few protests | - corruption in banks & privatization | - disregard for voters    |
|                    | - unfair May referendum         | - not the military                  | - no riots     | - frequent government intervention    | - general public as loser |
|                    | - low participation competition | - no evidence of additional players |                |                                       |                           |
| After<br>Meciar NO | NO                              | NO                                  | YES            | YES                                   |                           |
|                    | - few elections                 | - few strikes                       | - few protests | - incompetent officials               | - closer to voters        |
|                    |                                 | - not the military                  | - few riots    | - cronies remain                      |                           |
|                    |                                 | - no evidence of additional players |                |                                       |                           |

**Table 12:** Independent Variables for Slovakia

|                | J-Curve                   |           | Partial Reform           |           |
|----------------|---------------------------|-----------|--------------------------|-----------|
|                | Short-Term Losers         | Seek Help | Short-Term Winners       | Seek Help |
| <b>Vietnam</b> |                           |           |                          |           |
|                | Few if any                | NO        | Corrupt officials        | YES       |
|                | (Central government)      |           | Smugglers                |           |
| <b>Chile</b>   |                           |           |                          |           |
|                | Organized labor           | YES       | Few if any               | NO        |
|                | Traditional, landed elite |           | (Agricultural exporters) |           |

**Table 13:** Who Posed a Threat in Vietnam and Chile?

|                                 | J-Curve         |                                     |   | Partial Reform             |                                       |
|---------------------------------|-----------------|-------------------------------------|---|----------------------------|---------------------------------------|
|                                 | Too Accountable | Veto-Players                        | Mass Uprisings  | Corruption                 | Too Distant from Losers               |
| Vietnam                         |                 |                                     |   |                            |                                       |
| NO                              |                 | NO                                  | NO  | YES                        | NO                                    |
| - no open elections             |                 | - not labor                         | - no riots  | - high corruption          | - few losers                          |
| - no cabinet changes            |                 | - not the military                  | - no anti-government demonstrations                         | - purges                   | - perhaps the central government      |
| - low participation competition |                 | - no evidence of additional players |   | - significant black market |                                       |
| Chile                           |                 |                                     |   |                            |                                       |
| NO                              |                 | YES                                 | NO  | NO                         | NO                                    |
| - rare elections                |                 | - organized labor                   | - no significant increase in riots                          | - low corruption           | - general public often opposed reform |
| - few cabinet changes           |                 | - not the military                  | - no significant increase in anti-government demonstrations | - no purges                |                                       |
| - low participation competition |                 | - traditional, landed elite         |   | - small black market       | - short-term winners supported reform |

**Table 14:** Independent Variables for Vietnam and Chile

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