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Transnational Integration Regimes as Development Programs

by

Laszlo Bruszt
Department of Political & Social Sciences
European University Institute
laszlo.bruszt@eui.eu

Gerald A. McDermott
Sonoco International Business
Department
Moore School of Business
University of South Carolina
gerald.mcdermott@moore.sc.edu

Abstract

In drawing on recent advances in international and comparative political economy, this paper argues that diverging paths of institutional development among emerging market democracies are driven by the Transnational Integration Regimes (TIRs), in which a country is embedded. TIRs are more than trade agreements, aid projects, or harmonization systems and should be viewed as development programs. To date, research on the role of international factors shaping local institutional development has done little to move beyond references to markets and hegemonic hierarchies as the main mechanisms of change, compliance, and commitment. This work is largely based on a depoliticized view of institutional change, and overlooks the growing literature on the evolution of regulative capitalism and the diverse patterns of transnationalizing the modern state. By integrating this latter work into our analysis, we show how TIRs differ less in terms of their incentives and largess and more in terms of their emphasis on building institutional capacities and ability to merge monitoring and learning at both the national and supranational levels. We develop a comparative framework to show these systematic differences through an analysis of the impact of the EU Accession Process on postcommunist countries and NAFTA on Mexico.

Introduction

This paper offers a framework for analyzing the ways in which transnational integration regimes shape the evolution of economic institutions in emerging democracies, and in turn builds on the growing intersection of research between international and comparative political economy. The work on globalization has shifted from a focus on individual economic and political variables to an emphasis on distinct regional commercial, military or geopolitical arrangements shaping domestic institutions (Dezalay & Garth 2002, Djelic & Sahlin-Andersson 2006, Pastor 2001). Scholars of development have increasingly shifted attention away from an emphasis on rapid market liberalization toward the role of state and non-state actors in building new institutions to help stabilize, legitimize, and regulate domestic economic activity (Jordana & Levi-Faur, 2005; Majone, 1996; Rodrik et al., 2002).

However, the attempts to integrate these debates tend to conclude that the optimal mechanisms for influencing domestic institutional change take the forms of either markets or externally acting hierarchies. On the one hand, development depends on the extent to which current and capital accounts are liberalized so that powerful economic incentives can force state and non-state actors to continue down the path of reform and build the "right institutions." On the other hand, students of international political economy often argue that reforms stick when robust external conditionality is backed by clear goals, strong incentives, and asymmetric power. In this view, cronyism is so rampant that market forces alone cannot be trusted to gain the commitment of elites in domestic countries. Taken to its limit, the "right" models of reform can only be consolidated when advanced nations take the backward ones into full receivership.[1] Indeed, on the heels of Argentina's historic collapse in 2001, some scholars even proposed that the UN take over the country and install a board of internationally known central bank governors to run economic policy (Caballero & Dornbusch 2002).

This paper, in contrast, argues that divergent paths of domestic institutional development are products largely of the Transnational Integration Regimes (TIRs), in which they are embedded. TIRs are more than trade pacts, aid projects, or harmonization systems, as they increasingly offer developing countries normative models, resources, and integration mechanisms to engage in institutional change. In acting as *development programs*, TIRs differ not simply in terms of their incentives and largess but particularly in terms of their emphasis on institutional capacities, their empowerment of diverse stakeholder groups, and their ability to merge monitoring and learning at both the national and supranational levels. In this view, the development problem is less about external actors finding the optimal incentive structure to impose a particular policy on an emerging democracy and more about the ways in which TIRs alter or reinforce ex-

[1]This is not immediately apparent as scholars often speak about strong incentives and policy anchoring. But such incentive systems appear to work when the criteria are so clear that they are self-evident and the penalties are so strong that non-compliance appears impossible. Hence, hierarchical power, akin to the traditional notion of international hegemony, appears to be the key solution for change. One can see this in how Amsden (2007) understands the imposition of international economic models and when Schimmelfennig & Sedelmeier (2002, 2005) describe the force of EU incentives. See also Tovias & Ugur (2004).

isting roles of and balance of power among the state and domestic stakeholders to partake in new collective institutional experiments.

A key weakness in much of the research on the roles of domestic or international factors in development is its reliance on the depoliticization approach to institution building. Regardless of whether one advocates the limited "market preserving state" or the interventionist "developmental state," the common view is that the ideal international mechanisms are those that circumvent domestic politics and empower an insulated change team to impose ideal designs on society (Stark & Bruszt 1998, McDermott 2002). This approach overlooks the burgeoning literature showing how economic development is underpinned by the gradual creation of complex institutions, in which public and private actors experiment with policies and coalitions to form the regulatory state or regulatory capitalism (Bruszt 2002a, Cohen & Sabel 1998, Levi-Faur 2006). Introducing this concept of the experimental regulatory state into the equation changes the developmental game in three fundamental ways.

First, at the domestic level, institution building is impeded less by state capture per se than by weaknesses on the demand and supply sides. Demand is impeded because potential beneficiaries, dormant minority groups (Jacoby 2000, 2004), lack the resources and voice in shaping existing or new institutional domains. Supply is impeded because states lack the incentives, resources, skills and knowledge needed for institutional upgrading.

Second, TIRs can alter or conserve the status quo of the demand and supply sides of domestic institutional change by the extent to which they empower a diverse set of stakeholder groups and focus attention on building institutional capacity. The reliance on incentives tends to favor entrenched groups but provides few new resources or participatory channels for weaker groups (Collier and Handlin, 2005; Karl, 2008; Schneider, 2004). The emphasis on empowering a variety of often minority socioeconomic groups can facilitate alternative institutional experiments and create countervailing sources of power. TIRs also help to upgrade and strengthen the supply side by providing material and knowledge resources to build administrative and regulative capacity.

Third, the emphasis on building regulatory capacities changes not simply the resource commitments of TIRs but especially the integration mechanisms for both the developing country and the TIR. Typically, integration and development are framed in terms of binary, unidimensional conditionality, in which arms-length incentives and enforcement are used to achieve a well-defined policy outcome. In our view, conditionality is a multidimensional iterative process, in which TIRs deliver resources via different types of mechanisms that merge monitoring and learning at both the country and supranational levels (Sabel & Zeitlin 2007). But because of the different starting points of developing countries and the experimental process of institution building such mechanisms evolve, requiring the TIR to be self-adapting. That is, comparative analysis of TIRs requires not simply identification of resource transfers and policy content but especially how the mechanisms evolve over time to transform the institutional foundations of the developing country and the TIR itself.

Our aim here is to identify the key mechanisms of integration, which capture the varying impact of TIRs on the institution-building process in emerging market democracies. We do so through a comparative analysis of the impact of EU Accession Process on postcommunist countries and NAFTA on Mexico. We find this a useful comparison since it helps control for geography, several starting conditions, and the active members of advanced countries in the TIR. Indeed, several leading Latin American countries appeared better positioned to modernize, given their deeper, more recent experience with market-based economics and democratic governance. However, the countries of East Central Europe find themselves on the leading edge of institutional development. We argue that the relative success of institution building in the post-communist countries is related to the way the EU has experimented with a variety of monitoring and assistance mechanisms to improve the institution-building process of the aspiring member countries. These mechanisms become particularly effective as they force candidate countries to submit themselves to iterative external evaluation, invest in administrative upgrading, and incorporate a variety of public and private actors into the institution-building process. In contrast, Mexico appears as a laggard because of the reliance on economic incentives and lack of institutionalization of learning and monitoring within the NAFTA framework. Notice here that for this view EU accession is no longer a process of institutional harmonization but rather a potentially profound innovation in international development.

Section I reviews some of the basic data contrasting the economic and institutional development of countries in East Europe and Latin America. In Section II we argue that the construction of institutional capacities is an experimental process in which a variety of public and private actors must coordinate their resources and information. Section III shows how this view helps one to clarify the key mechanisms of integration -- the linchpin for TIRs in providing effective guidance for domestic institutional development in emerging market democracies. In Section IV, we compare NAFTA and the EU accession process in terms of these mechanisms. In Section V, we illustrate the impact of these different sets of integration mechanisms on institutional development in Mexico and the new EU accession countries in general and via focused cases on the policy domains of food safety and regional development.

I. East Europe and Latin America Compared

> "I see no grounds for the future of Bulgaria, Hungary or Poland to be different from that of Argentina, Brazil or Chile." - Adam Przeworski (1991: 23)

In noting that the "East becomes South," Adam Przeworski highlights the similarities between the liberalizing countries of Latin America and the postcommunist countries of East Central Europe, including "states weak as organizations, political parties and other associations that are ineffectual in representing and mobilizing, economies that are monopolistic, over-protected and over-regulated, agricultures that cannot feed their own people, public bureaucracies that are overgrown, welfare services that are fragmentary and rudimentary" (Przeworski 1991: 24) Moreover, given the slight advantages Latin American countries generally had over their East European counterparts in terms of wealth and implementing market-liberalizing reforms by the early 1990s (see Figures 1 and 2, p. 25), one might have even thought that Przeworski was underestimating the South.

But virtually every available institutional indicator proves these views wrong –

the East, particularly those countries participating in the EU Accession process, has surpassed the South. In this section we review some of these data mainly to suggest that the development difference cannot be explained by domestic factors alone, but rather by regional effects. During the discussion we pay special attention to Mexico in comparison with postcommunist countries.

Although the two regions had similar income and technological starting points, the stark divergence in high technology exports has led analysts of Latin America, such as those in CEPAL (2003) and the World Bank (2005), to point to key weaknesses not only in economic policy but especially the institutional and regulatory foundations of these countries (see also Figure 3, p. 26). Figures 4a-c (pp. 26-27) report the trends in key areas of institutional and regulatory quality using the World Bank governance indicators constructed by Kaufmann, Kraay, and Mastruzzi (2007). Figures 5a and b (p. 28) take selected countries and plot the difference in their given score from that of average in their income group, as defined by the World Bank. This allows us to control for the effects of wealth endowments.

The data reveal three notable patterns. First, although the leading postcommunist countries do not have dramatic improvements, they do tend to outperform countries in their own income category and do not witness dramatic drops. In contrast, countries like Mexico often decline over time and underperform in their income category. Second, another way to control for legacy biases is to compare the evolution of countries that appear very similar at the start of the timeline. In this respect, countries like Slovakia, Bulgaria and Romania, some of the laggards in the region, are trending upwards, while Mexico and other South American countries are slipping, sometimes dramatically. Third, the data reveal that there is a growing divergence in governance indicators between different groups of East European countries. Countries of the former Soviet Union remain at the bottom of the ratings, while those participating in EU Accession remain stable or rise. The concern for some Latin American countries, especially second-tier countries like Venezuela, Bolivia and Peru, is their possible convergence with the laggards from the former Soviet Union.

The capacity of the regulative state is also revealed when the strongest economic actors cannot set the rules for themselves but are constrained by rules and rights that are enforced by the state and can empower weaker actors. One of the most fundamental forms of regulation is the enforcement of rights for labor to organize, form associations, enter in collective dispute and make collective agreements. (Sunstein, 2000) and Mosley and Uno (2007) have done extensive comparative research on labor rights violations and protection. Figure 6 (p. 29) presents their aggregate scores that measure thirty-seven potential violations of personal and collective labor rights.[2] In the countries with much lower scores, typically the strongest economic actors can rule in the labor market without much state involvement. The graph shows a clear distinction between the performance of Latin American countries and Central East European (CEE) countries in this regard. State capacity to prevent excessive forms of the misuse of power

[2]Labor rights violations range from incapacity (or unwillingness) to uphold labor's right to establish and join union and worker organizations, through murder or disappearance of union members or organizers to the state incapacity to uphold, or outright state action to prevent collective agreements. Overall points around 30 might be said to indicate the presence of public control over the rules of the game in the highly asymmetrical labor-business relations.

asymmetries in the labor market are relatively strong (and close to the EU-15 averages) in the CEE countries. Such state capacities are weak in the Latin American countries, especially Mexico.

In sum, the data suggest that there are diverging patterns between distinct groups of countries within East Europe and especially between those countries participating in the EU accession process and those in Latin America. More pointedly, we see this divergence between Mexico and those leading postcommunist countries, despite similar starting points, despite more than fifteen years of pursuing ostensibly market-based reforms, and despite being associated in the two leading TIRs. Our suggestion that TIRs have strongly shaped these trends is an increasingly common finding among regional specialists. For instance, scholars tracking the impact of NAFTA on Mexico note that NAFTA has done much to improve Mexican exports and foreign direct investment, but equally emphasize that it has done little to improve a wide range of institutions in Mexico from education to innovation to labor to basic economic regulation (World Bank 2003, Studer & Wise 2007). In contrast, the Europeanization literature has shown how the EU accession process has transformed a wide range of institutions in East Central Europe, despite several shortcomings of the process (Sedelmeyer, 2006). The key issue for development scholars is identifying the mechanisms of the TIRs that can be broadly applied to other regions.

In the following section we present a framework for doing so, first clarifying how the domestic process of building the regulative state reframes one's understanding of the role of external factors, namely the mediating role TIRs and their different mechanisms of integration.

II. Institution Building and External Factors

IIa. The Limits to Incentives and Conditionality – Optimal Designs and Depoliticization

The search for optimal incentives and enforcement mechanisms has a long tradition in explaining the varying influence of international programs or TIRs on the institutional development of emerging market democracies (Mansfield and Milner 1997). Scholars of political economy have amply noted the limits of purely economic incentives, typically via capital and current account liberalization, in compelling state and non-state actors to broaden their time horizons and undertake the collective action for the consolidation of regulatory institutions. Instead they have increasingly stressed the role of political incentives and asymmetric power.

Students of externally induced institutional change have sought to articulate the role of political factors in two related ways. In their analysis of democratization in twelve developing countries, Levitsky and Way (2006) argue that institutional development is shaped by the combination of a country's economic, social and communication *linkages* with the advanced world and external political *leverage* – the strong incentives for reforms via access or denial of key benefits from advanced countries. Slovakia and Mexico finish first and second in their ranking, since both countries have relatively strong socioeconomic linkages with advanced countries. But only Slovakia, not Mexico, is subject to strong external leverage vis-à-vis possible denial of benefits gained from entering a TIR, in this case the EU. The Europeanization literature has further sought to articulate the role of leverage, arguing that sustained institutional change depends not simply on incentives but rather vigilantly enforced and meritocratic *conditionality* (Sedelmeir & Schimmelfennig 2005, Vachudova 2004). For instance, in her detailed analysis of the EU accession process, Vachudova (2004) argues conditionality is effective and has meritocratic demonstration effects when the external actor (e.g., TIR) uses clear detailed goals and builds the capacity to enforce compliance. At the limit, conditionality becomes so precise in its policy goals and consequences that the candidate country has no other option but to comply. This view was extended as well to proposed improvements in NAFTA (Hufbauer & Schott 2005, Pastor 2001, Studer & Wise 2007)

While the introduction of the terms "conditionality," "compliance" and "commitment" into the debate helps focus analysis on the problems of adverse selection and moral hazard, their generic use undermines both market and hierarchical approaches to capturing the external influences on domestic institution building. As Easterly (2005) has shown in his forceful critique of Western aid programs, this search for optimal conditionality has three problematic assumptions. First, one assumes that external actors have *ex ante* sufficient information about which types of institutional reforms or detailed adjustments need to be achieved, why they failed and what adjustments are needed. Second, one assumes that domestic actors have sufficient resources, knowledge and political conditions to enact requested reforms. Third, one assumes that both external and domestic commitment to reforms is binary, whereas it is often incremental and iterative as the process of institutional change unfolds.

In our view, the current approaches can not overcome these problematic assumptions because of a mis-specification of the institution-building process itself, namely taking as their starting point the "depoliticization approach" to reform. In this view, governments can and should insulate powerful reform teams from particularistic interests and impose rapidly on society a well defined set of new rules and high powered economic incentives that would facilitate transactions and spur investment (McDermott, 2002, 2004). Regardless of whether one advocates external actors utilizing greater trade incentives, policy anchoring or hierarchical conditionality, the common ground is that the farther a country is from the ideal institutional setting, the more imperative it is for external actors to defend domestic actors from themselves. Since the optimal rules and incentives are well known, there is little need for the participation of a variety of state and non-state actors on further adjustments in the basic institutional designs. Indeed, arrested development is largely due to particularistic interests capturing the state and infecting the optimal designs.

However, this view overlooks the burgeoning literature on what we call experimental "regulative state" or "regulative capitalism," which dramatically changes one's understanding of the politics of the institution-building process and, in turn, the role of external forces. We now highlight how institution building is a process in which a variety of public and private actors can be empowered to coordinate and monitor one another's efforts to enhance regulatory capacities. In turn, TIRs play key roles not by helping institution building circumvent domestic politics, but rather by structuring the domestic political game via their integration mechanisms.

IIb. Regulative Capitalism and the Role of TIRs

Experimental regulative capitalism has two important characteristics. First, modern societies are noted not simply for a limited state that enforces a set of rules to constrain opportunism (North & Weingast 1998, Boycko et al. 1995), but especially for their broad constellation of state-backed institutions that enable public and private actors to share risk, monitor one another and enhance knowledge diffusion. For instance, the comparative literature on corporate governance and finance increasingly emphasizes how states in both developing and advanced countries create institutional capacities to both regulate transactions and redistribute risk to facilitate fundamental private-sector investments that would not otherwise be taken (Hall & Soskice 2001, Moss 2002, Pistor 2001). From Silicon Valley to national innovative systems to export-led growth models for developing countries, research shows how innovative capacities emerge through public-private institutions that facilitate knowledge creation and diffusion for both large and small firms (Doner et al 2005, Giuliani et al 2005, McDermott 2007, Piore & Sabel 1994, Saxenian 1994).

Second, the experimental nature of the institution-building process itself demands both capacity creation and public-private coordination. As the developmental statist literature has well documented, sustained development is noted by the creation of state capacities in which the public actors have the skills and resources to provide and monitor collective goods, where firms and individuals, alone or via their associations, are too weak to do so (Evans, 1995; Evans and Rauch, 1999; Riaian, 2000). But because the state often *ex ante* does not have the requisite skills, knowledge or resources, governments must often coordinate with a variety of stakeholder groups who together have complementary resources and information (Rodrik 2004, Tendler 1997).

In this view, the politics of institution building is less about the insulation of the state and more about the reconfiguration of the public-private boundary that exploits the empowered participation of a variety of public and private actors in joint problem solving. Variety is vital not only to improve the types of information and resources to be recombined but also to limit malfeasance and especially self-dealing by past entrenched stakeholders (Bruszt 2002a, McDermott 2004, 2007, Sabel 1994, Schneider 2004, Stark & Bruszt 1998). In turn, this view redefines the causes of arrested institutional development and expands the notion of accountability. First, arrested institutional development emerges from a low equilibrium trap in which state and non-state actors have neither the interest nor resources to explore new courses of experimentation. On the demand side, groups that might have an interest in building new institutional capacities often lack the resources and channels to gain the sustained attention of the state. Entrenched groups maintain the status quo not only because they profit from it but also because there are no encompassing structures to facilitate horizontal ties to weaker groups, which can open new possibilities for experimentation and extend time horizons (Schneider 2004, Tendler 1997). On the supply side, states often lack what Michael Mann calls the "infrastructural capacities" – the relevant skills, resources, and knowledge – needed for coordinating institutional upgrading – be it for the development of regulatory and compliance capacities, as in food safety, labor rights or prudential bank regulation, or for the development of innovative capacities, as in training services, R&D, and export promotion (Mann, 1984).

Second, institutionalizing rule-based participation of a variety of public actors and relevant non-state groups into particular policy networks, governments are engaging in what has been called "extended accountability" (Stark and Bruszt 1998, Ansell 2000). Reflecting pluralist traditions, state executives are constrained by a multiplicity of autonomous non-state groups competing for voice and participation (Hellman 1998, Hanson & Ekiert 2003). Reflecting the corporatist tradition, the state empowers relevant groups to undertake certain public responsibilities and also uses rules of participation to build collaborative relationships (Streeck and Schmitter 1985).

In this view of institution building, TIRs influence the supply and demand problems, in turn the problem-solving capabilities of developing countries, in three key ways. First, regardless of normative models, TIRs vary in their emphasis on administrative and institutional capacity building in the target country, and in turn, the provision of resources and assistance to compensate for deficiencies at the domestic level. Resource transfer is not simply an incentive but a strategic tool in institutional change and can come in a variety of forms.

Second, TIRs vary in the ways that they empower a variety of public and private actors, not simply via resources but particularly enhancing their political and functional participation in institution-building efforts. TIRs can be more or less proactive not only in highlighting overlooked areas of institutional development, in turn giving credence to relevant domestic stakeholders, but also in facilitating cross-border professional and policy networks among relevant state and non-state actors.

Third, TIRs vary in their own ability to coordinate and adapt as they attempt to merge monitoring and learning at both the supranational and national levels. While a TIR attempts to accelerate compliance and learning in a certain country, the TIR itself has to build the capacity to learn why a country is diverging from *ex ante* defined path and determine the degree to which it must alter its own monitoring, training and resource transfer strategies. In turn, integration is a process that potentially transforms national institutional capacities as well as the existing transnational regulatory framework itself.

III. Beyond Conditionality

In this view of experimental regulatory capitalism, the traditional arms-length, binary notion of conditionality loses analytical meaning because of the incremental, interactive process underpinning capacity creation. Rather, TIRs can be more readily distinguished by four integration mechanisms – **breadth and depth, assistance, monitoring and coordination,** which shape the institutional project and the ability of domestic actors to build it. Here we define these mechanisms and then discuss how the EU Accession Process and NAFTA vary in their influence on institutional development in the CEE countries and Mexico.

Breadth refers to the different institutional criteria that the regime principals define as necessary for the participating countries to meet. They can be rather narrow, such as a few economic trade rules, or quite extensive, such as programs for other policy domains. **Depth** refers to the emphasis a TIR places on building institutional capacity instead of only a policy change. While some TIRs emphasize changes to certain laws, others emphasize the need for a constellation of institutions to adequately regulate the given policy domain, regardless of the letter of law.

Assistance refers to the amount and type of resources and knowledge, be they financial, social or human resources, that the TIR offers the country in order to help the latter build the capacities necessary to undertake the mission at hand. **Monitoring** refers to the TIR's capabilities of acquiring and processing two types of information. The first concerns the degree to which the country is meeting the requisite institutional criteria or benchmarks. The second concerns why the country may or may not be reaching the expected benchmark. The sources of problems can range from the technocratic to the political.

Both assistance and monitoring can vary according to whether they are *dyadic or multiplex*. *Dyadic* refers to a single line of transmission between the principal and agent. Different types of information and resources can be transmitted in a dyadic linkage but virtually all communication and decision making lies between two actors, such as two governments or a multilateral agency and the target government. The two mechanisms are *multiplex* when a variety of public and private actors from both sides of the mission are involved in capacity building. For instance, an original basic agreement can be dyadic, but then the counterparts empower different governmental and non-governmental actors to engage each for an extended period in a particular policy domain. The key structural distinction is that in a multiplex context there is no single gatekeeper in the developing country controlling resources, contacts and information about the given policy domain. Moreover, while dyadic and multiplex channels are widely present, TIRs vary to the extent in which they proactively harness and shape these channels.

Coordination refers to the extent to which the TIR institutionalizes the sharing of information and joint problem solving among its officials across different policy domains and especially between those who lead the assistance and monitoring mechanisms within a given policy domain. For instance, even if criteria are non-negotiable and inflexible, repeated information from assistance and monitoring about why the country is falling short in one domain can force deliberations within the TIR in several directions, such as revising the sequencing of steps within the domain, altering the type of assistance being delivered, or targeting resources toward particular groups better suited to undertake the given reform.

Table 1 summarizes these mechanisms. We argue that a TIR is more likely to induce sustained institutional development not simply because of its largess or bargaining power, but mainly to the extent it a) emphasizes institutional capacity building; b) invests in multiplex assistance and monitoring capabilities; and c) institutionalizes coordination in such a way so as to merge monitoring and learning.

Table 1. Mechanisms TIRs Employ for Domestic Institutional Development

Mechanism	Substantive Issue	Form
1. Breadth & Depth	Breadth	Variety of policy and institutional domains
	Depth	Focus on policy vs. institutional capacity
2. Assistance	Quantity and type of material and knowledge resources	Dyadic
		Multiplex

3. Monitoring	Information on compliance and reasons for shortcomings	Dyadic Multiplex
4. Coordination	The extent to which actors within the 3 above components regularly exchange information and reshape one another's activities	

IV. Comparing EU Accession and NAFTA as Development Programs

If a comparison between the EU Accession Process and NAFTA were limited to the former TIR's budget, bargaining power and administrative size, then the lessons for the role of external actors in development may not be very portable to other contexts (Pastor 2001, Struder & Wise 2007). Scrutiny of development programs has also increasingly illustrated how reliance on incentives and hierarchy easily leads to wasted investment, a misuse of power and an undermining of local solutions to sustained institution building (Easterly 2005). Hence, comparing these two TIRs according to the key integration mechanisms outlined above allows one to identify potential sources of different development paths that can be applicable elsewhere.

These differences were not evident in the early 1990s. Although NAFTA was created in 1994 with the US-Canada Trade Agreement as a template, it did intend to embed Mexico into the region in such ways as to advance democracy and marketization of the southern partner. Indeed, NAFTA would establish procedures to ensure Mexican compliance with liberalized trade, investment, labor and environmental standards (Mattli 1998, Duina 2006). Through the mid-1990s the EU member states did not view the integration of postcommunist countries as vital nor did they envision the need for a new system to help these countries upgrade their institutions (Vachudova 2004, Jacoby 2004). By the mid-1990s, even after the Copenhagen Conference, the EU saw the possible incorporation of postcommunist countries within the framework of harmonization and incentives. Only after observing backsliding in the East and great variation in meeting the Copenhagen criteria did the EU begin adjusting its approach toward a model focused on developing institutional capacities in a variety of policy domains.

Breadth and Depth

EU Accession remains unparalleled in these dimensions, as represented in the thirty-one chapters and 80,000 pages of the *acquis* which each candidate country must satisfy. Candidate countries have to address policy changes in a broad range of political, social and economic domains ranging from consumer protection to corporate governance, from banking regulation to state aid policies, and from environmental protection to public procurement. But candidate countries were required not only to incorporate the already extensive Community legislation into national legislation, but even more importantly, "to implement it properly in the field, via the appropriate administrative and judicial structures set up in the Member States and respected by companies."[3] That is, adoption of the *acquis* means building up *institutional capacity* – remaking the administrative state and the way economic relations are regulated (Bruszt 2002b; Orenstein et al. 2008, Vachudova 2004). Compliance in all thirty-one chapters is a non-

[3] See "Progress Reports and Enlargement Strategy Papers 1998-2003 of the European Commission": http://ec.europa.eu/enlargement/key_documents/index_archive_en.htm

negotiable criterion for full membership, but compliance, as we will see, is often about ranking a country's institutional capacity.

In contrast, NAFTA for Mexico is much narrower and shallower, even in areas where additional measures were taken. NAFTA focuses mainly on economic and trade policy domains, with some attention to the environment and labor rights, as specified in post-1994 agreements (the NAALC and NAEEC). NAFTA focuses on legal harmonization, with great deference to a country's own interpretation and definition (Duina 2007, Pastor 2001). That is, even in areas such as agriculture and phytosanitary regulation, where there are many regulatory and product definitions, NAFTA largely refers to standards in international trade agreements and sectoral federations as *goals* for harmonization. But the de facto standards for Mexico in many sectors are those of the U.S. regulatory agencies, which are the gatekeepers to the most important market. Hence there is not much institutional depth even when standards are clarified. While compliance is effectively *ex-post* for Mexico, it can be an ongoing process with incentives to the extent that the NAFTA commission can authorize retroactive penalties, such as fines or temporary trade restrictions, for violations in trade, investment and labor standards. The use of *ex ante* compliance is used more regularly in environmental projects, where NAFTA provides assistance to Mexico.

Assistance

Assistance in EU accession is noteworthy for its *large and varied resources as well its multiplex channels of delivery* (Andonova 2004, Jacoby 2004, Vachudova 2004, Sabel & Zeitlin 2007). A summary of the main programs is provided in Table 2. Pre-accession assistance to the ten new member states from the CEE during 1990-2005 totaled about 28 billion Euros (EU Commission 2006). Although programs are often criticized for waste and delays, observers have noted that staffing and budgets have been relatively low when compared to typical international aid benchmarks (Mayhew 1998, Peter 2000). Part of the reason appears to be the EU's use of a variety of forms of assistance, including policy networks of non-state experts for on-site training, and its emphasis on triggering domestic and international actors to partake and invest in institution building. For instance, as technocrats in Brussels became overwhelmed with requests, the EU launched the Twinnings program that teams existing and former policymakers from the West to work with their CEE counterparts on particular areas. The expansion of Twinnings and the decentralization of such programs as PHARE, ISPA, and Sapard were also proactive attempts by the EU to build a multiplex structure of assistance, as CEE government and non-government actors engaged in joint problem-solving with a variety of similar counterparts from the West. (Bailey and Propris 2004)

Assistance in NAFTA is demand driven but notoriously minimal and dyadic. Although the NAFTA commission is a standing body with oversight powers, it is mainly an intergovernmental forum. According to Duina's (2007) estimates, the budget of the NAFTA for the Secretariat, NAALC and NAEEC included, is only $25 million. Mexico largely relies on a trade and aid model, using the World Bank and the Inter-American Development Bank mainly for external assistance. Assistance from relevant ministries or secretaries in Canada and the U.S. is on an ad hoc basis, largely as part of intergovernmental discussions to resolve a particular trade problem. While multiplexity can also come from voluntary collaboration between Mexican firms, NGOs and social groups, on the one hand, and their counterparts in the U.S. and Canada, it is not part of NAFTA's concerted approach, as it is in the EU. The only focused assistance comes in the domain of environmental policy and related infrastructure, as part of the NAEEC side agreement, which is administered by the Border Environmental Cooperation Commission (BECC), Commission for Environmental Cooperation (CEC), and the North American Development Bank (NADB). These three entities help the NADB plan, evaluate and study environmental infrastructure projects, largely along the U.S.-Mexican border. Public or private actors can present projects and apply to the NADB for loans (Pastor 2001, Hufbauer & Schott 2005). While some of the thirty-six projects to date have made significant advances for Mexico, the overall program is criticized for its lack of depth and funding. For instance, as of 2005, the NADB has about $450 million in capital for making loans up to $2 billion. The World Bank estimates a need for $25 billion in annual infusions for ten years to modernize Mexico's infrastructure. Moreover, the cost of the loans appears to be inaccessible to Mexicans and uncompetitive in the United States (Studer 2007, pp. 61-62, World Bank 2005).

Table 2. Summary of EU Pre-Accession Assistance Programs (Source: PHARE Brochure 0503)

Program	**Date**	**Countries**	**Financing**	**Goals**
PHARE I	1990	Poland, Hungary, 10 CEE	EBRD takes on 10 CEE in 1992-93	Functioning Market Economy, Democratic institution building
TAIEX	1995	Cyprus, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovak Republic, Slovenia	Yearly 24 million Euros PHARE, Transition Facility	Technical assistance for adopting legislation from acquis
PHARE II	1998	All countries undergoing accession	Approx. 1.6 billion Euro annually	Capacity to implement acquis *in 31 different policy areas*
Twinnings	1998	All	30 percent of PHARE funds set aside, 475 projects from 98-01	Institution-building through increased human capital and knowledge-sharing
SAPARD	2000	All	Approx. 0.5 billion euro/yr	Agricultural competitiveness, CAP
ISPA (EC)	2000	All	Approx. 1 billion euro/yr	Environmental and transport infrastructure

Monitoring

The EU Accession Process is also noteworthy for its investment into robust and varied monitoring capabilities in order to enhance meritocracy, accountability, and efficient use of funds (Sabel & Zeitlin 2007, Vachudova 2005). Besides evaluating whether a country was meeting the institutional criteria within a particular chapter or policy domain, EU monitoring focused on becoming *iterative and reflexive* as well as *multiplex*. Through the detailed Annual Reports on pre-accession progress and regular on-site inspections, external actors increasingly married accountability with problem solving. That is, evaluations were forward-looking, emphasizing what needs to be done rather than penalizing permanently the candidate for previous deficiencies. By benchmarking a country's progress, relative to its past and its neighbors, their aim was to update and modify both detailed criteria and the mode of implementation. The key issue was not simply non-negotiable compliance but rather encouraging and shaping local solutions to generate effective forms of regulatory screening and enforcement to meet EU standards. In studies of compliance in domains as varied as health care, consumer protection, environmental safety and regional development, scholars note how the detailed criteria varied according to context and sequencing was adapted to ensure that a foundation of institutional capacity was being built (Andonova 2004, Jacoby 2004, Hughes et al 2004).

As with assistance programs, monitoring became increasingly and purposefully multiplex, as the EU sought to ground institution building in a diverse transnational network of state and non-state actors. For each policy domain or *acquis* chapter, an EU unit worked with its counterpart in the candidate country to collect and process relevant information. Within each assistance program, bureaucrats, outside consultants and NGOs were filing progress reports based on their visits and interactions with their counterparts. This may not be surprising, as the EU appears to have established the concerted multiplex approach for many years when entering a new policy domain. For instance, Tarrant and Kelemen (2007) and Sabel and Zeitlin (2007) show that in several domains the EU provides strong support for the creation and mobilization of relevant non-state organizations to act as both channels of decentralized information and coalition builders for the diffusion and coherence of new standards.

In contrast, monitoring in NAFTA is largely market driven and dyadic. National and subnational governments have the main responsibility to regulate the standards of goods traded and identify violations in trade rules. The NAFTA-level intergovernmental working groups, including those of the side agreements, monitor the activities of the national and subnational agencies via annual reports to the Commission about their respective policy domains. These reports largely catalogue possible areas of dispute and trade discrimination with minimal attention to problem solving and identification of root causes (Mattli 1998, Pastor 2001). Private actors also have the right to bring grievances to relevant NAFTA bodies. Agencies such as the BECC and the NADB screen and conduct *ex-post* monitoring of the particular programs they certify according to pre-set, clear conditions.

As Duina notes, however, such actions are rare as the procedures are cumbersome and the intergovernmental body governing NAFTA seeks to prioritize sovereignty over forced harmonization (Duina, 2007). Moreover, monitoring is largely dyadic, as most of the ties into Mexico remain concentrated in the hands of the Ministry of Economy, which oversees all aspects of NAFTA administration.

Coordination

Although problematic at times, coordination in the EU Accession Process was increasingly robust. As suggested above, as actors attempted to improve assistance and monitoring, they increasingly shared information across functional and policy domains. In addition to the Commission's investment into a centralized, fully accessible database for all areas, the most obvious evidence for coordination comes from extensive research on the ways that EU actors have identified persistent problems in programs and sought to revise them (Vachudova 2004, Jacoby 2004, Schimmelfennig, & Sedelmeier 2005, Bailey and Propris 2004, Sabel and Zeitlin 2007). The diffusion of information from different resources and the creation of cross functional working groups have forced consultants and bureaucrats to reveal their respective actions and results and subject themselves to scrutiny from one another as well as from the candidate countries themselves, which are highly sensitive about being left behind and incorrectly compared with one another. In turn, programs like PHARE and Twinnings not only have been periodically revised but also implemented in a manner in which joint problem solving becomes virtually indistinguishable from compliance detection. Moreover, the coordination among actors has helped the EU launch new, more focused programs, such as ISPA and SAPARD, to both relieve the administrative burden within existing programs and improve specialization in different policy domains.

Because of the limited forms of assistance and monitoring and their dyadic structures, coordination is not strong in NAFTA (Hufbauer & Schott 2005, Studer & Wise 2007). Coordination largely takes place via intergovernmental work groups, but the work groups themselves have limited horizontal ties. The NAALC provides for communication between national labor administrations, but this is largely ad hoc as disputes arise. Moreover, triggering occurs only when the domestic labor unions press their NLA to look into a problem on the other side of the border. Coordination within the border environmental domain appears more actively in recent years, but this is limited to the BECC and representatives from the relevant national agencies. The most important initiatives, Border XXI and the 2012 program, focus on creating common metrics and means to monitor compliance by businesses, but do not target changes in Mexican institutional capacity at the national, state or municipal levels. We summarize the main differences between the EU accession process and NAFTA in Table 3.

Table 3. Comparing the Integration Mechanisms of EU Accession and NAFTA

Mechanism	EU Accession	NAFTA
1. Breadth & Depth	Economic, Political, Institutional - Wide variety of policy domains	Focus on economic and trade policies
	Focus on administrative capacity; *Ex ante* compliance; detailed standards	Focus on broad standards and harmonization; possible *ex post* sanctions; deference to national laws
2. Assistance	Large and various resources; move from pure demand driven to targeted missions, focus on institutional convergence	Limited largely to environment, weak resources; ad hoc requests to multilaterals and governments
	Increasingly decentralized and multiplex, resulting in extended public private and transnational networks	Largely centralized and dyadic; use of market and voluntary ties; environment becoming multiplex.
3. Monitoring	Integrated compliance and problem-solving; regular, intense scrutiny	*Ex-post* compliance; annual centralized review; depends on market; Environment more frequent and problem-solving
	Increasingly multiplex	Mainly dyadic, with exception of environment.
4. Coordination	Regular exchange of information and joint-problem solving; reflexive and adaptive	Commission administers; weak horizontal communication; greater coordination in environment

V. The Integration Mechanisms Shaping Domestic Institutional Change

We now show how differences between the sets of integration mechanisms shapes domestic institution building and the upgrading of the regulative states via a comparison of the food safety policy domain in the two TIRs and a focused analysis of regional development programming in the EU accession process.[4] We start with a general overview of the mechanism effecting domestic institutional change and then proceed to case studies.

Most development programs are criticized not only for weak external monitoring but also for their lack of attention to harnessing the initiatives and political participation of a wide range of relevant actors (Easterly 2005). The impact of the integration mechanisms of the EU accession process and NAFTA are most different in this regard. The EU process alters demand for regulative change in the aspiring member countries in several different ways, while the emphasis on economic incentives and resolving trade disputes in NAFTA provide weak "bottom-up" pressure for changing the structure and substance of the regulative state. The differences in the integration mechanisms reveal these trends in four key ways.

First, by investing in multiplex mechanisms of monitoring and assistance that linked economic reforms with political participation, the EU helped keep domestic voice constant. The references to the importance of labor rights within NAFTA, in contrast, are not coupled with effective monitoring and empowerment. Closely monitoring the upholding of political rights and the rules of fair political competition, the EU stabilized, and in some cases, helped to increase the likelihood that governments took into account a greater diversity of interests (Vachudova, 2005). Indeed, the EU has recently made explicit that a key lesson from problematic cases of institutional reform is the need for assistance programs to support more directly a variety of domestic groups demanding improved administrative and regulative capacities (EU Commission DG-General Enlargement 2007).

Second, the EU's relatively strong focus on building administrative capacity in a variety of domains above all and not simply rules adoption or imitation helped create an institutional foundation that could ensure future compliance and the empowerment of a variety of domestic actors to gain the benefits of integration. On the one hand, as candidate countries focused on strengthening regulatory institutions and created administrative units to evaluate and implement pre-accession projects, they have linked these new agencies to EU-wide agencies of rule making, monitoring and enforcement. In turn, parallel to building domestic administrative capacities, they have also built the capacity of the domestic state to say no to the most powerful economic interests and have opened opportunities for weaker groups to make legitimate demands for the types of rules to be enforced. For instance, Epstein (2008) and Jacoby (2004) have shown that in policy domains as diverse as agriculture and transportation, the introduction of new standards and regulations helped trigger the mobilization of both state and non-state actors in the institution-building process that had previously been overlooked. In contrast, NAFTA's narrow focus on trade liberalization and honoring the domestic regulative status quo (Duina 2007) conserved the position of the strongest domestic economic

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[4] We do not enter here in the discussion of variation in the effects of EU conditionality across countries or policy domains. Here we just stress that EU is neither a homogeneous polity, nor a regime of homogenizing: its effects might vary by policy sector and these effects are mediated by diverse domestic conditions that might differ dramatically.

actors (Studer & Wise 2007). Without a focus on building regulative capacities, trade liberalization embeds domestic struggles for institutional change in a competitive market environment and constrains the room of the forces trying to make demands to increase the diversity of interest and considerations that should count in the making of the rules of the economy.

On the other hand, as Andonova (2004) notes, the creation of "enabling institutions" initiated by the state with EU assistance helped a variety of firms to incorporate international practices and participate in the market, while subnational government and non-government actors obtained the resources and training to implement new community standards. In contrast, work on NAFTA in a broad scope of sectors has shown how the lack of public programs undermines the ability of most domestic firms to learn new skills and develop new capabilities. At the same time, many sectors are too poor and fragmented to develop sectoral associations to fill this gap or pressure the government to provide requisite resources. In turn, both manufacturing and agricultural firms often can not meet international standards to simply hook into international value chains, let alone invest in capabilities to participate in more value added activities (Lederman 2005, Hufbauer & Schott 2005, Pastor 2001).

Third, the multiplex nature of assistance and monitoring empowered previously marginalized or weaker economic and social groups. By requiring compliance in a variety of policy domains and setting clear metrics for success, the EU has expanded the range of legitimate demands and altered the structure of political opportunities differentially empowering diverse domestic groups (Börzel and Risse, 2000). Besides altering the structure of political opportunities, multiplex assistance and monitoring offered relatively weaker stakeholder groups a diverse set of resources, contacts and information, which together strengthened their abilities to participate actively in institution building, both before and after accession. Several of the assistance programs have directly targeted non-state actors and aimed at empowering subnational actors. For instance, Buskova and Pleines (2006) show that EU assistance programs aimed at domestic NGOs have helped create powerful local allies in the upgrading of environmental regulations. Jacoby (2004, 2008) argues that this "coalitional approach" to policy change is a concerted action on the part of the EU – directly and coordinated with non-state actors – to build transnational and domestic alliances to diffuse standards and to reinforce the variety of groups to participate in the institution-building process. The empowerment of a wide variety of stakeholder groups into policymaking not only can improve accountability through multi-party monitoring but also can improve institutional experimentation via the use of actors that have better knowledge and resources for the given policy issue (McDermott 2007, Schneider 2004).

The key issue here is that while NAFTA hopes multiplexity comes about via market incentives, the EU accession process makes a concerted effort to coordinate and empower the development of multiple channels among state and non-state actors. The result in NAFTA is a narrowing of actors, resources and information relevant to transforming a given policy domain. Even when there are focused vehicles for dispute resolution or policy programs, as in the environment and labor, only those with existing strong economic and political resources can participate with a focus on blocking the advance of new entrants to the game, be they foreign or domestic. The "empowered multiplexity" of the EU undermines notions that the accession process is namely a game of hierarchy. The EU relies often on vibrant horizontal ties among state and non-state actors to improve and implement standards and regulations (Sabel & Zeitlin 2007, Tarrant & Kelemen 2007). Similarly, Jacoby (2004) and Andonova (2004), among others, have shown that the EU coordinates with transnational and domestic non-state actors to strengthen public-private networks within a target country and to improve all parties' abilities to learn and monitor one another.

Fourth, institution building became increasingly viewed as an experimental, iterative process, in which CEE actors used new standards and by recombining and improving existing capacities (Jacoby 2004, Sabel & Zeitlin 2007). Just as the EU focused on constantly evaluating its own programs, so too did the CEE countries begin to institutionalize self-evaluation. A typical example is the requirement by the EU that candidate governments produce an annual National Accession Partnership report. These large reports detailed the progress to date in every policy domain, as well as clarified the steps that the country was taking to fulfill the various objectives. In turn, the given government was setting real time benchmarks for itself that both the candidate country and the EU would use to gauge commitment and new areas of focused assistance.

In contrast, even where NAFTA defines standards for market activities and goods, there is little detail about the role and composition of institutions related to the policy domain. For instance, although NAFTA aims to provide material assistance and coordinate activities between U.S. and Mexican agencies in border environment programs, the focus is on common monitoring standards, rather than harnessing the potential capacity upgrading of government and non-government actors (Studer and Wise 2007). Institutional formation would come mainly from the government's interests in maintaining open market access to the U.S. and Canada as well as from the economic interests of firms – e.g., by directly building the infrastructure to implement standards and/or lobby the government to take the requisite action. Since the intergovernmental coordinating committees focus monitoring and negotiations on ways to avoid retaliatory trade measures, they become mainly forums for powerful interests to compete rather than collaborate with other parties. For instance, Hufbauer & Schott (2005) and Pastor (2001) detail how not only powerful corporations and sectoral interest groups are the main participants but also how they use both their market power and political leverage to use standards as a method to improve their market share or access and not a means to trigger upgrading.

In what follows, we offer brief analyses of policy domains in the two regimes to illustrate the differences with respect to our framework above.

Va. The Development of Food Safety Standards and Institutions

The politics of agriculture in general and of food safety in particular, for developing countries, be they in East Europe or Latin America, has two common dynamics. On the one hand, the potential benefits of using product and process standards can often be undermined by turning standards simply into a disputed domain of trade barriers. On the other hand, the domestic landscape is often marked by a political and economic structural imbalance that pits a few resource-rich firms and their related trade association against numerous, fragmented small holders. These traits were clearly present in the cases of the new EU candidate countries and Mexico, as we will see below.

Food Safety for EU Accession Countries

Through much of the 1990s, the CEE-5 and the EU regularly experienced trade disputes over the trade of food products, causing both government and market actors to become very suspicious of the use of food safety measures. Hence, as the accession process became more clearly defined, the EU was highly concerned with the development of high quality food safety institutions in potential candidate countries and with avoiding a paralyzing political dispute. At the same time, the domestic political landscape of agriculture in most CEE countries was greatly shaped by two important legacies. The industry was composed of privatized large farm and food processing companies and numerous, fragmented small firms in form of family farms and cooperatives. The historical lack of autonomous trade associations under communism permitted a distorted structure of interest group representation during the early 1990s, typically with the relatively few large firms forming a strong association with lobbying capabilities and most other firms residing in weak associations, if any (Gatzweiler et al. 2002).

By most accounts, the state of food safety was problematic in East Europe by the late 1990s. Outside experts as well as EU officials noted several severe problems, including the utter lack of relevant legislation, weak government certification and monitoring institutions, deficient border inspection posts and information systems, as well as substandard practices all along the value chains. However, these same observers note that by 2004-05, most of these problems had been addressed. For instance, by 2004, PHARE deemed that only 8 percent of food processing establishments in the CEE-5 were subpar and subject to transition periods.[5]

For the sake of brevity, we illustrate how the mechanisms of integration for the EU accession process helped upgrade food safety in the case of the Czech Republic. As with other countries, the Czech Republic was required by the EU to address all the issue areas just mentioned as a condition of membership. The responsibility for overseeing these reforms fell to the EU's Agriculture DG and increasingly the Health and Consumer Protection DGs, while SAPARD and PHARE gave support in focused assistance and assessments. These organizational units simultaneously launched top-down and bottom-up approaches that focused on the strengthening of government institutional capacity as well as on improving the practices of both firms and their trade associations.

The top-down approach came in two parts. First, EU authorities provided resources and training to Czech government officials to establish four departments related to food safety within the Ministries of Agriculture and Health by 2002 (Dolezal & Janackova 2005). Teams from the DGs as well as SAPARD also established a system of on-site inspections all along the value chain, from farms to food processing plants to border inspection posts. Second, as the EU authorities gained greater confidence in the capacities of the Czech authorities, they reduced their direct inspections and firm-level training programs, leaving these in the hands of Czech agencies, while focusing on the practices of the Czech agencies themselves as well as border inspection posts. By the end

[5]We draw here on several sources. The relevant EU Reports on these countries can be found at http://ec.europa.eu/agriculture/external/enlarge/publi/index_en.htm . See also Garcia-Martinez et al. (2006), Gatzweiler et al. (2002), Mishev & Valcheva (2005), and Yakova (2005/06).

of 2003, the EU and the Czech government had invested over 90 million Euros in the food safety and processes institutions and industry.

Compliance, while generally inflexible, was not a purely all or nothing game. The EU developed measures both to identify problems and to move the client along. For instance, as government institutional deficiencies were identified, trade could be slowed by closing border posts, but then linked to further negotiations to clarify the terms of Common Agricultural Policy (CAP) funds. As late as 2002, PHARE found deficiencies in sixteen border inspection posts, and immediately launched a joint program with the Czech authorities to improve practices. Food processing establishments were given three-year transition periods to invest in the adequate systems and standards. In the meantime, their food was allowed to be sold in domestic markets, given different labeling in the EU markets, and in some cases completely shut out of the EU markets for the suspension period.

Assistance came in two forms. PHARE II and SAPARD provided funds to the candidate countries to both invest in new agricultural institutions and have the relevant agricultural sectoral associations aid their member firms in adopting new standards. TAIEX and Twinnings were reinforced to provide consultants and training programs for both government personnel and firms (Bailey & Propis 2004). EU Reports document numerous cases in which traditional and organic farms, milk processors and meat processors upgraded their processes and products to meet new standards via training from local institutions and Twinnings as well as financial assistance from both EU and national government sources. Hence, the EU provided ways for the candidates to improve their organizational capacities, adopt new infrastructure and systems and train people at various levels.

These assistance and monitoring activities highlight the characteristics of coordination and multiplexity. Coordination at multiple levels led to adaptation in assistance programs and compliance paths. Relevant committees within the DGs, PHARE and SAPARD coordinated their monitoring and assistance activities. Through regular visits and a centralized database, the EU actors inspected compliance from the level of slaughterhouse to the border inspection posts to the functioning of the relevant ministries and agencies in the candidate countries. Part of the aforementioned overhaul of the Twinnings programs in 1998 included more defined assistance, such as in the use and implementation of ISO 9000 standards. Projects to improve communication systems within countries and with the EU were improved to better identify problem actors and areas. Transition periods for producers were combined with more focused training and CAP negotiations were tied into improvements with food safety.

The EU's concerted effort to enhance multiplexity helped empowering diverse domestic interest groups and increased the speed and variety of knowledge transfer grew as Twinnings and on-site inspections fostered the creation of communication channels at the subnational and sectoral levels. A good example of this process is captured in Yakova's (2005/06) detailed study of the transformation of Czech agricultural associations. By the late 1990s, the strongest association, economically and politically, was dominated by a few large food processing and producer firms. A few other associations were weak, largely due to limited resources and their fragmented membership of small family farms and cooperatives. While the accession period drew the attention of these diverse firms and associations toward food safety issues, the larger firms were much better positioned to improve their capacities and meet new standards, as well as gain access to public resources. Yakova notes that, by 2004, although these associations were still actively competing with one another and at times in open political conflict, even the weaker ones were able to channel resources and services to their members, influence government policy, and graft a focus on regional development and farmer support programs onto their rent-seeking tendencies.

As Yakova details, the key component to this transformation was not simply the presence of public resources or EU standards, but particularly the ways in which the accession process supported core EU country associations and non-government actors, such as the EU-wide COPA-COGEC to help upgrade Czech firms and associations. For instance, early on, PHARE financed conferences and forums to enable representatives from EU and Czech associations to build professional ties. Although at the early stages there was little success for EU officials in transferring the EU model of interest-group organization and mediation, these efforts did result in strengthening horizontal, transnational networks between the different Czech associations and their EU counterparts. These relationships became the vehicles through which PHARE and Twinnings channeled upgrading resources, allowing the EU associations with superior hands-on information and experience to establish regular programs to train the Czech associations how to improve their organizational capabilities, influence government policies and provide services to their members. In turn, as much as the agenda-setting nature of EU accession awoke the dormant minorities, the coordinated multiplex investment into transnational, non-government networks empowered and upgraded the capacities of these Czech groups as well as a diversity of interest-group representation.

NAFTA, Mexico, and Food Safety

NAFTA provided two major regulatory changes for Mexican food producers (Duina 2007, Lederman 2005, Hubauer & Schott 2005). First, it phased out the antiquated form of government subsidies to producers and formally opened trade, with a ten-to-fifteen year phase-out of relevant barriers. Second, Article 722 defined a full set of international food standards, established a new committee on Sanitary and Phytosanitary matters (SPS), but kept regulatory authority largely in the hands of national actors.

Given this overall architecture, the mechanisms of integration in this policy domain closely reflect the overall scheme of NAFTA that we outlined earlier. First, the criteria are rather narrowly defined and not deep. While the broader issues of agriculture focus on lowering trade barriers and strengthening market forces, food safety focuses on the encouraged use of international standards but no discussion about direct support or priorities in building the institutional capacity in, i.e., Mexico for public or private actors. Second, monitoring and assistance reside mainly at the national levels. The SPS committee has constrained capacity and scope. It is comprised of two representatives from each country, has limited resources and, indeed, met only seven times between 1994 and 1999 (Anderson 1999). Its main role is to act as an intergovernmental coordinating body, focusing on reducing related trade barrier disputes. By default, the USDA, because of market size, is the most important actor. Third, the structure of interaction is dyadic – regardless of the level of prodding by the SPS, cross border initiatives reside principally via negotiations between the federal agencies in Mexico and the U.S.

Hence, the logic for upgrading in this domain is that Mexican public and private actors would have strong incentives from market forces and the enforced standards of the U.S. agencies to improve their practices at both the regulatory and firm levels. There have been four main consequences of the policies toward agriculture in general and food safety in particular. First, as has been well documented, the agricultural industry in Mexico has dramatically increased its sales to the U.S. and Canada but has also witnessed a dramatic consolidation, with significant increases in rural unemployment and poverty (Lederman 2005, Thompson 2007). Although the Mexican government enacted a limited rural support program, large domestic and foreign firms quickly came to dominate the sector. These were the very actors that already had the distribution systems and resources to organize proprietary value chains and invest in the need capabilities, be they for improved efficiencies or quality control.

Second, the ability to meet new food safety standards was haphazard for most producers, be they suppliers to large chains or direct distributors. The most significant evidence of this was the continued ban on many Mexican products through the 1990s and recurring violations (or at least accusations of violations) of USDA standards as late as 2002 – from health problems of U.S. consumers eating contaminated Mexican strawberries and cantaloupe to concerns about pestilence and fungus from Mexican avocados, limes and mangos (Alvarez 2006, Calvin 2003, Stanford 2002). Part of this problem was due to the strong lobbying efforts by U.S. producers. But another key reason was the lack of preparation on the part of the Mexican government not only to effectively monitor food safety practices but also to provide broad-based support for producers to meet the new standards.

Third, the relevant agencies were clearly reactive and poorly coordinated. Mexican and U.S. officials acted largely in response to violations, and when they did it was dyadic and limited in scope. For instance, in reaction to violations, few subsequent programs focused on research and detection standards over a short period of time. Indeed, the U.S. agencies themselves appeared unprepared for cross-border capacity building and diffusion. The FDA, for instance, does not have a mandate to have countries exporting to the U.S. mimic U.S. procedures, nor does it instruct a violating firm how to correct a problem (Calvin 2003). In turn, the forces of change in Mexico come from those with pre-existing strong economic and political resources.

On the one hand, the efforts to use alternative channels to improve food safety have been blocked for many producers. For instance, in the wake of the strawberry contamination in 1997, the California Strawberry Commission created a Quality Assurance Food Safety program, but refused to allow the Mexican producers to partake in the commission or program. On the other hand, the largest firms, which monopolize most of the distribution links with U.S. firms, came to dominate support programs and standards rule-making. For instance, Alvarez (2006) has documented that the large majority of mango and lime producers could not meet U.S. standards not only because of cost constraints but also because the system that the U.S. officials wanted in place would cause a massive reorganization of the orchards and storing locations. Large firms came to dominate the certification process. They had the resources to implement the new protocols. And they were able to control the relevant associations responsible for implementing key areas of the regulations. For instance, although the USDA and Mexican government helped establish EMEX, an organization that regulated packing sheds, provided assistance to packers and promoted exporters, as it became a non-state body, the largest exporter gained control by requiring that voting be proportional to the number of boxes exported. In turn, the relatively few largest exporters adopted standards, rules of certification and support programs that served principally their own interests.

Fourth, given the limited emphasis by NAFTA on capacity building and the weak cross-border coordination mechanisms, food safety has become a domain in which resource are directed toward trade disputes. That is, rather than devoting economic, political and social capital toward creating institutions to help improve and implement standards, public and private actors focus discussing standards in terms of trade conflict. Sometimes Mexican officials have success in gaining greater market access for their products, but the benefits tend to accrue to the largest firms (Hufbauer & Schott 2005).

A good example of these trends is in the case of the avocado producers from the Mexican state of Michoacán, which accounts for 80 percent of Mexican avocados and about 40 percent of the world's avocados (Stanford 2002, Vogel 2000). Until 1996, the US allowed Mexican avocados to be sold only in Alaska, for fears of spreading fruit flies. U.S. and Mexican officials reacted to this source of conflict in two ways. First, U.S. agencies collaborated with Mexican federal agencies to establish a limited research programs to conduct field experiments and monitor certain farms. These efforts helped clarify to the Mexicans the types of standards and practices the USDA required and educate the U.S. actors about the variety of producers that could be certified. Second, although growers had historically been quite fragmented and poorly organized, they created an association in the 1990s to support certification efforts and lobby the state and federal governments for new regulatory laws and institutions. These efforts extended to the U.S., namely gradually convincing the USDA to allowing limited exports of avocados under strict conditions. However, the conditions meant that only 1 percent of the estimated 6000 growers could meet these standards and enter the U.S. market in 1997. By 2000, this number grew to only 8 percent, but represented the largest, most powerful exporters. At the same time, as these exporters vastly increased the volume of avocados shipped to the U.S., the prices for avocados dropped dramatically. In turn, although Mexican avocados have made inroads to the U.S. market, the large majority of producers have little power in the new association, little influence in the U.S. or Mexican governments, fewer revenues to invest in the capabilities to meet the USDA standards.

In sum, we find that the integration mechanisms of NAFTA, when applied to agriculture generally and food safety in particular, have allowed Mexico to increase its sales to the U.S., but have not been able to induce broad-based institutional upgrading – be it for regulation or supply-side support. In terms of our framework, there were few resources provided by NAFTA or the U.S. government to the Mexican government and few channels of coordination and coalition building. On the demand side, the mechanisms allowed the most entrenched, powerful actors in Mexico to invest in new capabilities, develop international trade relations and lobby government officials to improve their market access and regulatory needs.

V.b. Regional developmental regimes in the new member countries

The strengthening of regional development capacities epitomizes the ways in which the EU integration mechanisms creates new policy fields in the aspiring member countries and also the conditions of sustained institutional change by way of empowering a diversity of local actors and including them in a transnational multi-level governance regime.

As has been well documented (Hooghe 1996, Ansell 2003), the EU's regional developmental policies, reformed in 1988, have aimed to reduce social and economic disparities within Europe by gradually distributing authority toward mainly the supranational and subnational levels while ensuring coordination with national governments. To increase the likelihood that distributed authority would result in joint learning and monitoring, the creators of the new policies initiated programs that focused on upgrading the skills and capacities of regional/local level state and non-state actors. The principles of disbursement made it difficult for national governments to use the related EU funds in completely hierarchical and centralized ways. Investing into the capacities of subnational state and non-state actors empowered them to participate actively in "bottom-up Europeanization."

The introduction of territorial developmental institutions in the CEE countries constituted a *de novo* policy field. None of these countries had explicit regional developmental policies or institutions. Regional economic and social problems were addressed, if at all, primarily through centralized and uncoordinated sectoral programs, which lacked the resources and skills to coordinate decentralized policymaking. There was limited demand side pressure from below, as most regions lacked elected councils, and subnational state and non-state actors were weak and disorganized. In turn, regional development demanded the creation of new institutions with the knowledge and coordination capabilities to create and implement integrated developmental programs with thousands of projects meeting the strict criteria of getting access to the otherwise non-negligible EU funds.[6] Such an undertaking had several components: create new administrative regions; build the capacity to provide statistical information and analysis at all levels; coordinate policy among relevant national and subnational agencies; train bureaucrats at these different levels to design, implement and monitor developmental programs; build a network of decentralized agencies to monitor the management and implementation of developmental programs; create a diverse set of institutions to aid the generation of tens of thousands of projects that could fit in the framework of the developmental programs, meet the administrative criteria of the EU and increase regional "absorption capacity"; and develop a network of sectoral and regional institutions for project quality pre-testing and evaluation.

While the EU's Enlargement DG and Regional Policy DG oversaw the reforms, PHARE became a focused vehicle for supporting institution building. Relevant criteria were developed incrementally and iteratively, as EU experts and then local actors trained by the EU created measures to identify problems and suggest ways of solving them. Just as the annual comprehensive progress reports of the Commission were

[6]The Commission's conditionality on the way of introducing "partnership" across the different levels of the state and between state and non-state actors was the "soft" part of the conditionality. On the other hand, issues of the administrative, management and monitoring capacities were non-negotiable (Hughes et al, 2005).

complemented by domestic ones, the general problem-solving reports were complemented by dozens of commissioned studies focusing on the various details and specific aspects of transferring and implementing the EU rules.

Similar to the process described in food safety, assistance and monitoring was both top down and bottom up to ensure a multiplex approach. On the one hand, the EU provided templates and training to central governments to establish administrative units with the capacity to generate and coordinate national development plans and diverse sectoral programs as well as to evaluate the implementation of subnational development programs. As the Commission lacked the powers to enforce a particular institutional design, it had to adopt a differentiated approach relying on regular progress reports for cross-country comparisons. The Commission also used the knowledge generated on the ground by specialists brought to the CEEs from the old member countries via the Twinnings programs and by domestic agencies with personnel trained in the PHARE programs. It was one of the goals of assistance from very early on to help diversify and multiply sources of monitoring institutional change.. While the Commission was itself divided on the issue of what constitutes progress in administrative capacities, the EU gradually developed measures to identify problems and suggest solutions that responded to practical experience.

On the other hand, PHARE and Twinnings helped empower diverse sub-national actors by providing them with information and skills via training and exchange programs as well as including them in domestic and transnational projects with possibilities for intra-regional and cross-regional networking. The beneficiaries of the assistance programs included associations of small municipalities, local self-governments, regional authorities, cross-border alliances of diverse subnational units, and different types of NGOs ranging from environmental organizations to NGOs specialized in reducing social and economic exclusion. In our survey of subnational developmental partnerships done in the Czech Republic, Hungary and Poland, we found that nearly two-fifths of local self-governments and more than one-fourth of NGOs participated in at least one pre-accession assistance program. The scale of the EU support programs set aside exclusively for NGO capacity building, with a yearly 1-2 million Euros per country, was rather modest in comparison to the resources provided to strengthening central governments' administrative capacities. Nonetheless, a variety of PHARE programs supported different forms of developmental collaboration between local and subnational state and non-state actors. One of the goals of these programs was to enhance subnational actors' abilities to influence the making and implementation of regional developmental policies. In our aforementioned survey, we found that participation in EU pre-accession assistance programs was the strongest predictor of participation in national and subnational developmental policies by subnational state and non-state actors in the post-accession period

A side effect of these programs was increased subregional "associativeness"– the creation of links among diverse types of domestic subnational actors and the proliferation of ties between them and different transnational actors. These ties facilitated producing complex integrated projects, experimenting with new institutional forms, and lobbying for changes in goals or principles of developmental programs. For instance, in the Czech Republic, three regions were selected in the framework of a PHARE assistance program for the simulation of Regional Operational Programs (North West

Bohemia, Northern Moravia and Central Moravia). In Hungary PHARE experimented with programs to enable the government to include actors from the "statistical regions" in policymaking. PHARE assisted in the setting up of some of the first Regional Developmental Agencies in Hungary and through PHARE the EU influenced the number and shape of the developmental regions as well as their organizational structure (Hughes et al. 2004). In Poland the encompassing PHARE Economic and Social Cohesion Program (ESC) played a similar role.

As assistance and monitoring became increasingly multiplex, domestic national and subnational actors learned how to use ties in the transnational multi-level governance system to acquire information, get support for solving specific problems and become participants in transnational policy alliances pressing for modifications in local regional policies. Regions and diverse associations of non-state actors, some of them created by pre-accession EU programs, were quick to open official representations in Brussels, participating in the creation of monitoring reports. Even in Hungary, one of the most centralized among the new members without elected regions, bottom-up developmental alliances were formed by municipalities and a variety of non-state actors. One of these alliances has already opened the first regional representation in Brussels, independent from the central government. By 2005, when preparations for the 2007-2013 plans started, the regional actors in the new member countries became vocal and successfully lobbied for decentralization of significant parts of regional development programming and implementation.

Besides enabling subnational actors to use transnational alliances and the EU to as leverage over national level officials, the regional programs helped create domestic allies for the bottom up enforcement of the goals and principles of EU development policies and regulations. Rather than directly evaluate the details of tens of thousands of projects across the ten new member countries, the Commission has largely relied on the country reports and self-assessments of implementation. In particular, the EU relies on a diverse set of domestic actors to act as "watchdogs" and extend the accountability of domestic governments. (FERN 2000, Buskova & Pleines 2006)

Conclusions

This paper has attempted to offer a framework to compare the ways in which TIRs shape the institutional development of emerging market democracies in constructing the modern regulative state. As the evidence presented in Section I suggests, the divergent paths of development between Latin America and East Central Europe cannot be attributed solely to domestic factors. But rather than attributing this divergence to the strength of market incentives or hierarchical conditionality, our framework focused on four integration mechanisms of TIRs that can alter or conserve the supply and demand sides of institution building in the emerging market democracies. In doing so, we also aspired to introduce concepts that could be incorporated into development programs and TIRs beyond those affecting Mexico and the postcommunist countries.

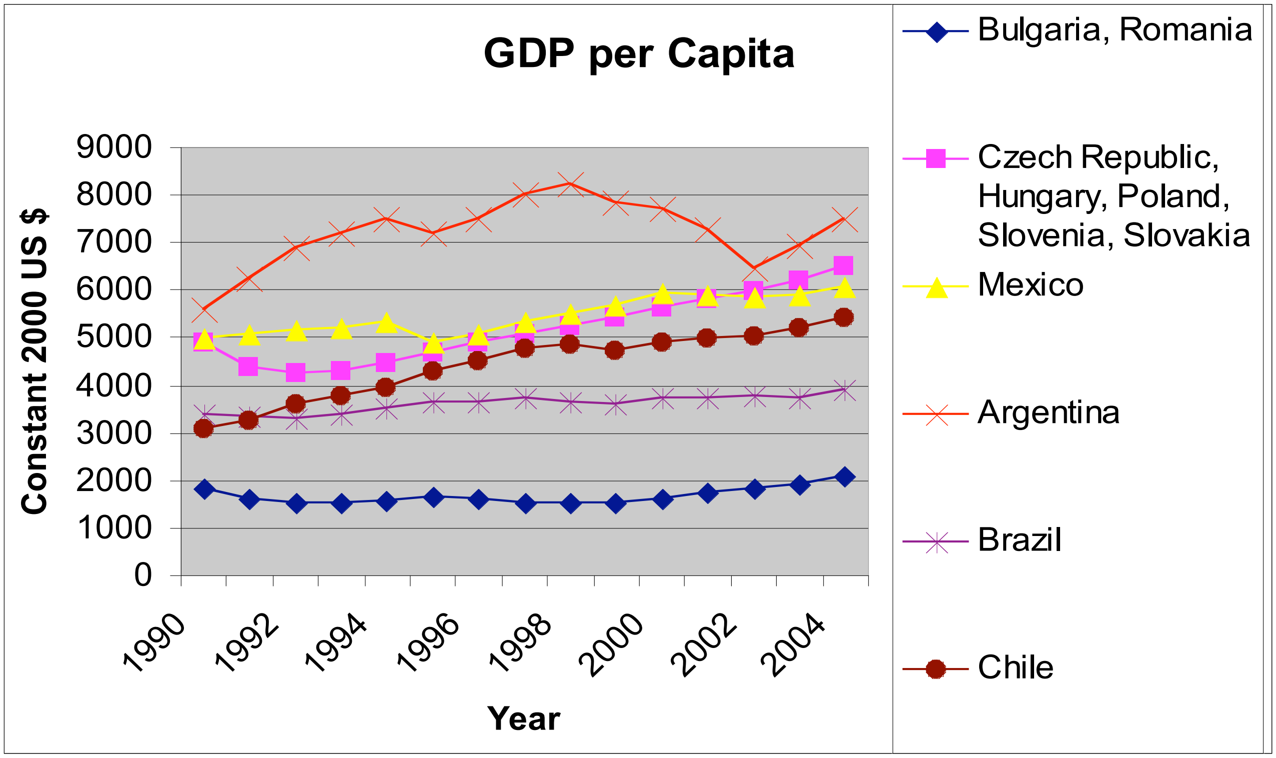
We have argued that the postcommunist countries participating in the EU Accession Process have surpassed Mexico via NAFTA largely because of the ways in which the EU has emphasized: a) the construction of institutional capacities in a variety of policy domains, instead of just policy outcomes; b) the multiplex nature of assistance and monitoring; and c) the investment into robust coordination among EU actors. The combination of these mechanisms has reshaped the supply side not only by affording governments access to diverse forms of knowledge and material resources but also by pushing them to build multi-level state capacities that can resist the pressures of powerful entrenched interests and open policymaking to weaker groups. They have reshaped the demand side by empowering a variety of state and non-state actors to participate in institutional building and recombine their resources. This was achieved not only through the vertical transfer of resources and rights but also through the concerted creation of multiple social, economic and political linkages among domestic and foreign state and non-state actors. In contrast, NAFTA's focus on a narrow set of policy goals and reliance on incentives derived from economic and political markets tended to reinforce the relative power of entrenched elites, whose superior economic and political resources allowed them to shape regulations and institutions toward their narrow interests.

Naturally a key background condition becomes the commitment to multidimensional integration made, at least in these cases, by the advanced countries. But one should qualify the use of commitment in much of the same way we understood the use of "conditionality." External commitment is not a binary concept, but iterative and constructive, closely linked to the experimental, incremental process of domestic institution building. The latter grows stronger as hurdles are overcome and progress made in the emerging democracy. Moreover, commitment from the "big brothers" is reinforced by the combination of adaptability and accountability in the TIR they promote.

The relationship between evolving notions of conditionality and commitment can be seen in two important ways. First, we have stressed the institutional innovations used by EU in the governance of externally induced transformation of domestic institutions. Besides using high-powered incentives relying on markets and hierarchies, the experimental governance of transnational rule transfer within the EU nurtures and uses networks among empowered domestic actors both to detect problems in implementation and to increase the chances for the sustainability of institutional change. Instead of depoliticizing institutional change and instead of experimenting with externally imposed "institutional monocropping" (Evans, 2004), the EU invests in building the capacities of domestic players both on the demand and supply sides, and it uses empowered domestic diversity to support transnational institutional convergence.

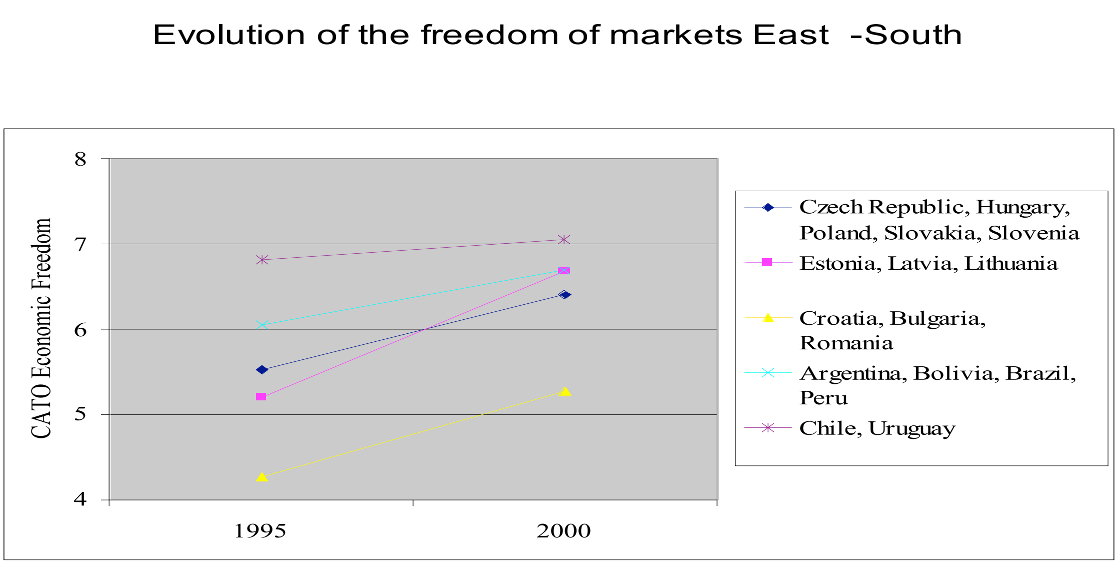
Second, we have stressed the role played by a new form of "FDI" (Foreign Direct Involvement): the inclusion of a large diversity of external state and non-state actors in assisting and monitoring domestic institutional change. This combination of direct involvement of supranational actors in domestic institution building with enhancing capacities of domestic state and non-state actors is a new and still under-studied aspect of transnational economic development.

Figure 1. Comparison of GDP per Capita, 1990-2004



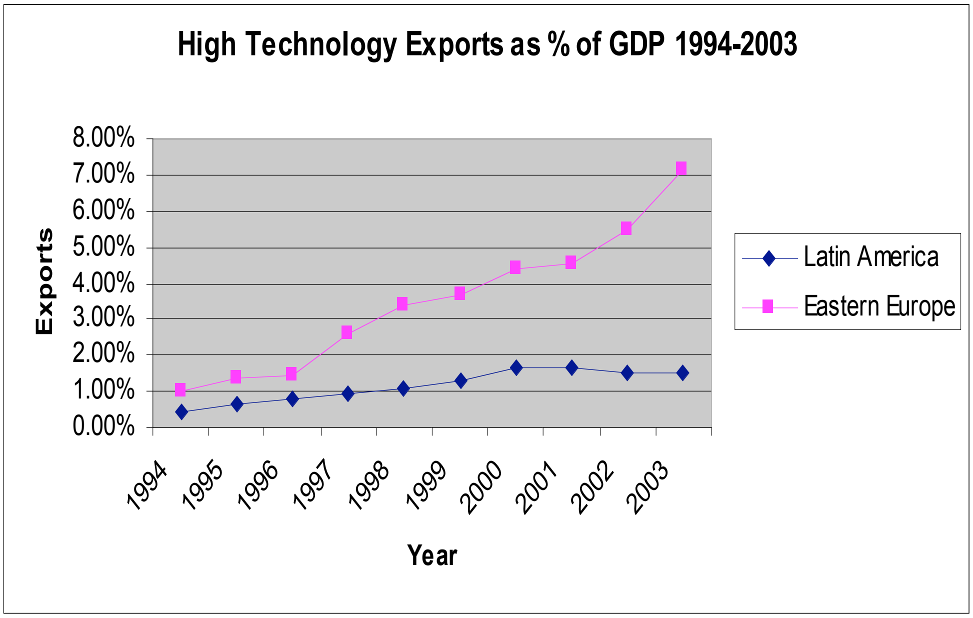
Source: World Development Indicators

Figure 2. The South Liberalizes Faster than the East



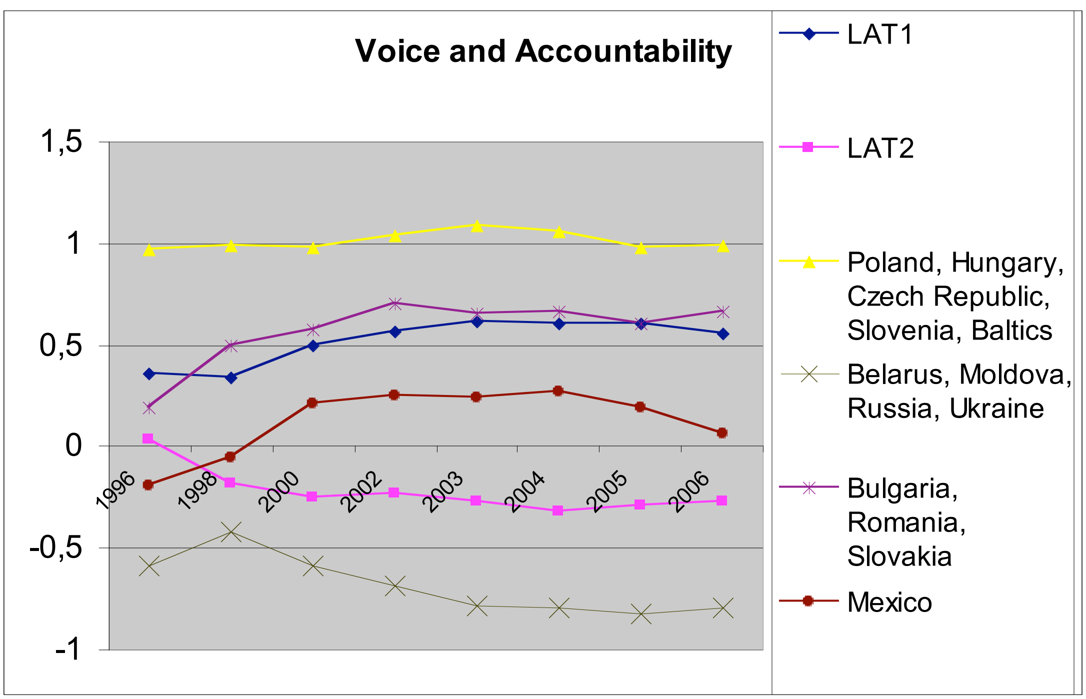
Source: Cato Economic Freedom index

Figure 3. Technology Change Accelerates in The East



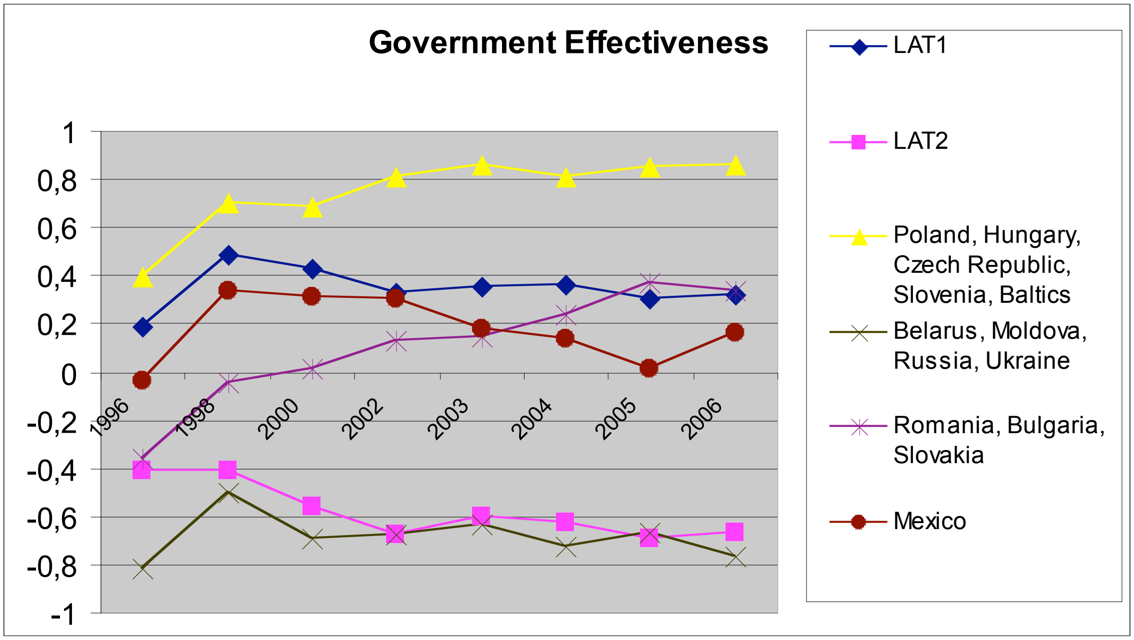
*Central Europe includes Slovakia, Slovenia, Poland, Hungary and the Czech Republic. Latin America includes Mexico, Chile, Brazil and Argentina. Source: WDI online

Figures 4a-c. Comparisons Governance and Institutional Quality, 1996-2006
Figure 4a.



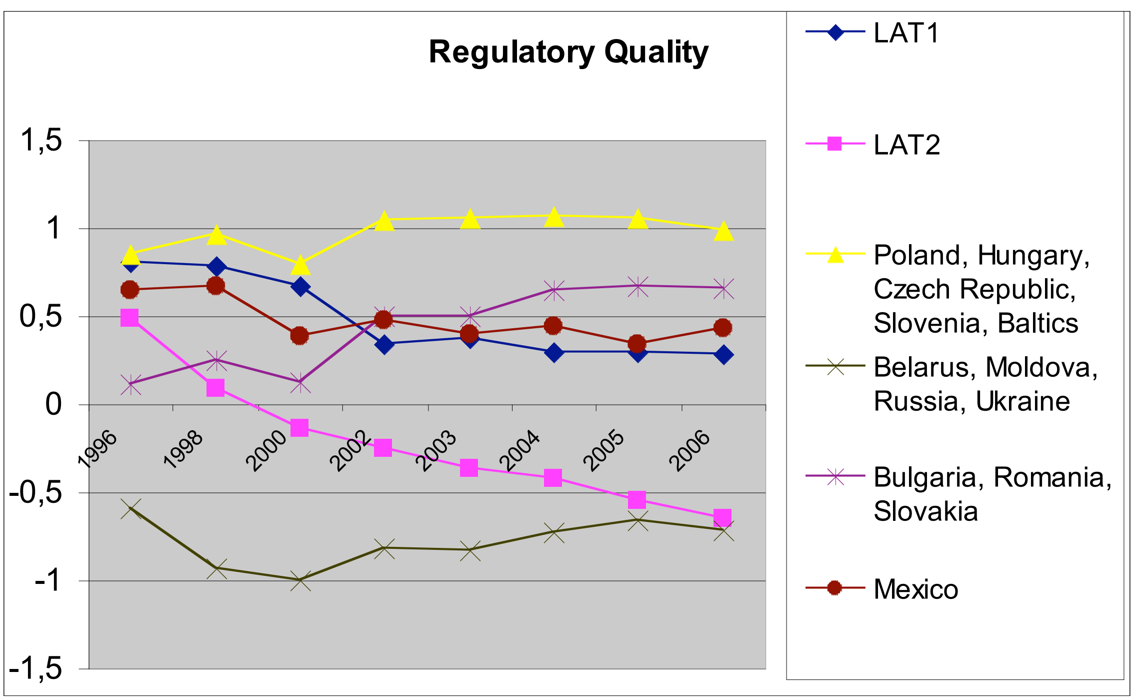
NB: LAT1 = Argentina, Brazil, Chile, México, Uruguay; LAT2 = Bolivia, Colombia, Ecuador, Paraguay, Venezuela, Peru.

Figure 4b.



NB: LAT11 = Argentina, Brazil, Chile, México, Uruguay; LAT2 = Bolivia, Colombia, Ecuador, Paraguay, Venezuela, Peru.

Figure 4c.



NB: LAT1 = Argentina, Brazil, Chile, México, Uruguay; LAT2 = Bolivia, Colombia, Ecuador, Paraguay, Venezuela, Peru.

Source for Figures 4a, 4b, and 4c: "Governance Matters VI: Governance Indicators for 1996–2006," Kaufmann, Kraay and Mastruzzi (2007).

Figure 5a. Regulation Quality & Gov't Effectiveness – Distance from Income Group Mean

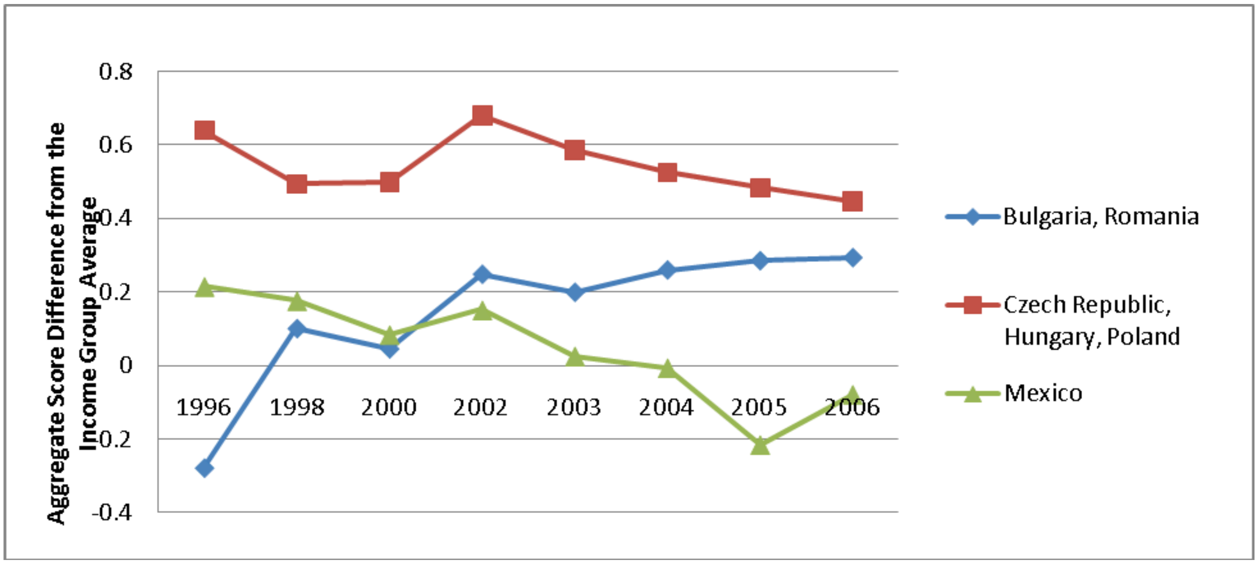
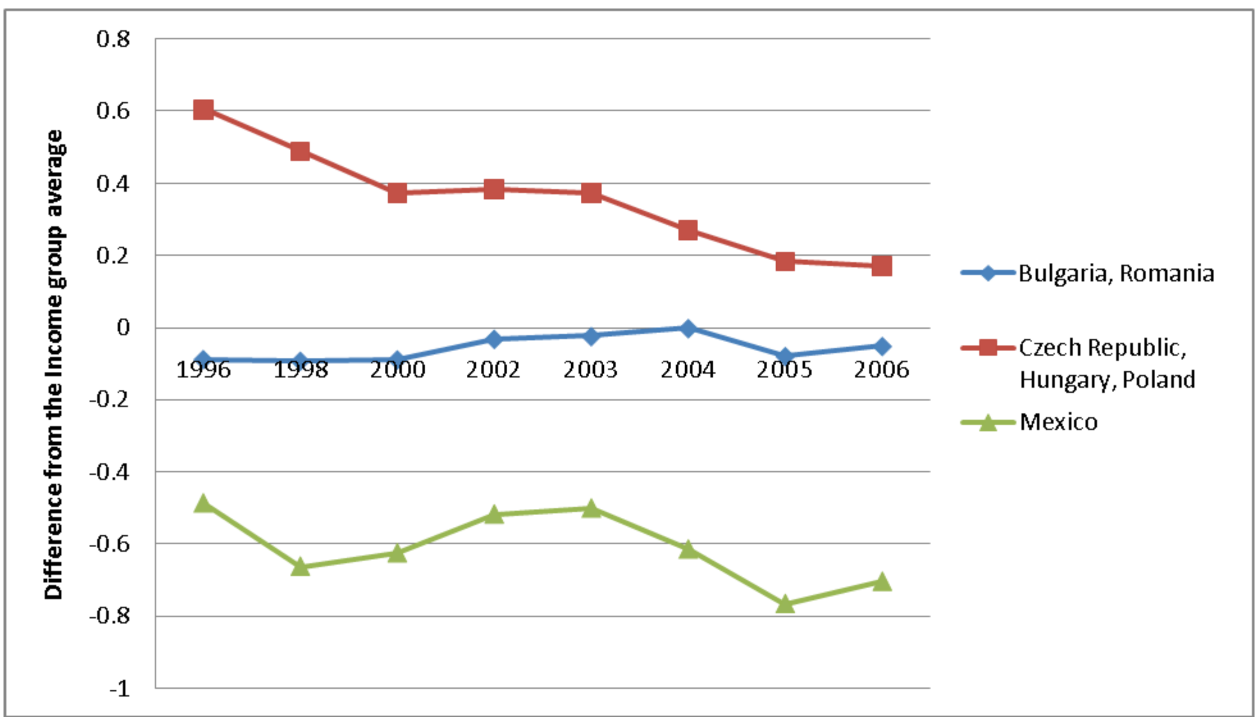
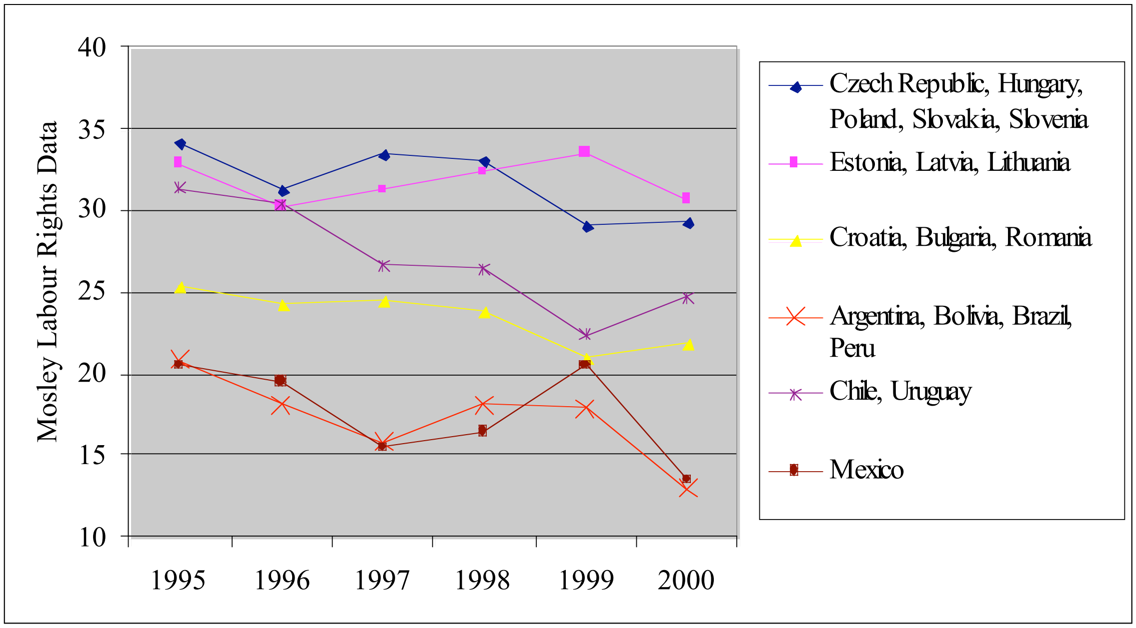


Figure 5b. Control of Corruption & Rule of Law – Distance from Income Group Mean



Source for Figures 5a and 5b: "Governance Matters VI: Governance Indicators for 1996–2006," Kaufmann, Kraay and Mastruzzi (2007)

Figure 6. Comparison of Labor Rights Institutions, 1995-2000



Source: Mosley & Uno (2007)

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