Liberal Interventionism and Democracy Promotion

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Contents

Chapter 5
The International Monetary Fund and the Prospects for Democracy in the Developing World

Stephen Nelson and Geoffrey Wallace

Introduction

Few winners have emerged from the global financial crisis, but the International Monetary Fund (IMF) is one of them. This is an unexpected victory for the Fund. In 2005 the economist Barry Eichengreen compared the IMF to a "rudderless ship adrift on a sea of liquidity." By 2007 interest payments on outstanding loans—the institution's lifeblood—had all but dried up. The IMF's Executive Board announced plans to cut the institution's staff by 15 percent and to sell a portion of its gold reserves just to stay solvent. The Fund was moving at an advanced rate down a path to irrelevance.

Jump ahead to April 2010. The IMF's resources are once again in high demand: since the global credit crisis erupted in September 2008, the IMF has negotiated new standby arrangements[1] with twenty-one countries, freeing up slightly more than $50 billion in resources for member countries navigating a turbulent economic environment. The crisis of 2008—like previous events in 1982 and 1997—revealed why the world needs a central monetary authority. Battered by the credit crunch and facing uncertain prospects in the near term, powerful countries turned inward. Pakistan's inability to convince the United States or China to give bilateral loans as President Zardari's government teetered on the brink of default in November 2008 provided a stark lesson: we cannot always count on sovereign states with varied political goals to generate solutions to complex global problems.

The IMF will be on the front lines as many low- and middle-income countries struggle to emerge from the crisis.[2] Conditional lending—providing financial resources in exchange for policy commitments—has been and will continue to be the institution's main lever of influence in the developing world.

In this chapter we bring some new evidence to bear on a question that has not received much systematic attention from scholars: are the prospects for democracy harmed or enhanced when a country is forced to seek an IMF loan?[3]

The question is important because there are a number of plausible avenues through which IMF programs might impact politics in borrowing countries. Consider the distributional consequences of austerity policies adopted under the watchful eye of IMF staff and management. In the 1980s and 1990s, the Fund encouraged borrowers to devalue their currencies; the policy had the effect of sapping consumers' purchasing power (an effect that was magnified in small, import-dependent countries).[4] IMF programs always involve ceilings on budgetary outlays (though in most instances governments have control over how to allocate the cuts); often this means reduced subsidies for staples and other price supports. Discontent over shrinking incomes and rising costs for food and fuel can boil over into violent protest, as was the case in Peru, Jordan, Indonesia, Morocco, the Dominican Republic, and Sudan (among many others) at various points over the past thirty years.[5] If governments choose to respond to social foment by unleashing the coercive apparatus of the state, then IMF programs will be associated with declining respect for human rights (Abouharb and Cingranelli 2007; 2009). Indeed, the IMF historically has evinced a strong stomach when it comes to dealing with brutal nondemocratic regimes. For example, IMF staff members arrived in Buenos Aires to negotiate the terms of a new loan just months after the Videla regime assumed power and began to crack down on perceived dissidents in March 1976 (Payer 1974).

On the other hand, the IMF may have incentives to sweeten the typically harsh terms it imposes when dealing with democratizing regimes. Several empirical studies of IMF lending suggest that powerful countries—namely, the United States—frequently intervene in the Fund's operations to skew the design of programs in ways that favor their allies.[6] If democracy promotion is part of U.S. foreign policy, then new democracies may be able to gain preferential treatment by the Fund—which, for economically vulnerable regimes, may serve as a bulwark against autocratic backsliding. Even if we view the IMF as relatively unconstrained by powerful member states, the institution may still deliver preferential treatment to democracies. The "democratic advantage" literature suggests that representative legislative institutions and regular elections make commitments by governments more credible (Schultz and Weingast 2003). Assuming that the IMF is a rational and strategic agent leads to the conclusion that it will extend bigger loans with better terms to democratic regimes (Stone 2004, 581).

It should be clear from the preceding paragraphs that, while there are good reasons to think that the IMF has *some* effect on prospects for democracy in the low- and middle-income countries that make up the institution's clientele, we simply do not know much about either the size or the direction of the relationship. In this chapter we present preliminary evidence that suggests a strong positive association. Our findings can be briefly summarized: on average, countries under IMF programs have higher democracy scores than nonborrowers; the main continuous measures of democratic quality (Freedom House and Polity scores) improve as the cumulative number of years spent under IMF lending arrangements increases; and authoritarian regimes that negotiate many conditional loans face a greater risk of a democratic reversal than autocratic counterparts that manage to avoid the IMF. Before presenting this evidence, we sketch two varieties of causal mechanisms that link the IMF to changes in regime type and the quality of democracy. We also consider obstacles to drawing valid causal inferences from the patterns we observe in the data. The paper concludes by reviewing the arguments and evidence and linking the findings to ongoing debates about the role of the IMF in world politics.

The IMF and the Politics of Hard Choices

IMF programs are costly. In exchange for access to financial resources, the IMF asks for painful, but presumably salutary, policy changes to correct the misguided policies that brought the prospective borrower to the institution's doorstep. While recent work to measure the extent of conditionality in IMF agreements reveals a surprisingly wide degree of variation (Copelovitch 2010; Gould 2003; 2006; Nelson 2009; Stone 2008) there is an underlying model of the economy used by the IMF's staff to generate policy targets. Based largely on experiences in Mexico and Chile in the late 1940s and early 1950s, an economist in the IMF's research department named Jacques Polak proposed a simple economic approach that focused on excess domestic demand as the key source of balance of payments disequilibrium.[7] The so-called "Polak Model" formed the intellectual grounding for the conditional lending facilities of the next half century.[8]

The Polak Model came of age in the late 1950s. Subsequently, as the IMF became more deeply involved in managing crises in poor member countries, the institution's economists came to recognize that distortive policies often aggravated payments crises, and that macroeconomic reforms were not likely to be sustainable in the absence of deeper reforms.[9] By the time the Structural Adjustment Fund was established in 1986,[10] many programs included conditions related to domestic credit creation, government spending (and sometimes revenue creation), foreign borrowing, and exchange restrictions, as well as structural conditions for eliminating subsidies, freeing prices of goods, trade liberalization, and privatization of state-owned enterprises.

For the IMF, targeting the monetary and fiscal sources of excess demand and structural policies that distort price signals is simply good textbook economics applied to the real world. But economic policymaking is unavoidably political. The IMF's policy agenda produces winners and losers within society. Groups that bear the brunt of the policy changes required by the IMF—small farmers who lose access to price supports, civil servants trimmed from bloated payrolls, urban workers who face rising food prices, among others—may turn against the government that entered into the loan agreement. In response, the government may resort to extrajudicial killings and torture to control protestors. Evidence of a *repression effect* is provided in quantitative evidence assembled in a series of studies by Rodwan Abouharb and David Cingranelli (2006; 2007; 2009). Controlling for the nonrandom distribution of IMF programs, Abouharb and Cingranelli (2009) report a strong positive relationship between a variable that records the cumulative number of years spent under IMF programs between 1981 and 2003 and several indicators of human rights violations. The authors' focus is on government repression rather than the existence and quality of democratic institutions and practices, but indicators of civil rights violations should track indicators of democracy closely. If the repression effect holds, we will observe a strong negative correlation between indicators of IMF involvement and measures of democracy.

A more nuanced view of the political consequences of IMF lending arrangements comes from Nooruddin and Simmons' (2006) work on how different regimes choose to bear the pain of IMF-imposed austerity. Observers sometimes joke that the IMF stands for "It's Mostly Fiscal"—and for good reason, considering that the core of nearly every lending arrangement involves strict limits on government spending. But the IMF generally avoids specifying *how* governments meet spending targets. Deciding which areas of the budget get trimmed is left to the borrower.

In contrast to the repression model, Nooruddin and Simmons "believe that it is not entirely accurate to argue, as many critics do, that IMF programs are simply imposed on countries in economic turmoil and hence that the IMF is entirely culpable in whatever negative effects these programs have on the poor" (2006, 1007). Rather, Nooruddin and Simmons propose that variation in national political institutions determines how spending cuts are distributed across the national budget. In democratic regimes, policy makers respond to pressure from organized interests channeled through representative institutions. Since their political survival depends on the support of well-organized and powerful interest groups, and the most vulnerable groups in society tend be neither organized nor powerful, the public policies that most benefit the poor—namely, education and health—will be on the chopping block sooner than expenditures that go to politically powerful groups. While Nooruddin and Simmons' analysis shows that public spending on health and education is generally higher in democracies, under IMF programs autocratic regimes tend to *increase* spending in these areas, whereas democracies cut social spending to meet targets.

What conclusions about the prospects for democracy follow from the evidence that established democratic regimes put the burden of adjustment on the poor to a greater degree than autocrats? If spending cuts lead to greater economic inequality, and inequality is harmful to democracy (Houle 2009), then we would expect to see measures of democratic quality among *established democracies* that seek IMF funding to decline. In the next section we present simple descriptive statistics to see whether the pattern is present in the data. But what does the counterintuitive finding that nondemocracies under IMF programs allocate *more* resources to social programs imply for autocratic survival?

One plausible possibility is that, absent the representative institutions and fair elections that are the hallmarks of democratic rule, nondemocratic governments lack legitimacy and, consequently, rest on wobbly foundations. Going to the IMF involves paying a "sovereignty cost" (Vreeland 2003), since it implies the surrender of economic management to an external authority. In order to compensate for this cost, perhaps authoritarian leaders under the IMF become populists: they seek to expand their base of support through selective spending increases that target wider swathes of the population. The problem for autocrats is that the pie is shrinking rather than growing, and they are simply shifting the sizes of the slices. If social spending is increased in the midst of an austerity program, it means that deep spending cuts have to be applied to other areas of the national budget. Interestingly, Nooruddin and Simmons report that spending on the military goes up in democracies and down in autocracies under IMF programs (2006, 1022-24). Over time, this pattern of spreading the pain of fiscal adjustment can undermine authoritarian governments' ability to retain power, since it weakens the coercive apparatus that is responsible for controlling pro-democracy forces. The mechanism posited here suggests that what makes sense in the short term for autocrats can actually reduce their ability to stay in power in the medium term. In this model, authoritarians that spend a significant proportion of time under IMF programs face a higher risk of losing power in a democratic reversal because the way in which authoritarians prefer to manage the costs of IMF-imposed austerity saps the coercive power of the state over time.

The IMF as a Strategic Actor

The mechanisms described in the previous section tend to treat the IMF as an ATM machine (albeit one that has some stringent conditions for withdrawals). By contrast, there is a large literature on the IMF as a strategic actor driven by political considerations. This literature has implications for the puzzle of the IMF-democracy relationship that motivates this paper.

The IMF is not immune from power politics; in fact, there is a built-in transmission belt for powerful states to shape the Fund's policies.[11] The Executive Board, which is responsible for approving loan proposals assembled by the staff members, is the avenue for strategic interests built into the IMF's institutional architecture. The distribution of votes among the Executive Directors is determined in a complex formula that, in theory, reflects the relative importance of each member state in the world economy.[12] Five countries—the United States, UK, Germany, France, and Japan—have a majority of the votes, with the United States controlling the largest share (around 17 percent). Based on the distribution of voting power, we might expect to find that the United States and other powerful members use the architecture of the Executive Board to influence the terms of the loans given by the Fund.

However, the power of the Executive Directors vis-à-vis the staff and management is circumscribed. Voting on lending proposals from the staff is informal and recorded on an up-or-down basis, and the Board almost always unanimously approves proposed lending programs. This fact is not enough to prove the weakness of the Board, because it may still have significant gatekeeping power. Perhaps the Board does not have to reject the staff's proposals because, by the time proposals are brought for discussion by the Executive Directors, the preferences of the powerful Board members have already been incorporated by the staff in the program's design. Ngaire Woods, for example, argues that the institution's staff members "would virtually never present a recommendation which risked U.S. disapproval."[13] This implies that the Executive Directors from powerful countries such as the United States are in contact with staff members during the negotiation process over loans, and are able to communicate their home country's preferences to the economists. To the extent that powerful states exert influence on the content of IMF programs, the pressure is likely to take place informally through back channels. Location and resources matter: the IMF is headquartered several blocks from the White House and the Treasury Department, and the United States' "extensive diplomatic corps" enables it to expend time and energy to lobby individual staff members and keep them apprised of U.S. interest in specific lending arrangements.[14] If U.S. foreign policy includes democracy promotion as a key policy goal, then we would expect to see informal mechanisms of influence activated to skew the Fund's treatment of borrowers in ways that punish autocrats and reward democratizers.

Even if one does not accept the view of the IMF as handmaiden to the United States and other powerful members, the institution may still behave in a strategic manner by rewarding established democracies and countries that have started down the path of democratic consolidation. It is typically assumed that the Fund prefers to expand its influence over domestic policymaking and wants its programs to be successful. A major obstacle to the Fund's ability to maximize its utility is that the borrowing government possesses private information about its "true" commitment to the program, and has incentives to misrepresent its degree of commitment in order to obtain the best possible terms.[15] As de-

scribed by Schultz and Weingast (2003), representative institutions enhance the credibility of commitments made by democracies. If the IMF is a strategic actor, domestic factors, including democratic institutions and practices, should influence its treatment of borrowers: the design of programs should reflect the level of predictable political risk that the IMF takes on when it extends a loan.[16] Larger loans with fewer conditions and less rigorous enforcement of those conditions should help prevent backsliding by democratizing borrowers.

Does the strategic actor model offer plausible mechanisms linking the IMF to improvements in democracy among the pool of borrowers? Nelson (2009) suggests an alternative view of the IMF as a *purposive* actor in world politics that is relatively unconstrained by systemic pressures and is driven by a set of economic ideas in a quest to solve difficult problems it confronts. Because the IMF is unconstrained by systemic pressures, its behavior can only be understood by looking at the ideas that the institution's staff and management share. In Nelson's explanation of decision-making in the Fund, neoliberal economic ideas shape how the IMF's staff and management define problems and suggest solutions, and, perhaps more importantly, how the Fund's officials navigate the unpredictable *political* dynamics that can drive borrowers off course. If the IMF's staff could compute the risk of failure in different settings with a reasonably high degree of accuracy, then its decisions could be made purely on the basis of rational calculation. But IMF loans are negotiated in complex, fragile, and dynamic settings. The Fund has not developed a way to systematically assess the prospects for programs in varying political and institutional environments among borrowers. So the staff and management fall back on rules of thumb to make informed guesses about the prospects for success at the outset of a program. The IMF's officials have a political affinity for policy teams composed of likeminded officials in borrowing countries. Working with a sample of 503 IMF agreements signed between 1980 and 2000 and a measure of the influence of neoliberals over economic policymaking in 90 low- and middle-income countries, Nelson (2009) shows that the IMF's doles out loans with larger disbursements and fewer (and less rigorously enforced) conditions to governments in which neoliberals hold the top economic policy posts.[17]

Nelson's findings suggest that the IMF's political agenda is considerably narrower than fostering democracy. Rather, the IMF fixates on a coterie of high-level economic policy makers (typically the finance minister and central bank governor). Nelson reports statistical results which reveal that the proportion of neoliberals in control of economic policymaking is higher among democratic developing countries. Evidence of preferential treatment for democracies needs to take account of this possible confounding factor.

To summarize, this section has presented a set of plausible mechanisms through which IMF programs affect democracy in low- and middle-income countries. Nooruddin and Simmons' (2006) work suggests that the repression model is too simplistic, since regimes can choose how to distribute the costs of adjustment. Similarly, Nelson's (2009) analysis implies that modeling the IMF as either a tool of U.S. power or as a strategic and sophisticated agent responding to domestic institutional arrangements which provide information about the credibility of commitment is flawed. In sum, our review of the various arguments suggests that the most likely avenue through which IMF lending behavior impacts democracy is the following: autocrats living under IMF programs respond to dual pressures to retain power and to meet fiscal targets by shifting resources away from the security forces and toward social services that reach a broader swathe of the population. Over time, this decision erodes the ability of the state to control the prodemocratic opposition forces, which hastens the regime's demise. In the next section we turn to providing some very simple tests to see what the data reveal about the relationship.

Evidence

We start with two figures that compare the difference in average democracy scores when an indicator of the presence of an active IMF program in a country in year t equals one and when it equals zero. The data span the years between 1970 and 2000; we restrict the sample to non-OECD countries for reasons described in note 2. The binary measure of IMF involvement is taken from Vreeland (2003). We rely on the two most commonly used continuous indicators

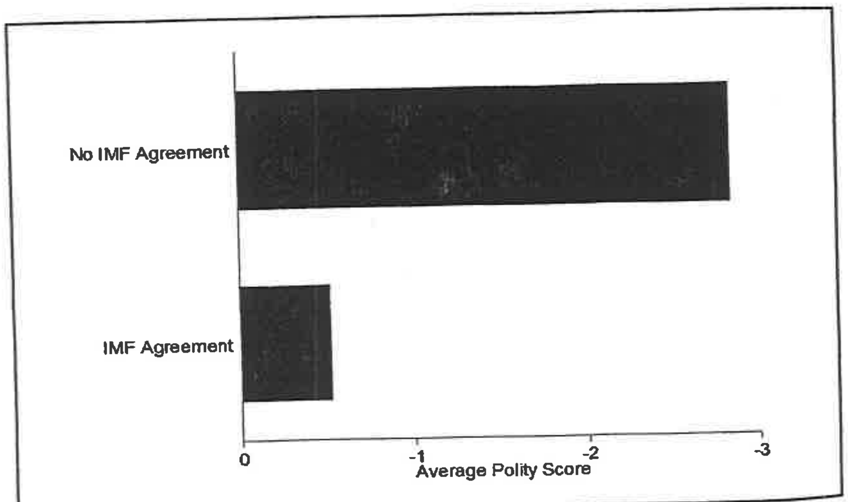

Figure 5.1 Average Polity Scores Stratified by IMF Involvement.

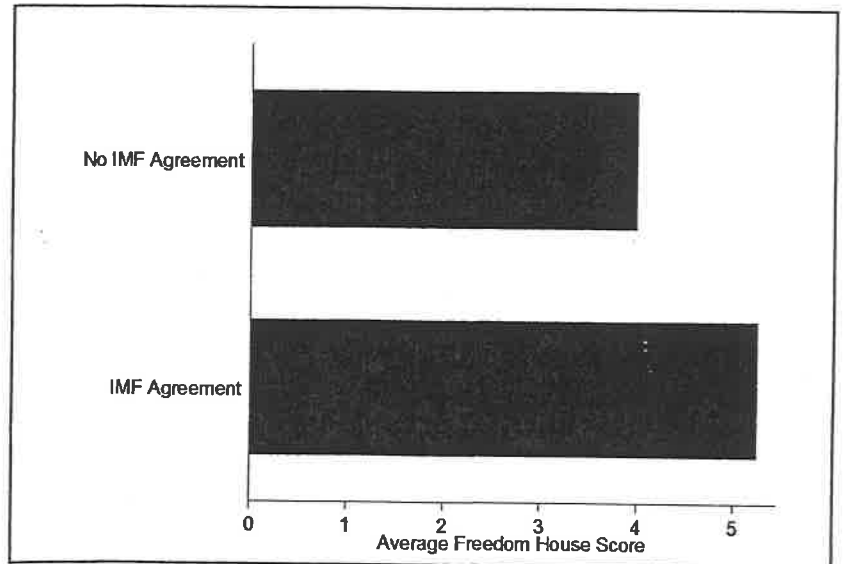

Figure 5.2 Average Freedom House Scores Stratified by IMF Involvement.

of democracy, the Polity IV scores (which range from -10 to +10) and a rescaled Freedom House index, which combines the scores for political rights and civil liberties and ranges from 0 (least democratic) to 12 (most democratic). The first two figures reveal that average democracy scores are better in countries that are under active IMF lending arrangements. Table 5.1 displays difference of means tests for the two subgroups, which reveal that the differences are highly significant.

DEMOCRACY INDICATOR	**UNDER IMF AGREEMENT?**		
	Yes	No	T-stat for diff. of means (p-value)
Polity	**-0.52** (N = 1,412)	**-2.85** (N = 2,287)	**10.30** (0.0000)
Freedom House	**5.25** (N = 1,412)	**3.98** (N = 2,287)	**11.17** (0.0000)

Table 5.1 Average Democracy Scores Stratified by IMF Involvement, 1970-2000.

In Figures 5.3 and 5.4 we look at average democracy scores in year t for the two groups of countries—those under the watchful eye of the IMF and those without an IMF program—plotted over the entire thirty-year period that forms our observation window. The figures reveal that, on average, the Polity and Freedom House scores are better for countries that are currently under an IMF agreement than for those countries that are not involved in an active IMF program.

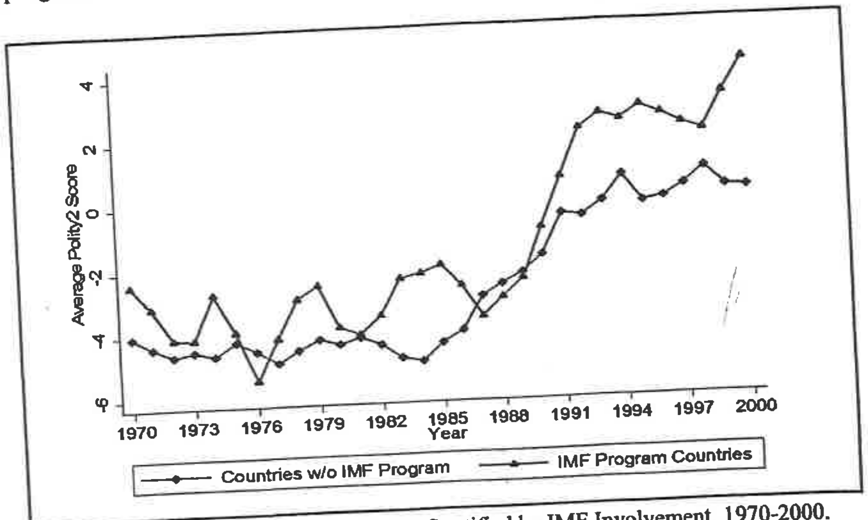

Figure 5.3 Average Annual Polity Scores Stratified by IMF Involvement, 1970-2000.

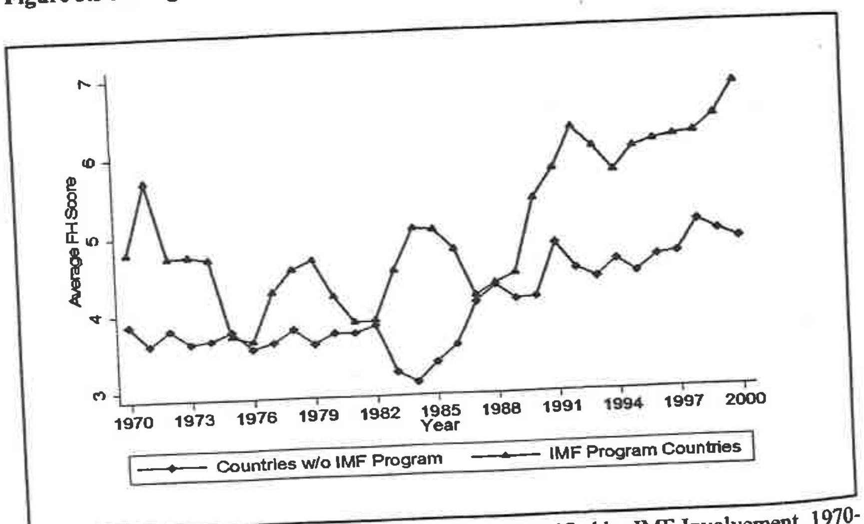

Figure 5.4 Average Annual Freedom House Score Stratified by IMF Involvement, 1970-2000.

What drives the differences we observe in average democracy scores between IMF and non-IMF cases? Do scores improve when well-established democracies negotiate loan agreements or is the effect limited to changes in autocratic regimes, as suggested by the mechanism outlined in the previous section? To get a handle on this question we looked at average democracy scores for IMF and non-IMF observations in two subsamples: a pool of countries that meet Przeworski et al's (2000) minimal definition of democracy and a pool of autocratic regimes. Figures 5.5 through 5.8 demonstrate the differences in mean Polity and Freedom House scores among the democracy-only subsample and the autocracy-only subsample. Among democratic regimes, going to the IMF does not appear to make much difference in the quality of democracy. But there is an apparently positive relationship in the pool of autocracies: both the Polity and Freedom House scores improve, on average, by about one point for countries under IMF programs. Significant t-statistics ($t = 4.35$ for the difference in average Polity scores among the nondemocratic sample and $t = 7.97$ when Freedom House is used to measure democratic quality) show that the difference cannot be rejected as random noise in the data.

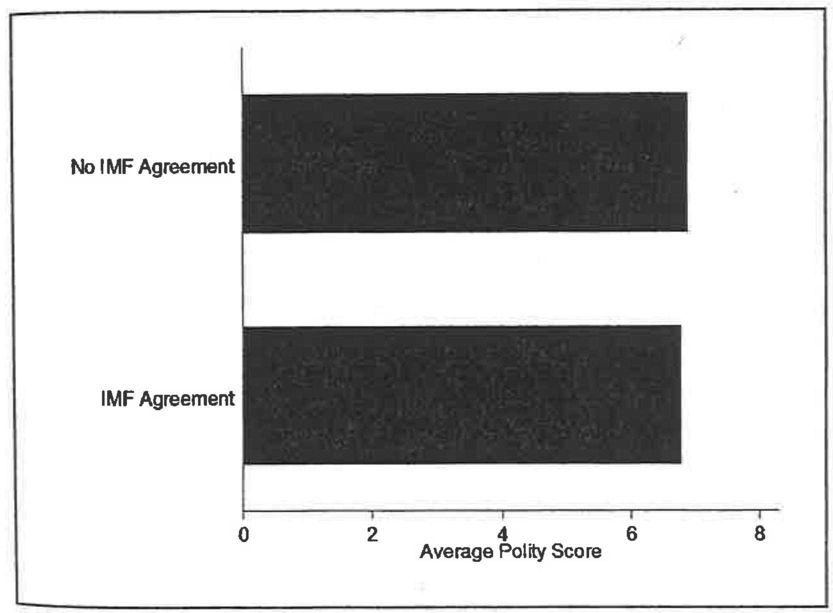

Figure 5.5 Average Polity Scores Stratified by IMF Involvement (Democratic Sample).

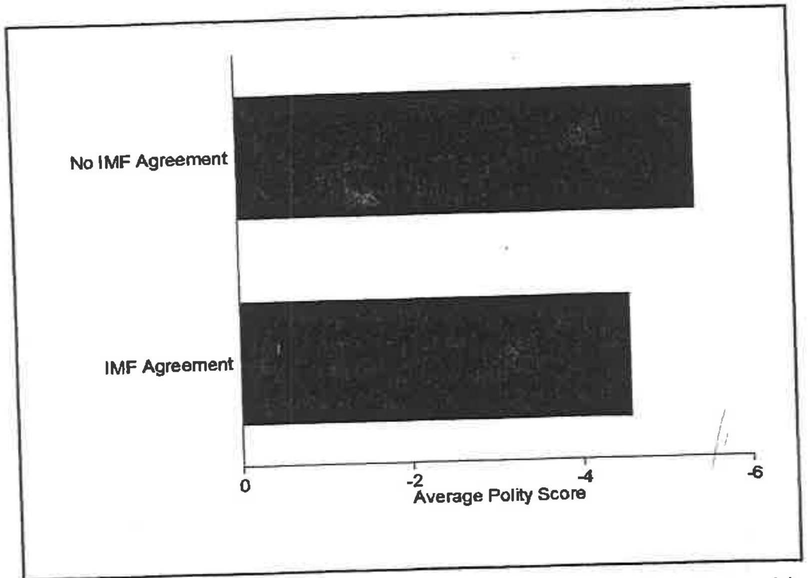

Figure 5.6 Average Polity Scores Stratified by IMF Involvement (Autocratic Sample).

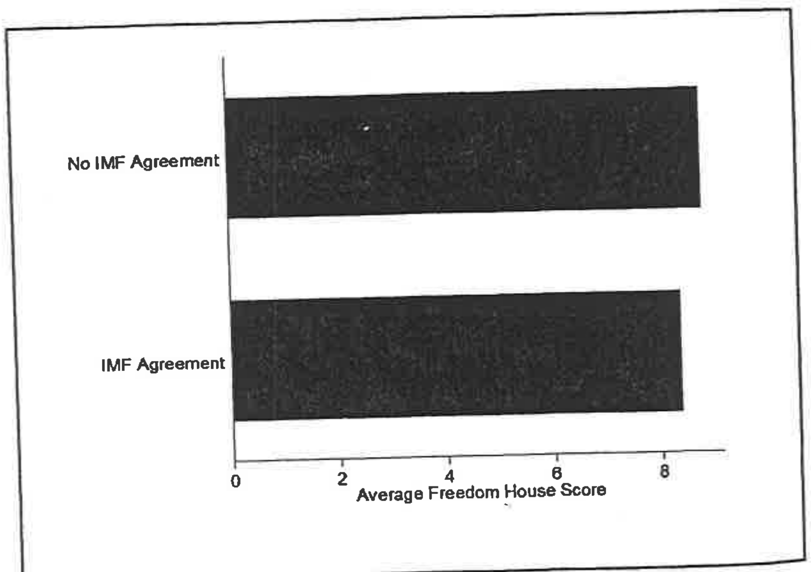

Figure 5.7 Average Freedom House Scores Stratified by IMF Involvement (Democratic Sample).

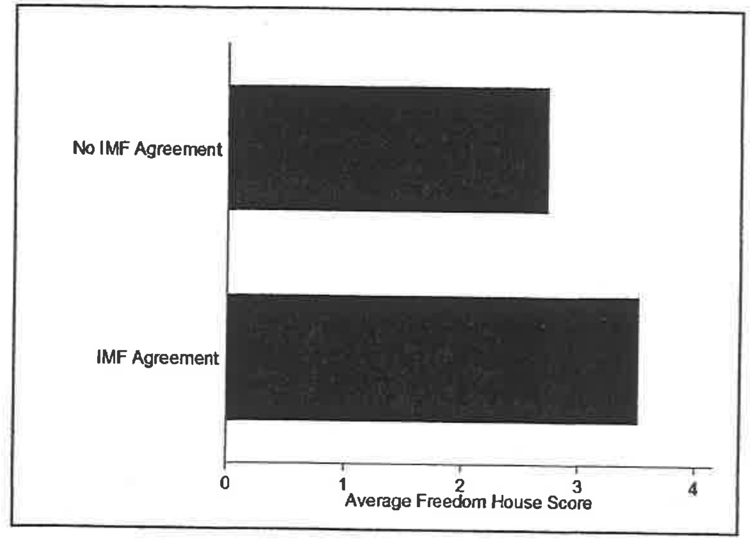

Figure 5.8 Average Freedom House Scores Stratified by IMF Involvement (Autocracies Only Sample).

Our preferred mechanism suggests that the longer autocratic governments live with IMF-enforced austerity, the better the prospects are for a democratic transition. Figures 5.9 and 5.10 present a different cut at the data. We construct an indicator of the intensity of IMF involvement by counting the cumulative number of years spent under active conditional lending programs between 1970 and 2000.[18] We then take the average democracy score for each year of involvement across our sample of low- and middle-income countries. The two figures display a striking pattern: as the number of years that a country spends under IMF programs increases, the average democracy scores improves. The size of the difference is impressive. For example, the average Polity score for the 3,407 country-year observations that lie between zero and fifteen years under IMF agreements is -2.38; that increases by four points (to 2.58) when Polity is averaged over all the country-year observations when the cumulative IMF involvement indicator is greater than fifteen.

Our final piece of evidence is drawn from data on democratic transitions. We use Svolik's (2008) data on the timing of democratic reversals (see Appendix for a complete list) to generate Kaplan-Meier survivor functions for all autocratic regimes in low- and middle-income countries between 1970 and 2000. The figures illustrate the proportion of autocracies that "failed" (became democracies) as time (measured in days) passed. Figure 5.11 displays survivor functions stratified by the presence or absence of the IMF.

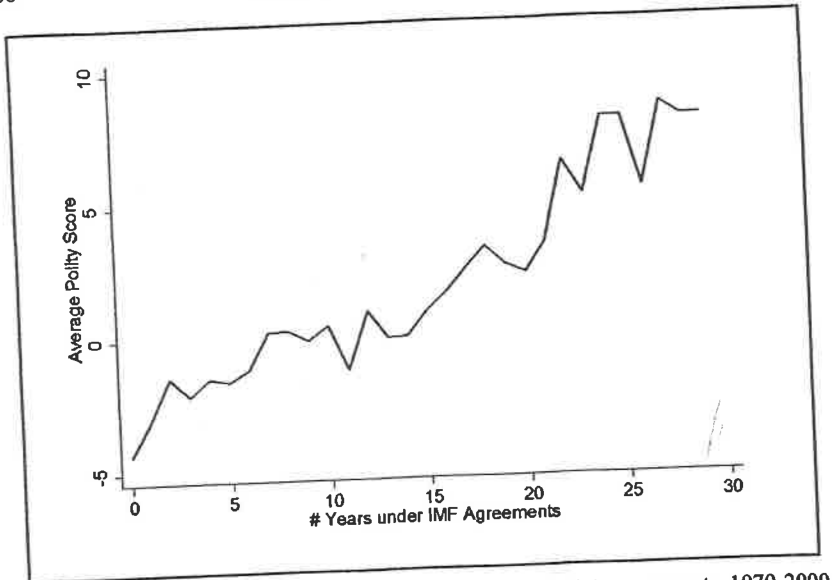

Figure 5.9 Average Polity Scores and Time Spent under IMF Arrangements, 1970-2000.

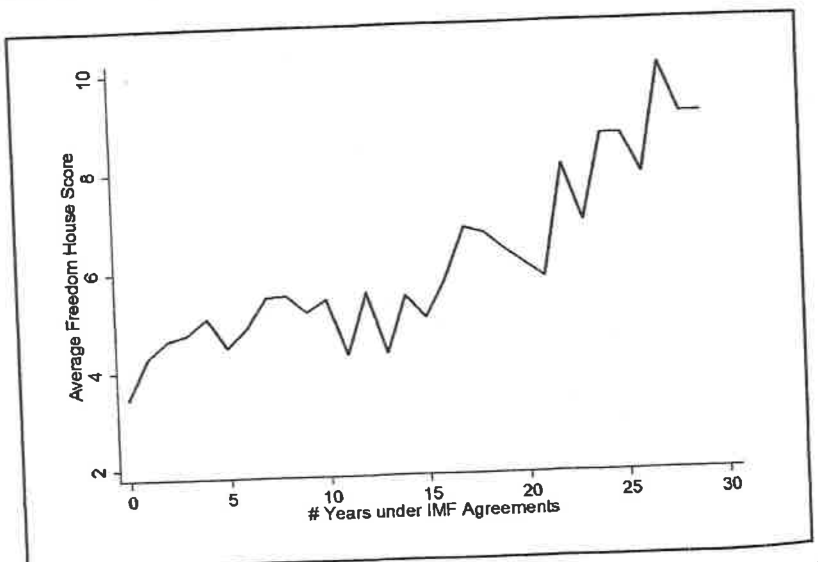

Figure 5.10 Average Freedom House Scores and Time Spent under IMF Arrangements, 1970-2000.

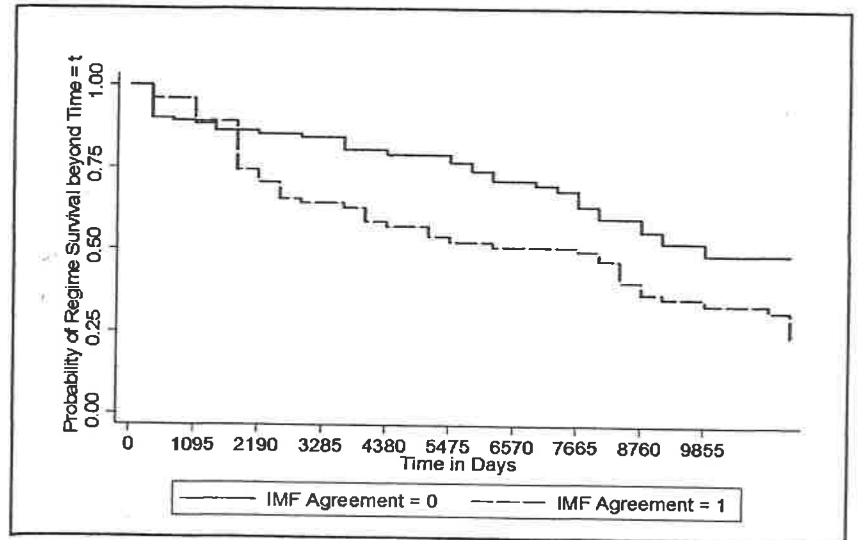

Figure 5.11 Kaplan-Meier Survival Estimates for Autocracies, Stratified by IMF Involvement.

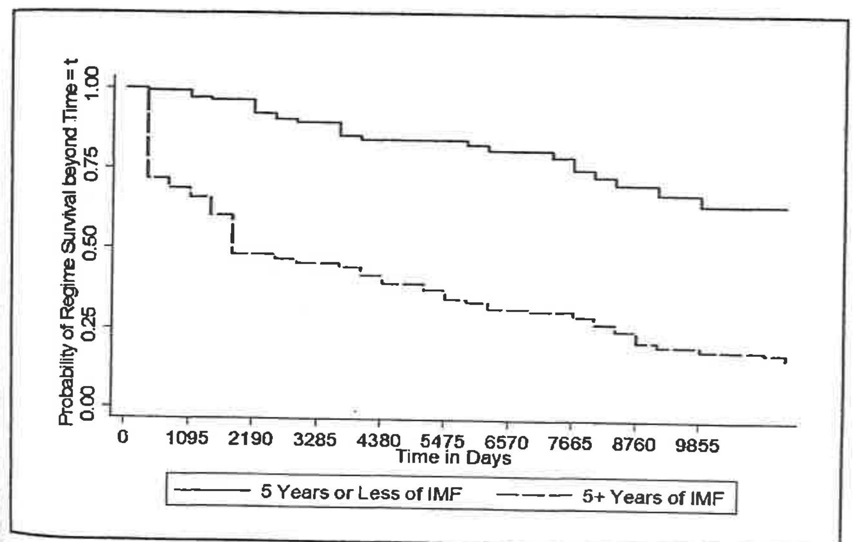

Figure 5.12 Kaplan-Meier Survival Estimates for Autocracies, Stratified by the Extent of IMF Involvement.

The dashed line in Figure 5.11 represents the survivor function for autocracies under IMF arrangements. The figure shows that the survivor function between the two groups deviates around the year and a half mark; after that point, autocracies that borrow from the IMF have a greater risk of collapse than nondemocratic counterparts that manage to avoid the IMF.[19]

The relationship between autocratic survival and IMF involvement is even clearer in Figure 5.12. In this figure we present survivor functions with the two groups distinguished by high- and low-IMF involvement (cumulative years under the IMF exceeds or falls below the sample mean of five years). A dramatic difference in prospects for democratic reversal emerges early and persists throughout the observation window: while only a quarter of the infrequent borrowers have experienced a transition to democracy after twenty-one years, autocracies that spend more than five years under IMF arrangements face a much more precarious situation.[20] Within six years half of all frequent users of IMF lending arrangements have transitioned from autocracy to democracy.

Discussion of Findings: Caveats and Cautions

A preliminary examination of the evidence on IMF programs and democracy reveals some interesting empirical patterns. Countries turning to the IMF for assistance tend to become more democratic over time and this relationship only seems to strengthen the longer a country spends under the auspices of the IMF. The consequences of the IMF for developing countries appear to go beyond small changes in a regime's level of democracy. Autocratic regimes that turn to the IMF are much more likely to transition to democracy than their counterparts remaining outside of the IMF's purview. The IMF thus appears to have the potential to become a robust, if perhaps unintended, promoter of democracy in the developing world. To what degree should we conclude that the IMF provides a genuine causal role in contributing to democracy in borrowing countries? Notwithstanding the promising policy implications flowing from the available data, we believe there are several reasons to maintain a cautious, yet still optimistic, perspective regarding the democratizing credentials of the IMF.

Confounding Factors

The first issue to consider is that developing countries that end up borrowing from the IMF may differ in significant ways from those who do not. This may then call into question any meaningful IMF-democracy causal link if those key differences represent confounding factors, which are associated with both the likelihood a government negotiates an IMF agreement *and* the country's risk

of transitioning toward democracy (Ray 2003, 4-5). Other scholars in this volume show a similar concern for this problem, such as the impact of additional factors on the role of foreign aid, or the prevalence of NGOs, and subsequent democratization (see Scott, chapter 2 and Murdie, chapter 7, in this volume). Our preliminary results indicate a strong association between IMF programs and democracy, but this is only based on a bivariate analysis between the two variables without taking into account any possible confounding factors. If any of these unexplored confounders plays a decisive role, then the purported relationship between the IMF and democracy may simply be spurious. The promising democracy-building role for the IMF would instead be a function of the preexisting democratizing predispositions of those countries that turn to the IMF in the first place rather than any autonomous effects created by the Fund's activities.

In many respects the very conditions leading countries to rely on IMF assistance suggest potentially important differences between borrowing and nonborrowing countries. In a similar manner to that described in the chapter in this volume on economic coercion, factors that make it more likely for a country to be sanctioned in the first place may also affect the democratization process (see Peksen and Drury, chapter 3 in this volume). Such conditions may in turn have implications for evaluating the general causes of any subsequent democratic transition, in particular for the impact of the IMF. Obtaining funds from the IMF comes with a host of costs ranging from budgetary restrictions to the overhaul of entire sectors of the economy. Accepting IMF conditionality is far from a popular decision and for many countries represents the choice of last resort. Prospective IMF borrowers are often facing a serious macroeconomic crisis at home involving singularly or in combination balance of payments problems, high levels of inflation, pressures on the exchange rate, and declining terms of trade (Bird 1996). Countries dealing with such severe economic turmoil look to the IMF for help not necessarily because they want to, but because they feel they have no alternative.

Of course, not all countries in the midst of an economic crisis end up borrowing from the IMF. Similarly, not all IMF borrowers are experiencing dire economic straits when they turn to the Fund. Vreeland (2003) suggests that some reformist governments, in an effort to raise the costs of opposition, may negotiate with the IMF even when reserves are plentiful and macroeconomic fundamentals are sound, but this appears to be the exception rather than the rule.[21] Most countries relying on the IMF are facing a severe economic crisis that has been brewing for some time. Understanding the prior conditions leading countries to enter into IMF agreements is relevant for evaluating the IMF-democracy relationship because economic crises, in particular, and economic factors more generally, are generally thought to play a major role in the stability of regimes. Scholars have pointed to a variety reasons why economic crises may lead to a transition toward democracy, though dynamics are far from uniform across countries (e.g., Gasiorowski 1995; Pepinsky 2009). For instance, in an economic crisis autocratic elites often become endangered because they need to deal with both a diminution in their coercive power as well as a reduced ability to pay off key supporters, especially in the business community (Haggard and Kaufman 1997).[22]

The existing evidence points to a possibility that the presence of the IMF may have played no discernible role in recent democratizing trends among borrowing countries. The IMF might better be viewed as a symptom of what is in essence an economic process of democratization. Alternatively, it could still be the case that economic crises affect both IMF participation and democratization, but that once IMF programs take effect they exert independent effects on the domestic politics of borrowing countries. More research is, therefore, needed to develop a better understanding of the relationship between economic crises, the IMF, and democracy in order to disentangle the effects of each constituent part.

A similar logic is also evident in the "high politics" of the IMF described above. Far from being driven purely by an economic rationale, the IMF is frequently viewed by international relations specialists as a tool of powerful countries, in particular the United States. Countries that align themselves more closely with the United States are often rewarded with greater access to IMF lending facilities (Thacker 1999). The United States also continues to be one of the foremost promoters of democracy abroad, though the actual success of these efforts continues to be debated (Meernik 1996; Monten 2005; Peceny 1999). The track record of U.S. democracy promotion need not be uniform, as Scott as well as Pearson and Lounsbery demonstrate in this volume (Scott, chapter 2; Pearson and Lounsbery, chapter 4). U.S. influence may represent an additional potential confounder that questions the relationship between the IMF and democracy. But if Nelson (2009) is correct and the presence of neoliberal policy makers is a more important factor in shaping the IMF's pattern of favoritism than U.S. strategic interest—and neoliberals tend to have more influence over policy in democracies—then models of the IMF's effect on domestic politics should account for this factor.

Attention to possible confounders and how IMF borrowers may differ in significant ways from other developing countries points to the need to think seriously about two sets of counterfactuals for evaluating the IMF-democracy link. First, what would have happened in those borrowing countries if they had not received loans and been subjected to IMF conditionality? Second, what would have happened to those countries that did not fall under the purview of the IMF if they had instead become involved in IMF programs? Answers to these questions are crucial for testing the democracy-building potential, or lack thereof, of the IMF.

The IMF and Borrowing Countries: A Mutually Selective Relationship

The probability that borrowing and nonborrowing countries may differ in significant ways reflects a broader concern that countries are not randomly assigned to IMF programs. Countries select themselves into the group of IMF borrowers and this may have consequences for determining the causes of any subsequent outcomes. Even though many borrowers face economic difficulties, they are nevertheless making a strategic decision to apply to the IMF for help. Likewise, the IMF also acts strategically when deciding whether or not to engage an applicant, since it is under no obligation to provide lending to all prospective borrowers. As in the case of confounding factors, the chapters by several of the other contributors to this volume demonstrate that selection effects are a serious concern for studies of democracy promotion (e.g., Scott, chapter 2; Peksen and Drury, chapter 3; Murdie, chapter 7 in this volume).

A mutual selection effect is evident whereby the consent of the IMF and borrowing countries is necessary for an agreement to occur. As many scholars have noted, the conditions by which countries join an international agreement, whether it be an alliance, treaty, or IMF loan, fundamentally affects their future conduct separate from their actual commitment to the agreement (Simmons 1998). Without taking into account the selection dynamics leading a state to join the agreement, we may mistakenly infer that the agreement is having an independent effect on subsequent state conduct. This issue is particularly salient with questions concerning the IMF. Past research shows that taking into account the process by which states commit to Article VIII of the IMF Articles of Agreement, which deals with controls on the current account, reduces the purported constraining effect of the treaty on later decisions by states on whether or not to impose current account restrictions (von Stein 2005).[23] If selection effects influence the economic consequences of the IMF for borrowing countries, then they may potentially shape any political changes as well.

The problems of selection effects are likely even more serious when investigating the relationship between the IMF and democracy. Commitment to Article VIII remains a unilateral decision on the part of member states since they either decide to join or abstain, while in the case of IMF lending both the candidate borrower and the IMF may be strategic actors. A similar dual selection dynamic is evident in other democracy-related processes, such as the joint decision for a sender to impose economic sanctions and the target to refuse to back down, or the relationship between the European Union and prospective members (Peksen and Drury, chapter 3; Kentmen, chapter 6 in this volume). On the part of the IMF, the greatest danger to the validity of the observed IMF-democracy link is if the IMF is strategically choosing to lend money only to countries that are most likely to democratize. It is unlikely however, that the institution is selecting borrowers solely or even primarily based on their democratizing potential. The Fund appears to be motivated more by supporting likeminded policy makers in candidate countries who share its commitment to neoliberal economic ideology rather than democracy per se (Nelson 2009). Nevertheless, the concern remains that the process through which the IMF makes its initial decision to offer help to particular countries rather than others is more important for understanding later changes in a borrowing country's domestic politics than any consequences flowing directly from the actual IMF program.

Unmeasured (and potentially unobservable) domestic political conditions, such as "political will," may also affect which countries seek IMF funding (Vreeland 2003). Perhaps policy makers who are more reform-minded are more willing to turn to the IMF and accept the harsh conditionality and other economic changes that often go along with the institution's programs. If commitment to economic reform is correlated with commitment to eventual political reform as well, then observing participation in IMF programs may simply be a symptom of a borrowing country's broader commitment to democratization rather than a genuine cause of regime change down the road.

Our data do not explicitly take into account selection dynamics, since we only look at whether or not a country has borrowed from the IMF and the cumulative number of years a country spends under IMF lending arrangements. Incorporating evidence regarding the prior decisions by both the IMF and borrowing countries to enter into agreement will provide a better opportunity to discern the degree to which the IMF has a subsequent meaningful impact on democracy promotion in the developing world.

Considering Differences in the Effectiveness of IMF Lending

Even if the IMF does have a positive influence on democracy in the developing world, there are several reasons to believe the effect of the IMF is not uniform across time or across all countries. IMF lending might be beneficial for democracy promotion in some cases, but have little effect or even counteracting tendencies in others.

First, the IMF certainly possesses a set of preferred policy prescriptions it usually employs, but as noted earlier lending programs can differ substantially along three dimensions: generosity, conditionality, and enforcement (Copelovitch 2004; Gould 2006; Nelson 2009; Stone 2008). IMF programs are clearly not created equal. Agreements requiring more conditions, particularly those involving wrenching structural changes, could be more likely to undermine the coercive apparatus of autocratic regimes and their ability to reward

supporters. High conditionality agreements might thereby make the greatest contribution to a possible democratic transition. Determining the democratizing potential of the IMF may ultimately depend less on the presence or absence of an IMF program, but rather on the specific characteristics of the agreement and its subsequent impact on the domestic politics of the borrowing country.

Second, another source of possible variation in the effects of the IMF lies less in the particularities of lending programs and more in possible differences in how borrowing states react to, and are affected by, the agreement. We drew on Nooruddin and Simmons (2006) to develop a mechanism that helps explain the pattern we observe in the data: autocrats that go to the IMF tend to redistribute spending toward social programs and away from the security forces. We speculated that this choice would have implications for their long-term domestic stability: shifting resources away from the military likely reduces the coercive power of authoritarian governments and, as a result, their ability to resist domestic opposition. While the authors focus more on the divide between autocracies and democracies, recent research has shown that autocratic governments also differ in significant ways with consequent implications for both their foreign and domestic policies (Peceny et al. 2002; Weeks 2008). The same IMF program may then have radically divergent effects on the prospects for democracy depending on the specific institutional context within the respective borrowing countries.

Third, the effects of the IMF on the domestic economic and political situation of borrowers may not be universally beneficial for the task of promoting democracy. The IMF certainly has its fair share of critics across a broad swathe of policy areas. For instance, several scholars charge that participating in IMF programs usually leads to higher levels of inequality in borrowing countries (Barro and Lee 2005; Garuda 2000; Vreeland 2003). Inequality is, in turn, often viewed as a restraint on the move toward democracy, though debate over the relationship remains far from settled (e.g., Bollen and Jackman 1995; Muller 1995). IMF lending may hurt democracy efforts in some areas, but help in others as presented in our earlier theoretical discussion. Isolating the ways in which the IMF may have differential effects on borrowing countries is thus crucial for understanding the overall effects of the institution on democracy promotion.

The potentially harmful aspects of IMF programs come to the fore when viewing IMF lending as one example of the broader phenomenon of foreign aid. Far from encouraging democratization, foreign aid is often seen as a tool for governments to maintain their domestic standing and control by rewarding supporters or reducing possible economic grievances (Knack 2004; van de Walle 2001). In this light, the effects of the IMF are puzzling since it represents a form of foreign aid that instead has the potential to destabilize autocratic governments and push them toward democracy. The conditional nature of IMF lending might make it more difficult, though not necessarily impossible, for leaders to capture resources for their own purposes compared to more traditional forms of foreign aid. Our argument also provides an interesting complement to Scott's findings for USAID programs, which similarly shows that the effects foreign aid may differ depending on the specific context (Scott, chapter 2 in this volume). More work is thus necessary to examine why particular types of external aid may have divergent consequences for domestic politics in recipient countries.

Fourth and related, the effects of the IMF on democratization might change over the course of the program. One interesting pattern from Figure 5.9 is that autocratic countries borrowing from the IMF are actually *less* likely to succumb to a democratic transition in the first few years of a program than countries that did not receive IMF support. It is only after three to five years that IMF borrowers become much more likely to democratize. One possible explanation is that in the early years IMF lending might provide a short respite to embattled autocratic leaders by infusing new funds to stave off economic disaster. The longer the agreement stays in place, however, the more some of the democratizing influences of the IMF program may be able to take hold. The process by which the IMF affects democratization appears by no means linear, but instead may operate in a more complex process over the longer term.

Lastly, just as the effects of the IMF may change over time, they may differ across space as well. As Pop-Eleches (2009) shows in an in-depth study of IMF involvement in Latin America and Eastern Europe, distinct regional logics often took hold at all stages of the relationship between the Fund and borrowing countries. While Pop-Eleches focuses more on the design of IMF agreements and the implementation of economic reforms, his analysis suggests the need to consider in greater detail whether or not the IMF may have different regional effects on democratization in the developing world.

In sum, there are several reasons to remain cautious regarding the observed positive relationship between the IMF and democracy. Some of these concerns question the very validity of any claim that IMF programs can improve democracy in borrowing countries. Our focus has been more on crafting a more nuanced account emphasizing likely sources of variation in the influence of the IMF on domestic politics in borrowing countries. Rather than concluding the IMF is either a dominant or ineffectual democratizer, the overall effect of the IMF on democracy might be contingent on several contextual factors.

Conclusion

The aftermath of the 2008 global financial crisis witnessed a resurgent role for the IMF in the developing world and with it renewed opposition to the Fund and all of its activities. Protests remain stronger than ever at every IMF meeting and critics from rich and poor countries alike decry the institution as a harbinger of doom for borrowers unlucky enough to fall into its grasp. The record of the Fund in rehabilitating economies in turmoil is certainly far from bright. Across a wide range of economic and social indicators, the general consensus is that the IMF has in fact made things worse rather than better for most borrowing countries (Vreeland 2003). Yet even as the attention of the Fund and its critics increasingly focuses on how to craft better economic policies, the domestic political effects of the institution's activities should not be overlooked. Although the high times of IMF lending is generally associated with widespread economic ills, our analysis suggests the recent burst of IMF activity might actually augur well for democracy in the developing world.

Our research question is straightforward: does the IMF help or hinder democracy in the developing world? The available evidence indicates more support for the view that the IMF acts as a facilitator rather than an obstacle to democracy promotion in borrowing countries. Countries under the IMF record greater improvements in the quality of democracy than nonborrowers, and this democratization dynamic only becomes more pronounced the longer a lending program endures. While the effects are fairly modest for existing democracies, autocratic governments who turn to the IMF are more likely to experience a democratic transition than their authoritarian counterparts who avoid entangling themselves with the Fund. Across a variety of measures and tests, the IMF is associated with greater levels of democracy in developing countries.

Despite these benefits to domestic politics in developing countries, the Fund might best be described as an "inadvertent democratizer." Unlike many other actors examined in this volume, such as NGOs or liberal-minded foreign governments, the IMF does not explicitly focus on democracy promotion as one of its core objectives. For the Fund, in particular, fostering democracy is far down the list of priorities compared to many other international actors. Democratization is rather a byproduct of the Fund's activities, which often impose severe economic constraints on borrowing countries through conditional lending. We propose that fiscal austerity and other structural adjustments may be a bitter economic medicine for borrowers, but provide certain beneficial political side effects. While other scholars focus on how IMF programs can actually increase a government's repressive domestic policies (Abouharb and Cingranelli 2009), we are concerned more with identifying the impact of the Fund on the longer term stability of the ruling regime. IMF programs have the ability to reduce the overall coercive power of authoritarian governments over time, as well as their ability to pay off key supporters. Authoritarian governments might turn to repression to contain rising dissent, but the resulting IMF-led austerity appears to reduce the effectiveness of any repression. Taken together, this can bolster the domestic opposition and make an eventual transition toward democracy more likely than in countries that do not experience IMF conditionality.

There is a certain irony in the democratizing side effects resulting from IMF programs. The areas where the IMF is supposed to demonstrate the greatest expertise and engender the most improvement, namely macroeconomic stability and economic growth, are those where it has most consistently failed (Barro and Lee 2005; Garuda 2000; Vreeland 2003). On the other hand, in areas lying outside of the IMF's main purview, in particular democratization, the institution seems to have had a more salutary effect. The Fund has thus generated the greatest success in an unintended manner and in those areas furthest away from its primary mission.

The prospects for the IMF to build on this potential by explicitly incorporating democracy building, or at least devoting greater attention to the domestic political consequences of its activities, are relatively poor. The Fund remains in many ways an autonomous international bureaucracy with a particular vision of its identity and role in world politics (Barnett and Finnemore 2004). Macroeconomic issues represent the central priority of the Fund and will continue to do so for the foreseeable future. The IMF took some halting steps toward reforming its lending policies in the late 1990s, but these initiatives focused more on poverty reduction and alleviating some of the worst hardships created by conditionality rather than democratization per se. Compared to its sibling organization, the World Bank, the extent of introspection and commitment to wider-ranging reforms over the past decade has been much weaker at the IMF (Blackman 2008). The Fund appears unlikely to become a champion of democracy promotion any time soon. This is perhaps not the worst outcome, since several of the other contributors to this volume show far from consistent effects for democracy-specific activities (e.g., Scott, chapter 2; Peksen and Drury, chapter 3).

Nevertheless, the fact remains that the IMF, even in its current form, provides several benefits for democratization in the developing world. One lesson, in particular, that can be taken is that the Fund's programs take a certain amount of time to translate into more beneficial political effects on the ground in borrowing countries. This suggests the IMF should focus on building longer-term partnerships with borrowers rather than creating short-term ad hoc arrangements, which might only temporarily alleviate economic pain while failing to supply any longer term political gains.

Any policy prescriptions must remain speculative until we develop a better understanding of the full relationship between the IMF and its borrowers. We pointed to several questions that need to be answered before scholars and policy makers can be confident the IMF is indeed a positive force for democracy promotion in the developing world. Confounding factors, along with possible selection dynamics between the Fund and its borrowers, risk showing the IMF is a symptom of preexisting democratization processes in developing countries rather than an independent cause in its own right. The effects of the IMF may also not be uniform across specific programs, countries, or time periods. Rather than determining whether the IMF either improves or constrains democracy in borrowing countries, the more appropriate question might be under what conditions is the IMF more or less likely to support democracy building efforts? We sought to provide a theoretical and empirical first cut at the relationship between the IMF and democracy that suggests some promising avenues for future research, but much more work remains to be done. Just as the IMF overwhelmingly favors the use of conditionality in some form or another, it seems appropriate that the effect of the Fund on the politics of developing countries is also likely to be conditional in nature.

Notes

1. The IMF makes a variety of conditional loans available to prospective borrowers, including the standby arrangement (SBA), the extended fund facility (EFF), and, for the institution's poorest member states, the poverty reduction and growth facility (PRGF, formerly known as the enhanced structural adjustment facility (ESAF) and before that simply the structural adjustment facility.

2. The IMF's reach may be expanding to the rich industrial countries, as loans to Iceland and negotiations for an imminent loan to Greece attest. But this is a recent innovation: between the late 1970s, when the IMF signed agreements with the UK and Italy, and 2008, when the financial crisis forced Iceland to turn to the Fund, none of the wealthy democracies associated with the Organization for Economic Cooperation and Development (OECD) sought IMF support.

3. Recent exceptions include Brown (2009), who test that association between IMF conditionality and Freedom House's democracy ratings in twenty-three Latin American countries between 1998 and 2003; and Hänny and Michaelowa (2009), who test the impact of the IMF's and World Bank's poverty reduction programs on the quality of democracy in eighty countries (1974-2007).

4. On the distributional consequences of devaluation in small, open economies, see Krugman and Taylor (1978).

5. On the IMF and social instability, see Auvinen (1996), Bienen and Gersovitz (1985); Franklin (1997), Haggard (1985), Siddell (1988), Walton and Ragin (1990).

6. Barro and Lee (2005), Dreher and Jensen (2007), Harrigan, Wang, and El-Said (2006), Oatley and Yackee (2004), Stone (2002; 2004), Thacker (1999). Proxies for U.S. interest in this line of research include voting similarity within the UN General Assembly (Barro and Lee, Dreher and Jensen, Oatley and Yackee, Thacker), foreign aid (Stone, Oatley and Yackee), bilateral trade with the United States (Barro and Lee), and a variable indicating whether a country signed a peace treaty with Israel (Harrigan, Wang, and El-Said).

7. Woods (2006, 40-43; see also Babb 2007; Barnett and Finnemore 2004, 51-55). Each author notes that the attraction of the Polak model was enhanced by its simplicity and measurability: according to Woods (2006, 41), "the great advantage of Polak's new approach was that it used data on assets and liabilities in the banking system, which were

more widely available and reliable than the national accounts data that other previous approaches to analyzing the balance of payments required."

8. Fischer (1997) gives a succinct overview of the IMF's conceptual approach to balance of payments disequilibrium. See also R. R. Rhomberg and H. R. Heller, "The Monetary Approach to the Balance of Payments: A Survey of the Fund's Contribution to the Literature," IMF Staff Paper DM/77/25, March 21, 1977. Critiques of the monetary approach are plentiful (examples include Bacha 1987; Bird 1996; Easterly 2006; Krugman and Taylor 1978; Scheetz 1986).

9. The Fund's internal review of structural conditionality emphasized that, by the mid-1980s, most of the staff and management were in agreement that structural reforms were necessary to restore economic growth. Memorandum to the Executive Board, SM/01/60, supplement 2, February 16, 2001.

10. The SAF was replaced by the Enhanced Structural Adjustment Fund (ESAF) in 1987; the ESAF was replaced by the Poverty Reduction and Growth Facility in 1999.

11. This section draws heavily on Nelson (2009).

12. How well current arrangements actually mirror the global distribution of economic power is debatable. Many observers object to a voting system in which Belgium and the Netherlands have more power than China and India.

13. Woods (2003, 107). Barnett and Finnemore make a similar claim: "[staff members] rarely send proposals to the board that they believe it will reject" (2004, 50).

14. Randall Stone refers to this as "informal governance" of the IMF. Stone (2008, 595, quote).

15. Kahler (1992, 102), Mosley, Harrigan, and Toye (1991).

16. Koremenos 2005 develops a similar idea in her model of institutional design in the presence of weak information about the future behavior of states.

17. Nelson (2009) relies on biographical information—specifically, graduate training in American economics departments and work experience within the IMF and/or World Bank—to measure whether a policy maker holds neoliberal economic beliefs.

18. To give an example, Haiti is one of the most prolonged users of IMF resources. By 1981 Haiti had spent eleven years under IMF programs; in 2000 the country had been under IMF programs for a total of twenty-six years.

19. The log-rank test reveals that the difference in survivor functions is significant ($\chi^2 = 6.17$, $p = 0.013$).

20. The log-rank test show that the difference between the two groups is highly significant ($\chi^2 = 18.95$, $p = 0.0000$).

21. Some recent comments by an Asian finance minister capture a widely held view of the Fund in many quarters: "most Asian countries would rather be dead than turn to the IMF" (quoted in Quentin Peel, "Political will for meaningful reform of IMF is still lacking," *Financial Times*, March 17, 2009, 2). Borrowers also show a clear preference for weaker rather than tougher conditions. The evidence in Nelson (2009) suggests that Michael Mussa's claim that low- and middle-income countries almost always prefer generously funded and lightly enforced programs ("virtually all members prefer to deal with the sympathetic social worker rather than the tough cop") is correct (2002, 68).

22. Peksen and Drury's findings in this volume that economic sanctions have a negative effect on democracy are interesting in light of this literature, since sanctions are generally associated with a decline in the target country's economy, which can often culminate in crisis (Peksen and Drury, chapter 3).

23. Though for a contrary view, see Simmons and Hopkins (2005).

Appendix

Democratic Transitions
List of transitions and dates are taken from Svolik (2008)

Albania 1992
Argentina 1973, 1983
Bangladesh 1986
Benin 1991
Bolivia 1979, 1982
Brazil 1979
Bulgaria 1990
Burundi 1993
Cape Verde 1991
Central African Republic 1993
Chile 1990
Comoros 1990
Congo-Brazzaville 1992
Cote d'Ivoire 2000
Ecuador 1979
El Salvador 1984
Ghana 1970, 1979, 1993
Grenada 1984
Guatemala 1986
Guinea-Bissau 2000
Guyana 1992
Haiti 1994
Honduras 1982
Hungary 1990
Indonesia 1999
Lesotho 1993
Madagascar 1993
Malawi 1994
Mali 1992
Mexico 2000
Moldova 1996
Mongolia 1990
Nepal 1991
Nicaragua 1984
Niger 1993, 2000
Nigeria 1979, 1999
Pakistan 1972, 1988
Panama 1990

Peru 1980, 2000
Philippines 1986
Poland 1989
Romania 1991
Russia 1993
Senegal 2000
Sierra Leone 1996, 1998
South Africa 1994
South Korea 1988
Sri Lanka 1991
Sudan 1986
Suriname 1988, 1991
Taiwan 1996
Thailand 1975, 1983, 1992
Turkey 1983
Uganda 1980
Uruguay 1985
Zambia 1991

Chapter 6
European Union Membership and Democracy Promotion: The Case of Turkey

Cigdem Kentmen

Introduction

Although early research on democratization suggested that the willingness and interests of domestic actors and the level of economic development are the most important factors that explain democratization (Lipset 1960; Schmitter 1996), later research discounted this argument by demonstrating that external actors such as the United States, North Atlantic Treaty Organization (NATO), and the United Nations (UN) also play a determining role in the pace and direction of transformation processes (Schmitz 2004). The European Union's (EU) efforts to encourage democratic consolidation in Greece, Spain, Portugal, and Central and Eastern European countries (CEECs), in particular, triggered considerable research on the performance of the EU as a promoter of democracy. However, the analyses demonstrate competing results as the EU's understanding of democracy, expectations from nonmember and candidate countries, and mechanisms to promote democracy show variation. Those mixed findings suggest that there is a need for further investigation into the question of to what extent the EU is able to foster democracy and respect for human rights abroad.

This chapter focuses on how the EU has shaped Turkey's democratization process. Turkey is an interesting case for several reasons. Turkey is among the few recent candidate countries that do not have a communist history—others being Cyprus and Malta, which already joined the EU in 2004. Turkey has had a democratic constitution since 1921 (albeit a single party regime until 1945), but the European Community (EC) and then the EU has been denying its candidacy status until 1999 mostly because of weaknesses in Turkish democracy. Thus, the Turkish case allows us to examine how and to what extent the EU fosters the consolidation of democracy, rather than the transition to democracy as in Central and Eastern European postcommunist candidate countries, in a nonmember state. Moreover, Turkey's long history with the EU, which started in 1959 with Turkey's application for membership to the European Economic Community