

## DEMOCRACY, ECONOMIC REFORM AND REGIONAL COOPERATION

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### ABSTRACT

This paper examines the impact of political and economic liberalization on regional conflict and cooperation. It concludes that: (1) even if democracy may be expected to have a positive effect on cooperation, it may be neither necessary nor sufficient; (2) instead, the grand political-economic strategies of domestic ruling coalitions may provide a more powerful predictor of regional outcomes. Coalitions strongly committed to economic liberalization are expected to be more likely to undertake regional cooperative postures, particularly when facing similarly committed regional partners. Coalitions aggregating inward-looking and big-state interests – often allied with confessional movements – are expected to endorse less cooperative positions vis-a-vis regional partners. I discuss the genesis of alternative coalitions, the impact of their political strength and interactive dynamics on regional outcomes and end with the implications of this coalitional framework for extant theories and for future research. The conceptual advantages of focusing on coalitions include providing a unifying framework for comparing different regions, transcending old level-of-analysis categories, explaining intra- as well as inter-state competition, and eschewing exceptionalist theories of Third World behavior.

KEY WORDS • democracy • economic liberalization • conflict • cooperation  
• coalitions

### Introduction

This paper examines the domestic determinants of regional conflict and cooperation in the so-called new world order. I address specifically the potential impact of democratization and economic liberalization on regional cooperation. A preliminary overview suggests that even if democracy may be expected to have a positive effect on cooperation, it may be neither necessary nor sufficient for cooperation to come about. Instead, the nature of ruling coalitions – as a function of their position vis-a-vis economic

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liberalization – may provide a more powerful predictor of trends towards regional cooperation or conflict.<sup>1</sup>

The study of domestic politics is essential in the attempt to reconceptualize regional relations at the end of the century, for three main reasons. The first relates to the complex and indeterminate relationship between military capabilities and genuine security. The widespread recognition of this complexity has reinforced the natural tendency of domestic groups to frame their attitudes towards security on the basis of their respective political and institutional interests, rather than on vague assessments of national security. The second derives from the growing regionalization of conflicts in the aftermath of the Cold War. Because regional relations are no longer pegged to the old inexorable logic of superpower competition, domestic debates over the meaning of security in the different regions have now gained unparalleled relevance in the formulation of regional policy. Such internal debates make the relevant themes and actors more transparent, thus offering a unique opportunity for the analyst to study the domestic conditions that shape regional postures. Third, the end of foreign aid to regional players as a function of their strategic value has weakened certain domestic groups and institutions – such as the military – and strengthened others. Fewer resources have narrowed down the political space for military expenditures and forced a redefinition of priorities. Understanding the new domestic distribution of costs and benefits from alternative security postures is thus essential to foresee likely regional outcomes.

In considering the domestic sources of regional relations, the role of democratization is of particular relevance. There is a widespread perception among scholars that the democratic nature of states is a fundamental piece of the puzzle in understanding conflict and cooperation. The next section surveys the theoretical foundations linking democracies to cooperation, as well as the logical and empirical problems involved in applying this brand of theorizing beyond the advanced industrialized states. I then turn to the main hypothesis of this paper, namely, that the grand political-economic strategies of domestic ruling coalitions provide important insights into the kind of regional postures that their states embrace. A particular proposition worth exploring is the extent to which coalitions more strongly committed to economic liberalization are also more likely to undertake regional cooperative postures, *particularly when facing similarly committed regional partners*. In contrast, coalitions aggregating nationalist and statist interests – in many cases allied with confessional movements – might be expected to endorse less cooperative positions vis-a-vis regional partners.

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1. Solingen (1994) discusses the more specific relationship between domestic liberalization and the prospects for regional *nuclear* regimes, as well as the implications of that relationship for the role of international institutions.

The fourth section discusses the genesis of alternative coalitions as well as the impact of their political strength and interactive dynamics on regional outcomes. Finally, the implications of this coalitional framework for extant theories and for future research are discussed.

### **Democratization, Regional Conflict and Cooperation**

There is now a rich literature on alternative hypotheses designed to explain: (1) why liberal democracies are not likely to wage wars among themselves, and (2) why they are as likely to engage nondemocratic partners in armed conflict. I first disaggregate these somewhat complementary hypotheses (most of which combine institutional, perceptual and normative considerations) and then extend them to the analysis of cooperation. I then explore why the logical underpinnings of this theory might be only partially applicable beyond the empirical domain (industrialized countries) that inspired the renaissance of this line of theorizing.

The bulk of this literature is devoted to understanding *the absence of war* among democratic dyads. In what follows I attempt to extend the propositions accounting for this outcome to explain why democratic dyads might also be more prone to *cooperate*, and not merely refrain from warring. It is far more useful to be able to anticipate both cooperative and conflictive behavior than merely the absence of war.<sup>2</sup> On what basis, then, do we link regime-type (democratic versus nondemocratic) to war-likeness or cooperation?

1. *Domestic legitimacy and accountability.* According to this proposition, rooted in a Kantian conception of citizens' consent, the legitimacy granted by the domestic public of one liberal democracy to the elected representatives of another has a moderating effect away from violent solutions (Doyle, 1983, 1986; Van Evera, 1991). Although disagreements and even conflict may remain, democracies are likely to shy away from armed conflict and to search for cooperative solutions in their dealings with fellow democracies (Maoz and Abdolali, 1989). Instead, the abhorrence of authoritarianism and its lack of popular accountability encourage democracies to opt for more

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2. As a working definition I propose to consider behavior oriented to initiate, maintain, and/or exacerbate disputes as conflictive, and behavior oriented to reduce disputes as cooperative. Issues of perceptions and thresholds are incorporated, to some extent, in the analysis of regime-type and coalition-type. Cooperation requires 'active attempts to adjust policies to meet the demands of others' under conditions of discord or potential discord (Keohane, 1984). Such attempts can be undertaken in the economic and/or security realms. On the tendency of these two to go together, see Gowa and Mansfield (1993).

violent means in handling their conflict with nondemocratic adversaries. The ability to cooperate is greatly handicapped for a mixed (democratic/nondemocratic) dyad, for both normative and instrumental reasons. First, cooperation requires trust, and democracies find it harder to trust commitments by adversarial leaders who lack legitimacy at home (Doyle, 1983). Second, not only do nondemocratic leaders lack accountability, but their lack of legitimacy arguably renders their hold on power even more precarious, shortening the shadow of the future.

2. *Institutional checks and balances.* A second proposition holds that free speech, electoral cycles and the public-policy process act as restraints on the ability of democratic leaders to pursue extreme policies vis-a-vis fellow democracies (Bueno de Mesquita and Lalman, 1992; Ember et al., 1992). According to Kant, the public hesitates to start wars because of the heavy costs which they themselves would have to bear (Doyle 1986: 1160). Thus, the greater the input of civil society, the lower a democratic state's reliance on war will be, when managing conflict with other democracies. Instead, the more concentrated the monopoly of political power, or the more praetorian the domestic structures (Snyder, 1991b), the higher the probability that extreme, violent solutions will be embraced. Authoritarianism and praetorianism, in turn, can cancel the moderating effects of institutional checks and balances among those democracies facing security threats from nondemocratic adversaries. This proposition is more useful in explaining why democratic dyads avoid armed conflict than in indicating that checks and balances necessarily buttress cooperation between them.

3. *Domestic transparency, communication and the costs of regime-creation.* Democracies are information-rich societies assumed to maximize transparency. The expectation that mutual information about the internal evaluations of a policy, or of the intensity of the preferences, will be available to a democratic dyad, should thus improve their chances for arriving at a cooperative solution (Keohane, 1984; Bueno de Mesquita and Lalman, 1992; Starr, 1992). Maximizing information is of particular importance in the creation of security regimes, where the risks of error and deception can be catastrophic (Jervis, 1986). Transparency allows a democratic dyad to embrace concessions at a much lower risk of the other side defecting, because of the public nature of the process involved in reversing policies. Thus, states sharing an open political system develop high levels of mutual formal and informal communication which, in turn, lowers the cost of forming a regime (Keohane, 1984: 95-7). Openness allows the transgovernmental networks of democratic dyads to share information on their respective domestic conditions, thus facilitating transnational logrolling of support for a regime. Instead, asymmetric levels of transparency could lower the incentives to democracies for embracing cooperation, because they might find it harder to foresee potential assaults by nondemocratic would-be partners on

the stipulations of cooperative arrangements. Mixed or nondemocratic dyads thus engage in more contained communication patterns, which deprives them of the positive externalities (of communication) for cooperation. The attempt to protect the autonomy of decision-making from outside interference raises the costs of cooperating, which now include prior efforts at improving mutual communication.

4. *Democratic process, credibility and ratification.* Democracies are respectful of the rule of law and appear to undertake more credible and durable commitments (Doyle, 1983; Siverson and Emmons, 1991; Gaubatz, 1992). This tendency, it may be argued, strengthens their reputation as predictable partners who may be more accepting of cooperative regimes binding their behavior. Democratic dyads can thus rely on diffuse reciprocity (Keohane, 1986), where the benefits from cooperation can be distributed over extended periods of time, rather than on a quid-pro-quo basis. Stable democracies bind successive governments to international agreements, while nondemocratic regimes can be replaced by challengers capable of reshuffling international commitments to maintain legitimacy at home. In fact, nondemocratic rulers may enter an agreement and soon after defect, absent any serious domestic constraints. This is evident, for instance, from Saddam Hussein's repeated violations of Iraq's international commitments. A democratic dyad would thus arguably operate under conditions of strong mutual credibility, while problems of uncertainty over ratification and implementation would be exacerbated for asymmetric or nondemocratic dyads. This will be particularly the case where nondemocratic interlocutors do not follow easily tractable procedures or where their rulers are too weak domestically to implement reciprocity (Oye, 1986). No effective security regime can come about under conditions of severe uncertainty and low credibility. Yet, the expectation that nondemocratic regimes would be less transparent and credible in their commitments and less reliable on ratification is often postulated, but very seldom explained or tested.

5. *Sensitivity to the human and material costs of war.* Citizens of liberal democracies are assumed to be particularly wary of wars because these often exact heavy losses of life and property (Schumpeter, 1955; Doyle, 1986). This general aversion to losses, particularly if it is shared by democratic adversaries, induces caution in the management of conflict among them. Instead, the sensitivity to losses is particularly high when facing a nondemocratic adversary, suspected of seeking total, rather than limited, objectives. Democracies assume a lower sensitivity to losses among nondemocratic regimes, where a few can risk a lot (in material and human terms), without the need for consent or accountability, to secure their aims. Thus, the need to resist aggression is particularly compelling, and the opportunities for cooperation far fewer. Another way of formulating this proposition is to say that democratic dyads, even under conditions of conflict, avoid wars because

of reciprocally high levels of *aversion to loss*. Instead, cooperation between mixed (or nondemocratic) dyads is hindered, because initial asymmetries in sensitivity to loss lead to a greater need to rely on deterrence, in order to offset a lower authoritarian sensitivity to losses.

These five propositions summarize the basic conceptual links between democracy and the likelihood for conflict and cooperation. Any of the ongoing efforts to reconceptualize regional relations in the post Cold War era on the basis of democratic theories of peace must specify which underlying logic is expected to be at work in explaining future regional orders. This is particularly the case in light of the wide variation in democratic forms, both between established and new democracies, as well as among an array of emerging democratic regimes. There is an understandable intellectual excitement offered by the possibility that global democratization might not only solve the internal security dilemma of citizens throughout the developing world, but also the classical inter-state security dilemmas afflicting most of these regions. Alas, this prognosis may be premature.

Empirically, an overview of major enduring rivalries suggests more than caution. The Middle East lags behind most of the developing world in political liberalization, perhaps with the exception of China. Yet an eclectic mix of more or less authoritarian states and a long-standing democracy have jointly launched an unprecedented attempt to reach a comprehensive peace settlement.<sup>3</sup> Since the 1991 Madrid Conference, these parties have been involved in a two-track process to resolve bilateral issues as well as multilateral regional problems in the areas of security, economic development, the environment, water resources and refugees. Paradoxically, if democratization throughout the Middle East takes the form of radical Islamic regimes, there are indications that a greater symmetry in regime-type between Israel and its neighbors might exacerbate (rather than mitigate) regional conflict!<sup>4</sup> This possibility would not only be

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3. Israel within the green line has been a democracy since its creation in 1948. Perhaps the least democratic state in this group is Syria (Iraq and Iran, sharing this end of the spectrum, are not part of the peace process at all). Jordan, Egypt, the Palestinian Liberation Organization (PLO) and Lebanon are undergoing political liberalization at different rates and with different degrees of success. Other Arab participants/observers in the multilateral negotiations, such as Algeria, Yemen, Saudi Arabia and the Gulf states are similarly groping with pressures to democratize.

4. This sentence only implies – based on the available evidence from Iran, Sudan, and other radical Islamic challengers throughout the region – that Islamic regimes (whether assuming power democratically or not) may be more likely to resist peace with Israel than the regimes they challenge. This assumption is unrelated to debates over Islamic threats to the West, or over the likelihood of a unified Islamic world.

traumatic for the region, but for the theory of democratic peace as well (Russett, 1993).<sup>5</sup>

Active efforts at conflict resolution in the Middle East stand in rather sharp contrast with South Asia, where two democracies have been unable to come to terms with their historical feud. It is quite suggestive that the Indo-Pakistani conflict is now considered to have the highest potential for the outbreak of a nuclear conflict.<sup>6</sup> Elsewhere, the recent spate of cooperative agreements between Argentina and Brazil is often traced to the return of democratic regimes in both countries. Yet, it was the military dictatorships of Generals Videla in Argentina and Figueiredo in Brazil that took the first steps towards cooperation (including at the nuclear level) in the late 1970s. Moreover, the relationship between regime-type and conflictive or cooperative behavior in this region has a very mixed historical record, which the Peruvian-Ecuadorian war of February 1995 – between two democracies – confirms. In fact, old disputes among Southern Cone states were more often solved than exacerbated during the era of military rule, perhaps with the caveat of the 1978 Beagle case. Regional cooperation was arguably quite high under common military rule because of a convergence of interests among these regimes to suppress subversion at home. This pattern brings to mind the case of the Association of South-East Asian Nations (ASEAN) where the virtual absence of conflict in recent decades can be traced to anything but a meeting of democratic minds.

These cases suggest, at the very least, a considerable number of empirical anomalies in the relationship between democracy and cooperation in the developing world. The cases include, after all, those regions most often associated with potential large-scale conflict. Nor does the record provide support for an alternative – symmetric – theory of ‘authoritarian peace’. The list of armed conflicts between nondemocratic dyads in most regions is a hefty one, with Vietnam and Cambodia, the Koreas, and Iran and Iraq providing only some of the most gruesome examples. The attempt to extend democratic theories of peace into the developing world is not merely problematic on the basis of empirical fit. There are potential conceptual problems in extrapolating the relationship between democracy and peace beyond the domain that gave life to the theory (i.e. beyond the industrialized ‘zone of peace’). For instance, the democratic predisposition to avoid wars and build cooperative regimes is firmly rooted in the universe of

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5. The theory might conceivably be saved if one were to argue that Islamic democracies are distorted versions of the real thing, which raises definitional and contextual issues, and perhaps problems of ethnocentricity.

6. This is the assessment of former US Director of Central Intelligence James Woolsey (*New York Times* 22 February 1994: A15).

economically advanced democracies, where democratic *stability* (Maoz and Russett, 1992) is far more abundant than in other regions.

In sum, there is a distinct possibility that democracy might bear a generally positive relationship to cooperation, but it is equally possible that political freedom is neither a necessary nor a sufficient condition for the emergence of regional cooperation in these areas. Instead, evidence on interactions between economically liberalizing coalitions and their counterparts suggests a far more promising analytical tack. Underpinning this theoretical approach is the idea that economic liberalism compels a *domestic* agenda that strengthens regional cooperation among ruling coalitions sharing such agenda. This hypothesis is explored next.<sup>7</sup>

### **Domestic Coalitions, Economic Reform and Regional Postures**

Perhaps the most efficient way of capturing the impact of economic liberalization on regional postures is by focusing on the political coalitions that promote and oppose liberalization. The general argument I examine in this section is *the extent to which ruling coalitions pursuing economic liberalization might be more likely to embrace regional cooperation than their opposites (often a collection of inward-looking, statist, nationalist and confessional groups)*. As will be made clear, this hypothesis linking ruling-coalition-type with propensity for cooperation (Snyder, 1989), is not based on traditional arguments about the effects of interdependence *among (regional) partners* on cooperative behavior vis-a-vis each other. Rather, it is based on certain assumptions about the way in which political coalitions in the developing world – in safeguarding their domestic interests and viability – define their association with the regional and international political economy as a whole. In the order of first principles, the argument assumes that the kinds of ties binding different actors (institutions, economic sectors, groups, bureaucracies, political parties) to *global* economic and other international processes do affect their conceptions of interests (Gourevitch, 1978), and that these are expressed domestically as well as regionally. Actors (state and private) join forces in coalitions when their interests converge, in order to compete against alternative coalitions.

In dissecting the possible association between coalition-type and regional postures a good starting point is the distributional consequences of economic liberalization, which create two basic types of coalition: one favoring it, the other opposing it.

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7. Rummel (1983) considers 'economic freedom' among various correlates of propensity for violence.



### *Liberalizing Coalitions*

The grand political-economic strategies of different coalitions transcend the domestic-international divide. Quite often, the interests of political coalitions favoring broader economic liberalization (market-oriented, privatizing, state-shrinking reforms) require openness to global markets, capital, investments, and technology.<sup>8</sup> Hence the characterization of these coalitions as internationalist (Kaufman, 1986; Stallings, 1992). Liberalizing coalitions often include state agencies in charge of economic reform, and politicians and parties representing the beneficiaries of reform.<sup>9</sup> Beneficiaries include liquid-asset holders and export-oriented firms, such as large banking and industrial complexes capable of surviving without state protection, more receptive to structural adjustment policies and opposed to external confrontations with the international financial and investing community.<sup>10</sup> The ability of big business (locally and foreign-owned) to influence domestic investment patterns and to move capital abroad often gives them an important voice in shaping domestic and external adjustment policy. Smaller firms engaged in exports or supplying internationalized enterprises are normally part of these coalitions, as is the highly-skilled labor force employed by these firms. A variety of professional groups is similarly oriented towards an open global economic and knowledge (technological) system. These 'symbolic analysts' (Reich, 1991) include public and private managerial, technical, scientific, educational, information, and service-oriented elites who benefit from an integrated global economy. Where symbolic analysts do not derive such benefits they tend to back alternative coalitions, as shown below.

From the perspective of liberalizing coalitions, cooperative regional postures may be most efficient for both their *domestic* political and *global* implications. Such postures, in general terms, are expected to have three consequences:

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8. Different coalitions emphasize different aspects of economic liberalization, depending on their interest in expanding exports, deregulating financial flows, opening the domestic market to foreign goods and investment, reducing state entrepreneurial activities or some mix thereof. Liberalizing tendencies should not be equated with laissez-faire policies across the board; a *dirigiste* developmental state (Johnson, 1982) can plan the direction, rate and extent of liberalization. Thus, the process of liberalization does not exclude selective protection and continued regulation.

9. On how global interdependence has strengthened key state financial institutions and big business, see Cox (1986).

10. Structural adjustment is 'a set of measures designed to make the economy competitive' (Przeworski, 1991: 144). Such measures often include, in different sequences and combinations, currency devaluation, deficit reduction, de-indexing of wages, reduction in consumer subsidies, price deregulation and tariff reductions (Kaufman, 1989; Nelson, 1989). On why firms with strong international ties oppose protection, see Milner (1988).

1. *Freeing up resources to carry out reform at home.* Conflictive postures require the need to back them up with the internal mobilization of resources for potential military conflict. That choice often contributes to many of the ailments afflicting these countries' domestic political economy (from the standpoint of these coalitions): the expansion of state power, the maintenance of unproductive and inflation-inducing military investments and the perpetuation of rent-seeking patterns.<sup>11</sup> In principle, therefore, liberalizing coalitions arguably attempt to resist such choices, to avoid inflated military budgets that increase governmental and payments deficits, raise the cost of capital, curtail savings and productive investment, deplete foreign exchange coffers and distort the humanpower base. In other words, these coalitions are less predisposed to extract and mobilize societal resources for external conflict, because such extraction would threaten important macroeconomic objectives which they endorse.<sup>12</sup>

2. *Weakening groups and institutions opposed to reform.* The resolution of regional conflicts can have a detrimental impact on three main groups opposed to economic reform (and therefore, natural challengers of liberalizing coalitions): (a) the military (either as an institution, or as represented by its dominant echelons); (b) the network of public and private enterprises thriving on the production and distribution of military and ancillary goods;<sup>13</sup> (c) advocates of nationalist and/or confessional causes that prosper domestically, in political terms, from regional conflict and competition with neighboring countries (the make-up and objectives of these opposition groups are explored below). These three groups often oppose economic reform because it threatens either their material or ideal interests. In the former case, the threat emanates from the prospect of being weaned from rents hitherto provided by the state. In the latter case, opposition to reform stems from the connection between economic liberalization and increased participation in global (Western) institutions.

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11. For a thorough examination of the net consequences of military expenditures in Third World countries, see Ball (1988). On how predatory taxation, very often adopted for defense purposes, reduces profit margins and discourages private investment, see Feigenbaum and Henig (1994). Rent-seeking refers to the unproductive economic activities of groups that seek transfers of wealth through the aegis of the state (Buchanan et al., 1980: 4).

12. On the politics of extraction and political risks faced by different coalitions, see Lamborn (1991) and Rosecrance and Stein (1993).

13. Militarization can take place either as a product of a conscious design to base one's grand strategy on military prowess (Iraq, North Korea) or as an insurance policy against others who may have such designs (Saudi Arabia), and against generalized uncertainty, of the kind unleashed by the end of the Cold War. Most liberalizing regimes (in East Asia, for instance) have undertaken military purchases as limited insurance against uncertain developments in the region, but militarization has remained subsidiary to the larger goals of economic modernization.

3. *Securing access to foreign markets, capital, investments and technology.* Cooperative arrangements erode risk considerations and enable foreign investment, avoid potential sanctions and penalties from international private and public actors and reinforce the coalition's ties to economic institutions (IMF, World Bank), to which they endear themselves by virtue of their reform programs.<sup>14</sup> Intransigent regional postures instead raise the propensity for conflict and the risks for foreign investors, may trigger denial of aid, bilateral or multilateral (as with the US refusal to provide loan guarantees to Israel's Likud-led coalition), denial of technology and the like. Where liberalizing coalitions take hold throughout a region (as in ASEAN, MERCOSUR and the Gulf Cooperation Council (GCC)) their domestic political-economic strategies are transferred to the regional institutional arena. New regional cooperative (and potentially integrative) regimes emerge that serve both the purpose of strengthening the liberalizing model at home, and of lubricating external ties to the global political economy.<sup>15</sup>

In other words, cooperative regional arrangements are not just the product of concessions to outside pressures. Liberalizing coalitions do not merely trade the right to pursue the national interest regionally (whatever that means) for the right to make money, as their opponents often argue (in Egypt, for example).<sup>16</sup> Liberalizing coalitions coalesce a range of groups and institutions that perceive regional cooperation as valuable in: (1) advancing the agenda of liberalizing the economy; (2) reining in adversarial political forces at home; (3) securing certain international economic, financial and political benefits, such as debt-relief, export markets, technology transfer, food imports, aid and investments, that can be used to maintain or broaden domestic political support and to strengthen the institutional framework underpinning economic liberalization.

Variants of liberalizing coalitions have emerged in the Middle East, particularly since the 1980s, backed by oil-exporting industries in the Gulf and the Arabian peninsula, financial, tourist-based, commercial-agriculture and 'munfatihun' economies in Egypt and Jordan (Barkey, 1992), and high-tech export-oriented sectors in Israel. These coalitions advocate openness to international markets and institutions, and have implemented breakthroughs in the Middle East peace process. Egypt pioneered a regional rapprochement since the mid-1970s, when a Sadat-led coalition embarked in

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14. Cooperation is a necessary but insufficient condition for foreign investments to flow in.

15. On how regional groups like ASEAN and the GCC operate with an eye on domestic challenges to their regimes, see Acharya (1992).

16. In fact, liberalizing coalitions aim at shrinking the size of the state but, if successful, end up strengthening the leaner state's institutional capacity for societal extraction, and by extension, for mobilizing resources for war.

an effort to replace Nasser's import-substitution strategy with a policy of liberalization ('infithah'), accumulation and growth.<sup>17</sup>

In another region – the Southern Cone of Latin America – political coalitions backing effective economic liberalization, privatization and adjustment for the first time in recent decades, also engaged in unprecedented regional cooperative arrangements. In the early 1990s the administrations of Carlos S. Menem in Argentina and Fernando Collor de Mello in Brazil laid out a blueprint of cooperation involving every issue-area, including economic integration and regional denuclearization. The Argentine neo-liberal coalition brought about privatization, low inflation and balanced budgets, complete with a commitment to unilateral accession to the Non-proliferation Treaty (which Argentina had resisted for 25 years). Brazil lagged in implementing economic reform since the ascension of Itamar Franco, who wooed a statist-populist constituency and the military (Marks, 1993), and attacked international institutions and their domestic allies. Not surprisingly, the external expression of this coalition's standing was an assertion of Brazil's sovereignty in nuclear matters, and a more guarded approach to cooperation with Argentina. This phase was superseded recently by the election of Fernando H. Cardoso in 1994, whose coalition set out to replicate Menem's grand political-economic strategy and Argentina's overall drive to an unprecedented definition of regional cooperation in the Southern Cone, with MERCOSUR as an essential component.

South Korea and Taiwan had embraced very early on (1960s) what became eventually the classical integrative model of industrialization, in this case under the guidance of a state-based coalition with growing support over time from emerging powerful societal actors (Haggard and Kaufman, 1992). Here, substantive threats to their physical existence required highly developed military-industrial sectors, but these were never allowed to harm the integrity of the political-economic model. Bureaucrats and 'chaebols' in South Korea (and Taiwan's Guomindang apparatus) nurtured a strategy that, despite some protected niches and considerable state entrepreneurship, leaned on foreign markets, capital, technology, and investments.<sup>18</sup> The maintenance of such strategy and of *economic stability* required low levels of regional conflict. In effect, the ruling coalitions of South Korea and Taiwan arguably pursued, for the most part, the least confrontational

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17. See Waterbury (1983). In this process, Egypt reduced its military expenditures from 52.4 percent of its GNP in 1975 to 13 percent in 1979 while foreign exchange from tourism, workers' remittances and Canal revenues (activities made possible by peace with Israel) grew from \$700 million in 1974 to about \$9 billion in 1981 (Karawan, 1993: 17).

18. Taiwan's foreign trade amounted to about 85 percent of its GNP in 1985 (Chan, 1988).

postures possible under a highly adversarial regional context.<sup>19</sup> For instance, both agreed to renounce an expensive nuclear competition – at least since the 1970s – and joined the nonproliferation regime effectively (rather than merely in form).<sup>20</sup>

### *Nationalist-populist Coalitions*

Nationalist coalitions encompass an eclectic group that often colludes in challenging different aspects of liberalizing agendas. Not all elements are present everywhere and their relative strength varies across states and regions. Generally, these coalitions have an affinity with import-substituting models of industrialization and classical populist programs, involving a strong, active government controlling prices, protecting workers, wages and state enterprises, allocating credit at low interest rates and dispensing rents to private industry.<sup>21</sup> In their extreme form, outright economic and autarky and self-sufficiency have been the cornerstone of inward-looking coalitions such as the ‘hermit kingdom’ of North Korea.<sup>22</sup>

Opponents of economic liberalization often include threatened state bureaucracies and enterprises, politicians who fear the dismantling of such enterprises and the consequent erosion of their basis of political patronage, popular sectors (unskilled, blue-collar workers, white-collar and other state

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19. On the Guomindang’s overriding concern with economic stability, on Taiwan’s shift from rabid militarism in the early years to ‘an evermore absorbing interest in economic growth’, and on the decline of the military institution in Taiwan’s political economy, see Amsden (1989). On the minor and indirect role of Taiwan’s defense burden on its GNP growth, export expansion and improving income equality and on Taiwan’s reluctance to finance indigenous arms industries, see Chan (1988). On why the congruence of economic growth and war production in the US in World War II was exceptional, see Kaysen (1991).

20. Of course, a powerful competing hypothesis would trace the behavior of South Korea and Taiwan to the hegemon’s wishes and protection. However, the US commitment to Taiwan was questionable following the normalization of relations with China and the abrogation of the Washington-Taipei mutual security treaty. Seoul grew apprehensive about US commitments after Vietnam as well. Furthermore, the security commitments of superpowers were insufficient to induce a change of behavior in other cases (Pakistan, Israel, Iraq). Ultimately, even if one accepts the hegemonic argument, the compatibility between coalition-type and regional policy remains. The postures of Taiwan and South Korea might have been overdetermined (particularly since the US alliance was valued as much for its contribution to internal stability as for its external protection).

21. Populism is distributive but not necessarily redistributive; the politically powerful benefit, not the very poor. It is generally biased towards an increase in middle-class (not poor) urban income at the expense of rural producers, exporters and foreign capital (Cardoso and Helwege, 1991: 46).

22. North Korea’s foreign trade by 1994 amounts to only 13 percent of its GNP (Pollack, 1994: A3).

employees, small businesses), import-competing firms with close ties to the state and domestic markets and the underemployed intelligentsia, as well as symbolic analysts associated with all these groups (Kallab and Feinberg (eds), 1989; Kaufman, 1989).<sup>23</sup> Arms-importing and arms-producing military establishments are often adversely affected by adjustment programs (Sadowski, 1993); so is the military as an institution, frequently addicted to fat budgetary transfers supporting the life-styles of senior officers.<sup>24</sup> These coalitions thus reject orthodox stabilization plans, particularly as imposed by the IMF and other financial institutions, and favor a more expansionist course.<sup>25</sup>

Nationalist and certain confessional (fundamentalist) groups often join these coalitions (as in the Middle East and South Asia), because such movements thrive on popular resentment over what they regard as externally imposed adjustment policies, over-reliance on foreign investment and over the Western principles and norms embodied in most international regimes. At times, the coalition's material pillar against internationalization and liberalization is stronger (as where state enterprises and import-substituting interests are powerful); at others the religious or ideological components become a driving force.<sup>26</sup> Very frequently these two either converge or tend to reinforce each other. The paradox of weakened former nationalist parties (such as Egypt's Socialist Labor Party) allying themselves with the Muslim Brotherhood quickly unravels when bearing in mind their calculus of potential gains from a joint challenge to liberalizing coalitions.

The groups and institutions aggregated in nationalist-confessional coalitions perceive regional cooperative outcomes as weakening them politically and economically, for many of the same reasons that liberalizing coalitions

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23. Certain private economic groups may support privatization in principle but profit no less (and perhaps at lower risks) from expanded state economic activities and resources.

24. Personnel costs account for between 50 and 70 percent of military expenditures in most Third World countries (Ball, 1988). Very often there is a proliferation of military and security agencies with overlapping jurisdictions, competing for budgets. External threats are used to legitimize their existence, yet domestic repression and the regime's survival are their most common mission, as in Syria (Migdal, 1988). The military has opposed liberalization in many cases, including Argentina, Brazil, Uruguay, Egypt and South Korea. However, the interests of military factions differ and their respective positions regarding liberalization is a matter open to empirical investigation.

25. Stabilization involves restoring macroeconomic balance through short-term measures to slow down inflation and reduce balance-of-payments and government deficits (Przeworski, 1991: 144).

26. For an analysis of the political consequences of privatization that is sensitive to broad distributional consequences across class, occupation and racial categories, see Feigenbaum and Henig, 1994. The term 'confessional' encompasses allegiances based primarily on ethnicity and/or religion.

expect such outcomes to benefit them. From the vantage point of nationalist-confessional coalitions, prospective peace settlements have the following consequences:

1. *The danger of legitimizing downsized allocations to the military and weapons-producing enterprises.* A more cooperative regional context weakens the justification for the extraction of societal resources while leaving intact, from their own point of view, these institutions' mission of confronting regional threats.<sup>27</sup> Without such threats, it is no longer as viable to maintain export-oriented military-industrial complexes as it was during the Cold War, because the commercial justification for such complexes has withered away as well. Militarization is not subsidiary to larger political-economic objectives, but built into the grand strategy of nationalist-confessional coalitions, for which military prowess constitutes a core basis of legitimacy, as in Iraq and North Korea.

2. *Depriving nationalist-confessional coalitions of a major source of political capital: mythmaking.* Mythmaking (Snyder, 1991a) entails the ability to mobilize militant religious, ethnic or cultural groups against an actual or imagined adversary. Self-reliance is a central myth of inward-looking coalitions, either in their secular (North Korea's 'juche') or in their confessional form. Overall, nationalist-confessional coalitions are prone to protect their interests by invoking legitimating principles such as state prowess, sovereignty, geographical and territorial integrity, self-reliance and confessional purity.<sup>28</sup> Their liberalizing counterparts, instead, rely (often blindly) on global resources, capital, technology, markets and a leaner, effective state to broaden the constituency benefiting from liberalization, internationalization and regional cooperation.

3. *The absence of external threats devalues the mythmaking currency, weakening even further these coalitions' ability to justify societal extraction and the allocation of state resources to a wide array of economic, military and confessional interests.* Consider, for instance, the mileage that Iraqi and Iranian state enterprises, including Islamic welfare patronages, have gained from such myths.<sup>29</sup> This last point recalls Tilly's (1989) notion of external threats as a racket, where nationalist coalitions fabricate such threats and

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27. At the same time nationalist coalitions are often more reluctant to mobilize resources abroad and, even if they are not, the new global realities, both political and economic, preclude that option anyway.

28. On how the higher are the net adverse effects of extraction, the more likely are policy factions to try to legitimize the costs of extraction by manipulating political symbols and/or the level of perceived security threats, see Lamborn (1991: 85).

29. On how external threats offer the opportunity to *expand* state activities, revenues and rents, see Rasler and Thompson (1989) and Lake (1992).

then extract resources (yielding both tribute and rents), presumably to neutralize the menace.

Where most of the negative domestic externalities from external liberalization and regional cooperation are captured by politically strong nationalist and confessional groups with intense preferences, these groups resist the liberalizing agenda most forcefully and, sometimes, quite effectively. Given their constituent basis of domestic political support, inward-looking coalitions, unlike their liberalizing counterparts, are also more resilient to coercive international intervention in the management of regional conflict, and even appear to excel in converting such external interventions into domestic political profit. Thus, for instance, nationalist-confessional coalitions have defied political and economic sanctions from great powers and international institutions, as in the cases of Iraq, Iran, Serbia, Libya and North Korea. In all these cases: (1) powerful import-substituting economic interests prospered from international closure; (2) despite potential bottlenecks in the supply of inputs, the military and its productive complex were often protected from the effects of sanctions; and (3) sanctions strengthened a variety of state agencies in charge of productive and distributive functions. These effects, however, are relatively short-lasting and, over the long term, can severely threaten the longevity of these coalitions.

Thus far, I have identified the composition of inward-looking nationalist-confessional coalitions and their position vis-a-vis the process of economic liberalization. These coalitions advance their parochial interests by creating a climate of insecurity, conflict and competition. They do not always feel compelled to resort to war, but their risky postures often lead, or make them stumble, into armed conflict.<sup>30</sup> In their extreme form, these coalitions invested in expensive nuclear programs that played a central role in the call for redeeming solutions for regional threats (threats that in some cases were more real than in others).<sup>31</sup> Historical examples include coalitions backing Pakistan's Zulfikar Bhutto, Iraq's Saddam Hussein, Libya's Muammar Qadhafi, North Korea's Kim Il-Sung and even Argentina's Juan Peron.

In the Middle East populist-fundamentalist challengers offer themselves as an alternative to an array of liberalizing coalitions, royalist with a pragmatic Islamic bent as well as secular. These challengers propose a political economy rooted in what they regard as central Islamic principles (Sahliyah, 1990; Esposito, 1991; Kuran, 1993). Such principles reject many

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30. On how states characterized by small export sectors are more prone to choose war, see Domke (1988).

31. This is different from arguing that nuclear programs everywhere in the Third World have similar origins, although an amazing proportion does (Solingen, 1994).



of the tenets of international economic regimes and their perceived associated scourges: inequalities, corruption, unemployment, and enslaving indebtedness. In this proposed new socio-political order they attempt to bring about, these coalitions have no place for deviants (in either the economic or confessional aspects of their doctrine). Internal repression of dissent over economic and confessional issues by Islamic coalitions leaves no room for a policy of regional reconciliation with 'apostate' Arab regimes (let alone Israel) and frequently compels the use of violent means to undermine the viability of regional adversaries (Haeri, 1991; Sisk, 1992).

In Israel the opposition to Labor's (and Meretz's) efforts at economic reform, downsizing of the military-industrial complex and a regional peace settlement gravitates towards Likud and its associates, a block that in Israel's early years represented free enterprise liberalism, but that today is often tempted to play the populist card. Although historically a secular party, Likud now caters also to fundamentalist groups (religious and nationalist), and to all the political forces opposing a territorial compromise and those highly distrustful of international institutions.<sup>32</sup> To be sure, many within Likud and its right-wing allies favor economic liberalization and macro-economic balance. Yet, their political captivity to populist and confessional constituencies (particularly West Bank settlers and their supporters), and to groups resistant to the contraction of the military-industrial complex, has practical implications in budgetary terms, including wasteful investments in territories whose future is uncertain.

In South Asia nationalist-fundamentalist coalitions have aggregated groups opposing economic reform and international regimes, as well as those who uphold noncooperative postures vis-a-vis the regional rival. The platform of India's fundamentalist Hindu Bharatiya Janata Party (BJP) proposes a two-pronged approach to the solution of India's predicaments: banning foreign loans, investments and imports on the one hand, and deploying nuclear weapons on the other.<sup>33</sup> This coalition draws support from import-competing industries (food-processing, automobile, banking and communications), from a large base of public-sector employees and from some rural sectors opposed to economic reform, internal or external (Kholi, 1990). Pakistan's radical Islamic party Jamaat-i-Islami is somewhat of a mirror image of Hindu fundamentalism, although BJP uses confessional issues more instrumentally, as Israel's Likud. Jamaat has challenged the Western-style modernization policies of former Prime Minister Nawaz

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32. On the anti-Western element among some fundamentalist religious groups in Israel, see Joel Greenberg, 'Settlement Vows Fight on Peace Plan', *New York Times* 21 February 1994: A4.

33. *New York Times* 24 January 1993. There is less consistency on the nuclear issue, however.

Sharif and exploits primordial confessional passions to advocate combative regional postures.

We can now sum up the argument so far. *Regional cooperative postures hold different payoffs for different coalitions. They are expected to have positive political effects (at home and abroad) for liberalizing coalitions and negative ones for nationalist, populist and confessional ones.* On the one hand, regional cooperation enables, at a minimum, the pursuit of economic reform; it spells transparency, predictability, a good reputation and the blessing of the international community (which connect liberalizing coalitions to the promise of democracy, rationalization and cooperation). On the other hand, the prospects of cooperation undermine the viability of state agencies and enterprises associated with military functions and production, threaten with extinction the state's ability (erstwhile justified in state-building and national security terms) to disburse unlimited resources among rent-seeking groups, and deprive populist leaders of a rich fountain of myths.<sup>34</sup> Liberalizing coalitions seem to embrace regional and domestic policies that are politically risky in the short term but potentially rewarding in the long term (Israel's Labor).<sup>35</sup> Nationalist-populist coalitions tend to rely on regional and domestic strategies with short-term political payoffs, but, as pointed out below, fundamentally counterproductive in the long run (Iran's Islamic Republic).

### **Specifying the Argument: Coalitional Genesis, Political Strength and Interactive Dynamics**

The foregoing analysis provides a stylized dissection of contending coalitions in the industrializing world. It abstracts a pivotal axis or political cleavage from a very complex reality, where no coalition classifies as a pure case. What it may risk in failing to capture every empirical variation, it gains in facilitating large-scale comparisons across regions, through relatively parsimonious means. Three additional and interrelated aspects of coalitional dynamics need to be considered now: the rise and fall of liberalizing

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34. Nationalist coalitions, in other words, appear oriented towards either what Barnett (1992) labels an 'acommodationist' strategy of mobilization of societal resources for security objectives (that is, a strategy that maintains the basic compact between a robust state and societal interests) or towards a centralizing restructural strategy (increasing state control over the economy and society). Liberalizing coalitions, instead, restructure state-society relations by divesting state control, arguably expanding the country's material wealth.

35. This characterization of Israel's Labor-led coalition only applies to recent times. For an engaging account of the evolution of Labor coalitions' regional postures in connection with transformed priorities in the domestic political economy, see Barnett (1992).

|                     |    | Democratic                                   |   |
|---------------------|----|--|---|
|                     |    | YES  | NO  |
| Industrial Strategy | IS | <b>A</b><br>Import-substituting<br>Democracy | <b>B</b><br>Import-substituting<br>Authoritarianism |
|                     | EO | <b>C</b><br>Export-oriented<br>Democracy     | <b>D</b><br>Export-oriented<br>Authoritarianism     |

Figure 1. Coalitional Variants and Transitions from the Old to the New Political-economic Order

and nationalist-confessional coalitions, the impact of relative coalitional strength on regional postures, and the interactive effects (of alternative coalitions facing each other in a given region) on regional outcomes. Each of these three topics deserves a separate paper. What follows, therefore, is no more than a summary treatment, suggesting possible avenues of future research.

(a) *The Rise and Fall of Liberalizing and Nationalist-confessional Coalitions*

Two main hypotheses can be put forward to explain the rise of alternative coalitions: one is rooted in domestic processes; the other in international ones. Isolating the two variables is conceptually sound; in reality, however, it is far harder to separate their interactive effects. Moreover, the two are selected from a rich (and growing) menu, and are no more than a simplified version of processes encompassing over 100 different national contexts.

The domestic variable relates to the unravelling of the old political-economic order and the inception of democracy. For the most part, with much of the industrializing world and former market economies in mind, the old order, throughout most of the Cold War era, was largely statist, protectionist and nondemocratic, in different degrees and combinations. Yet, four main ideal-types can be identified in the old order context, following Figure 1. The vertical axis points to the prevailing (most were a mix) strategy of industrialization: export-oriented (EO) versus import-substituting (IS). The horizontal axis discriminates between democratic and nondemocratic states.

Type A denotes a democratic state ruled by a coalition committed to IS industrialization: Israel and India provide the classical historical examples here. Type B points to a nondemocratic state ruled by a coalition similarly committed to IS industrialization: examples abound, but Iraq can be cited as typical. Type C indicates the case of a ruling coalition steering a

democratic state through an EO strategy of industrialization: the dearth of historical examples here is suggestive, with Colombia providing a borderline case. With the onset of democracy and economic liberalization in the last decade this cell becomes crowded. Type D suggests a nondemocratic state captured by a coalition committed to EO industrialization: Taiwan and South Korea stand out in this category. It should be noted that the EO row (across the democracy variable) was practically empty until the 1960s.

The development of a liberalizing coalition in countries in cell A was slow and piecemeal. Following independence, states like India and Israel became strongly supportive of an IS model highly-charged with the ideology of self-reliance and domestic redistribution, which helped galvanize these young democratic states. Throughout the years the model's bottlenecks became apparent, and new economic groups, posed to benefit from greater integration in a global economy, began challenging the statist coalition in power. It was not until very recently that liberalizing coalitions were able to prevail, through electoral means, over their entrenched rivals. In this process, countries in this category moved from cell A to cell C.

States in cell B, traditionally ruled by a nondemocratic coalition committed to IS, evolved in three different directions with the onset of the new political-economic order. Where the democratic process took hold, liberalizing coalitions were better suited to organize themselves politically, as in Argentina and Turkey, steering their states towards cell C. Without a democratic process, states in cell B have followed two different paths. One involved an entrenched statist ruling coalition particularly reluctant to abandon IS (in a significant sense), as in Iraq or Syria. Nascent liberalizing groups still exhibit a tough time getting stronger, economically or politically, under these conditions. The other path recalls the East and South-east Asian 'tigers', where authoritarian coalitions previously committed to IS steered their states towards EO, or cell D.<sup>36</sup> In so doing, new groups, favorably affected by EO, joined in a widening coalition. In a classical positive feedback loop, the eventual success of EO turned this into a truly conquering liberalizing coalition.<sup>37</sup>

As noted, the historically empty cell C became the most packed in the new political economic order. This fact suggests the possible operation of a global systemic influence, concomitant to the domestic ones just discussed. Neorealists would define this influence in terms of the hegemonic triumph of US interests and designs. Neoliberal institutionalists phrase it as a conse-

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36. There is a vast literature attempting to explain such shift. See, *inter alia*, Gereffi and Wyman (1990); Haggard (1990).

37. Some 'tigers' evolved into democracies while others did not. This question, however, is outside the purview of this section, which addresses democracy as an intervening, rather than a dependent, variable.

quence of the growing importance of international economic and political institutions (Keohane, 1984). Critical theorists stress Gramscian hegemony and/or the ruthless operation of global market forces that impose liberalization on weaker global segments (Cox, 1986). Finally, a more voluntaristic approach points to global demonstration or contagion effects, or the emulation of successful economic models and legitimate political ones. These different interpretations share the view that: (i) global forces were at work in the more or less collective shift towards cell C, and that (ii) these forces tended, more often than not, to strengthen liberalizing coalitions. Yet, the jury is still out on the question of irreversibility of markets and democracy. And liberalizing coalitions, subjected to the concerted challenge of nationalist-confessional adversaries, are not nearly close to the end of history.

### *(b) Coalitional Strength and Regional Postures*

The ability of either coalition type to implement its grand political-economic strategy (in both its domestic and foreign aspects) is contingent on the amount of political power it has managed to amass, that is, on how wide and stable is the coalition's basis of political support. Ruling liberalizing coalitions enjoy varying degrees of political stability and half-life. In some cases, as in Argentina in the early 1990s, a conquering liberalizing coalition managed to revolutionize the country's grand political-economic strategy, in its internal and external dimensions alike. Strong liberalizing coalitions are thus better suited to launch a 'trading state' (Rosecrance, 1986). The weaker these coalitions' political basis, (i) the greater the pressures to dilute their reform program (Yeltsin); (ii) the more compelled they are to gravitate towards the themes and interests of political challengers to avoid their own collapse (Islamic 'sharia' in Saudi Arabia and Pakistan); (iii) the less able they find themselves (because of [ii] to downplay regional security threats (as the preceding examples suggest); (iv) the lower their capacity to forego the support of elements from the military-industrial complex. Thus, although scapegoating (the external enemy, often the neighbor) is generally the tool of nationalist-confessional coalitions, insecure liberalizing coalitions may use that instrument as well. Some contemporary evidence for such instances of weak liberalizing coalitions appealing to their opponent's constituency can be found in (pre-Rao) India, Benazir Bhutto's Pakistan and Itamar Franco's Brazil (and, historically, in Jordan and Argentina). The question of whether or not liberalizing coalitions may be prone to political weakness and if so, why, leads to the next point.

The sources of weakness of liberalizing coalitions may be sought in their failure to distribute the spoils of reform more equitably (or in their tendency to pursue their short-sighted, instead of their enlightened, self-interest). The

phenomenon is quite widespread, although Egypt provides the classical case, mostly because of the longevity of the process of reform in that country (since the mid 1970s), its tentative nature, and its meagre successes. Accounts of the ongoing reform process in Russia and eastern Europe are rich in details of income concentration and widespread impoverishment, reminiscent of the experience of some developing countries. International conditionality requirements reinforce the (perhaps natural) tendency of these coalitions to focus on the unfettered pursuit of wealth while paying little attention to the risky political consequences of concentrated benefits. Stabilization programs often lead to recessions and reduced public subsidies and investments in infrastructure, while trade liberalization exacerbates unemployment. Food riots in Egypt, Sudan, Algeria and Morocco followed the reduction of staple subsidies (as did the conservative Russian coup). In such cases a popular shift to nationalism and fundamentalism follows, either through electoral (Algeria) or other available means. Shock-style therapy without safety nets ends up weakening, not strengthening, the power of agencies in charge of economic reform and their societal allies.<sup>38</sup> Domestic forces and institutions offering an alternative, if unreal, solution to the predicaments of economic transition reap the political benefits.

The net result of the political dynamics of non-distributive liberalizing coalitions can be summed up in a paradox: such coalitions, prodded by international economic institutions, may plant the seeds of their own destruction *when they pursue myopic self-interests*. Regional cooperation might (and has) become a collateral casualty, as liberalizing coalitions fight for survival by moving towards more symbolic, nationalist or confessional instruments to drum up political support.<sup>39</sup> Such dangers may loom on the horizon not just in Egypt but also in India, Pakistan, Argentina and Brazil (and perhaps eastern Europe, Africa and Central Asia). It is worthy of consideration that where integration into the world economy evolved in tandem with a more egalitarian income distribution (relative to these earlier cases) as in South Korea and Taiwan, liberalization could gradually muster enough political support to move the process forward. Moreover, there was less regional adventurism and saber rattling in these cases. South Korea's cautious response to the vagaries of the North (including nuclear threats)

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38. Surveys reveal, for instance, that in Poland, Parliament and the government enjoyed greatest citizen confidence *before* the reforms; the army, the police and the Church, *after*. On this and other negative effects of neoliberal economic reform on democratic institutions and on the flimsy knowledge on which the neoliberal program of international economic agencies relies, see Przeworski (1992).

39. Put another way, IMF-style conditionality arrangements that are unresponsive to how the burden of reform is distributed may have negative security externalities. Protected markets in the industrialized world may have similar unintended consequences.

is symptomatic of a relatively strong liberalizing coalition's approach to regional security.<sup>40</sup>

Nationalist-confessional coalitions also vary in their political strength. At the height of their political dominance, they are able to push their agenda through (at home and abroad) almost unchallenged, as with Iran in the period immediately following the Islamic revolution. However, the weaker their political basis, (i) the stronger the pressures for economic liberalization; (ii) the less able they are to overplay (effectively) external threats (because these might require expensive resources that compete with the need to coopt wavering groups); (iii) the lower their capacity – because of (i) and (ii) – to infuse the military-industrial complex with economic rents. These conditions limit the overall wherewithal of nationalist-confessional coalitions to implement their grand macropolitical designs (even Iran and Sudan begrudgingly and quietly follow IMF conditionality).

The sources of weakness of these coalitions are embedded in the very nature of the political strategy they pursue: populist, self-reliant, statist and military-intensive. Even with the lucky blessing of a rich endowment (oil, for instance) the bonanza – guns *and* butter – eventually withers away. Redistribution can be effective in coalescing political power, as in Iraq, but is thwarted in the end by other, higher-ranking objectives, such as gargantuan investments in a scientific-military-industrial machinery. Income disparities are as evident here as in myopic liberalizing contexts. Over time, nationalist and confessional purity become devalued political instruments. These domestic weaknesses are exacerbated by the compounded effect of a combative foreign posture. On the one hand, such postures lower the international community's incentives to aid nationalist-confessional coalitions. On the other, regional conflicts and wars take their toll on a worn-out population.

Herein lies a second paradox, that of nationalist-confessional coalitions seemingly pursuing a self-destructive path. How can we interpret the behavior of these coalitions, in light of these results? The possibilities are that nationalist-confessional coalitions: (i) fail to act strategically; or (ii) act strategically in the belief that their policies, if fully implemented, will secure future political benefits; or (iii) they may be impermeable to learning; or (iv) they may have no other choice, given their political makeup, than playing this all-out, risky (often suicidal) strategy.<sup>41</sup>

In concluding this discussion of the relative strength of competing

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40. Notice this characterization relates to the period of advanced liberalization. During the earlier phases (1950s) there was neither liberalization nor moderate regional postures.

41. On cartelized systems, immobile interests (assets) and short-time horizons, see Snyder (1991a: 49).

coalitions, it is important to note that there are instances where the competition between the two coalitions fails to yield a clear victor, or one that can hold on to power for any significant lapse of time. Postwar Argentina until very recently is a paradigmatic case, as is Iran in the last decade. These conditions are particularly exacerbated in some African states, like Somalia or Rwanda. There, the absence of a central government (backed by any type of coalition) precipitates regional conflict when neighboring regimes scramble to minimize the potential negative consequences of a power vacuum in the region. In other words, no coalition (or an intractable coalitional strife) is perhaps the worst situation, from the perspective of preconditions for regional conflict. At the same time, such cases, as in Cambodia, may offer an opportunity for the international community to develop, mostly through economic inducements, a coalition promoting broad-based reform and cooperative regional policies.

*(c) Interactive Effects and Regional Outcomes*

So far this paper has concentrated on the identification, origin and characterization of different coalitions and the obtaining orientation to the outside world. Yet, this orientation is also a function of which coalitions they face *throughout the region*. In general terms, higher levels of cooperation can be expected where liberalizing coalitions prevail throughout a given region (case 1) than under the two other possible combinations, that is, where nationalist-confessional regimes (case 2), or competing liberalizing and nationalist neighbors (case 3), face one another.<sup>42</sup>

*Case 1.* Clusters of liberalizing coalitions are characterized by extensive and intensive cooperation, that is, cooperation across various issue-areas and with a deepening level of commitment. The paradigmatic case is that of the European Union, with others, such as ASEAN, the Southern Cone's MERCOSUR and the Gulf Cooperation Council, still evolving. Regional (potentially integrative) schemes emerge from these clusters, which strengthen the liberalizing model at home while lubricating external ties to the global political economy. As Malaysia's Foreign Minister argued: 'The concept of free enterprise . . . is the philosophical basis of ASEAN' (Acharya, 1992: 152); global markets are the engine. Although an absolute increase in regional trade and investment often results, regional economic

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42. These three basic interactive patterns are affected by the relative strength of different coalitions, a refinement that reasons of space force me to forgo here, except for a brief allusion at the end. In all, the combination of weak and strong liberalizing and nationalist coalitions that might face each other in a simple dyadic model yields twelve variants, as discussed elsewhere (Solingen, 1995).



integration is not necessary for cooperative relations to be maintained (for instance, the drive for integration may be weaker among competitive economies, as Middle East partners to the multilateral economic negotiations are finding out).

The synergies between economic and security cooperation become evident when the domestic implications of regional postures are taken into account. Liberalizing coalitions have common domestic incentives to downsize their military burden and when they face each other, this becomes a reciprocal guarantee against defection. Their macropolitical objectives (fiscal conservatism, regional stability, access to capital and markets) function, in essence, as tacit self-binding commitments. The reciprocal commitments also make it easier to obtain ratification for these policies at home. Thus, the primacy of their grand strategies tames long-standing disputes, making the use of military means highly unlikely. Even where arms continue to be sought, particularly where residual nationalist-confessional coalitions remain in the region, defense expenditures are kept at levels that do not endanger their overall grand strategy.<sup>43</sup>

To a significant extent, the Middle East peace process can be traced to *incipient* developments in the direction of the model just specified. Variants of economically liberalizing coalitions have emerged throughout that region, including within the Palestine Liberation Organization (PLO), once the convulsive energy of the 'intifada' had spent itself out. In Israel an array of political and economic groups supportive of liberalization gave Labor and Meretz a mandate in 1992: to launch the coalition's strategy of economic and social renewal *within* the green line (pre-1967 Israel) and to negotiate a territorial compromise beyond that line.<sup>44</sup> These Middle Eastern coalitions emphasize the maximization of domestic global and regional political-economic opportunities over the maximization of territorial and confessional objectives. Neither Greater Israel (Likud's myth) nor Islamic Palestine (Hamas's myth) has much affinity with this liberalizing grand strategy.

*Case 2.* This last observation provides a convenient entry into a second interactive category, where nationalist-confessional rivals face each other in a given region. The agenda of such coalitions resonates far more effectively when they can point to threats in the form of neighboring states ruled by

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43. For instance, Asian liberalizing coalitions have had military expenditures compatible with the world's average (about 4.5 percent of GDP), while for nationalist coalitions such expenditures have been three and four times higher.

44. The Labor-Meretz constituency includes Israel's vast pool of technical, scientific, service, managerial and entrepreneurial sectors (symbolic analysts and a highly educated and skilled labor force) that could fuel a high-tech revolution. This electorate has clearly articulated in the 1992 electoral campaign that widespread reform and regional stability are a precondition for this take-off.

other nationalist-confessional coalitions. Each of these rivals finds itself in a conflict-prone spiral, fueled by hypernationalist (Mearsheimer, 1991; Van Evera, 1991) or hyperconfessional postures, as with Iran and Iraq. Even where they might share certain political-economic or confessional interests (Bath'ist regimes in Syria and Iraq), attempts at cooperation are consistently stillborn, as the broader history of nationalist Arab regimes suggests. Considering the domestic political basis of such coalitions, this outcome is far less counterintuitive than at first sight. First, there is an inside-out effect: the constituent elements of these coalitions push for a domestic program – of extensive state entrepreneurship, economic closure and overall militarization – with negative regional externalities. This logic renders any mechanisms geared to relieve security dilemmas largely ineffective. Second, there is an outside-in effect: cooperative efforts are expected to force many of the nationalist coalitions' natural political constituencies literally out of business. Private and state monopolies threatened with competition from regional counterparts balk at integrative undertakings. So do military complexes that benefit from high levels of self-reliant military preparedness.<sup>45</sup> Finally, cooperation threatens the political viability of confessional irredentist groups whose aspirations often fuel territorial disputes. It is quite suggestive that nationalist-confessional dyads account for the bloodiest encounters, such as the wars between South and North Korea (1950s), Kampuchea and Vietnam (1978–9), India and China (1960s), India and Pakistan (1948, 1960s) and Iran and Iraq (1980s). The Serbian-Croatian-Bosnian debacle may fall largely under this category as well.

*Case 3.* The third possible combination involves mixed dyads, where alternative coalitions – liberalizing and nationalist-confessional – face each other. Nationalist coalitions often exploit the existence of liberalizing coalitions in neighboring states to arouse support for their domestic agenda, which is trapped as a response to the rival's apostate (in religious or economic terms), morally decadent and cosmopolitan policies. Under such conditions their liberalizing opposites are far more constrained domestically in their ability to pursue cooperative postures. The task of military contraction, for instance, becomes more difficult where an adversarial nationalist coalition fans regional threats. The basis for a stable cooperative framework is lacking in this mixed system, as evident in the relationship between the liberalizing

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45. The presence of liberalizing coalitions in the region might justify the maintenance of a common military effort by nationalist coalitions, but such effort implies a division of labor, or interdependence (between nationalist allies), that could undercut the individual military-industrial constituencies of each nationalist coalition. These constituencies are often very large in such states, consuming between 15 and 25 percent of the GDP, or over three times the world's average.

bloc and radical-confessional challengers in the Middle East. However, the level of conflict between mixed dyads is modified by the strength of each coalition (relative to its *domestic* challengers). In brief:

(a) Strong adversarial coalitions feel compelled to reaffirm the political-economic strategy that sustains and legitimizes them, while keeping the adversary at bay. Yet, their respective strength allows such coalitions to achieve a certain *modus vivendi*, as the Koreas (ruled now by strong liberalizing and nationalist coalitions respectively) did briefly in 1991, even in a regional context of intermittent threats and high ideological polarity. To be sure, these mixed dyads are not friendly – hardly the stuff that evolves into security communities<sup>46</sup> – but do not elicit as many examples of extensive bloodshed as nationalist-confessional dyads do.

(b) A weak nationalist coalition confronting a strong liberalizing counterpart faces a tough dilemma. If it embraces a cooperative regional policy, it may find itself weakened even further *domestically*, because such policy alienates its natural constituencies. If it follows a combative regional policy, it provides political ammunition to its liberalizing challengers at home (who can accuse it of fabricating security threats where there are none), and it forces the adversary's liberalizing coalition to deepen its military preparedness (thus missing cooperative opportunities and weakening itself further *externally*). Syria's ruling coalition is surely all too familiar with this dilemma.

(c) Where a strong nationalist coalition faces a weak liberalizing adversary, the appetite of the former for physical aggression towards the latter grows. The strong nationalist coalition is able to extract vast resources from society and convert them into a powerful military machine, whereas the weak liberalizing coalition is unable to implement its program and translate economic efficiency and growth into an effective military deterrent, as Libyan–Moroccan relations suggest.

### **What about Extant Theories?**

#### **Coalitions, Interdependence, Neorealism, and the Democratic Peace**

##### *Interdependence*

The relationship between political-economic strategies and the prospects for regional cooperation hypothesized here implies a different kind of association between economic liberalism and the probability of cooperation than general theories of interdependence have postulated (Cooper, 1972;

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46. ASEAN countries excluded Vietnam, Cambodia and Laos, while GCC (created in 1981) left out Iran and Iraq.

Keohane and Nye, 1977; Rosecrance, 1986). *First*, far from assuming that expanded domestic welfare resulting from free trade fosters cooperative preferences, this framework suggests that where liberalizing *coalitions* prevail, their interests dictate compatible regional regimes. Thus, the gains from trade may be highly concentrated and may not contribute to widespread societal welfare, at least in the short term. *Second*, rather than assuming a purely economic aggregate calculus of costs and gains from war and cooperation, the argument examines the domestic *political-economic* foundations of a coalition's regional posture. In doing so, it highlights the coalitions' internal political opportunities, often ignored at the expense of their external vulnerabilities. *Third*, in light of the first two points, this analysis provides a more proximate estimation of whose absolute gains (i.e. those of specific coalitions) matter in the formulation of preferences. *Fourth*, the analysis is not contingent on the extent of economic interdependence between/among regional interlocutors, or on bilateral/regional interdependence. The strategies of liberalizing coalitions in the industrializing world are particularly responsive to nation-to-system (Tetreault, 1980) or internationally oriented interdependence. *Finally*, the framework does not require that states become 'fully modern industrial nations' (Kaysen, 1991) for the absence of war to prevail within regions (only that strong, particularly redistributive, liberalizing coalitions prevail over their challengers). Despite the noted differences, the argument remains largely compatible with these liberal economic theories of cooperation, and particularly with 'devalued utility of war' (Rosecrance, 1986,; Kaysen, 1991) interpretations that are sensitive to whose costs and benefits (among domestic actors) count in opting for peace or war.

### *The Democratic Peace*

Taking the democratic nature of states as the explanatory variable, we recall, had some analytical promise. Yet the empirical record revealed that political liberalism in itself was neither necessary nor sufficient for cooperation to come about in different regional contexts. Are there any potentially promising hypotheses that might emerge from considering the mutual interactions between economic liberalization and democracy with regard to the sources of regional orders? *First*, the framework developed here predicts a generally positive relationship between liberalizing coalitions and the propensity to cooperate, particularly with similarly oriented neighbors, and a reverse relationship for nationalist-confessional coalitions, *regardless* of whether or not they are democratic. *Second*, the confluence of political and economic liberalism may make the relationship between liberalizing coalitions and cooperative behavior more robust, but only under certain conditions, and not merely because 'all good things go together', as end-of-history optimism

(Snyder, 1991b) implies. Where liberalizing coalitions are politically strong, domestically and throughout a region, the chances for a peaceful order should be enhanced. Where such coalitions are weak internally (Algeria) and externally, and subject to frequent democratic and electoral challenges, this potential can fall short of realization. *Third*, a democratic context also makes it more viable to challenge nationalist-confessional coalitions, particularly weak ones, and in that sense, could advance regional cooperative efforts. Instead, political closure and repression, as in Iran and Iraq, are a major barrier to liberalizing the economy, and consequently, to regional peace. Incidentally, fewer and fewer democratic states, at least for now, are ruled by coalitions entrenched in statist-nationalist agendas, as, until recently; in Slovakia and the Ukraine.

*Fourth*, the absence of democracy has not precluded liberalizing coalitions from implementing their grand strategy, at home and abroad. In fact, it is sometimes argued, such absence has made it easier to secure the domestic requirements of such strategy without major political upheaval (as with the Asian 'tigers'). However, weak economically liberalizing coalitions in nondemocratic contexts can also become the targets of an unpleasant 'double whammy': a concerted challenge from an alliance of protectionist and statist interests with pro-democracy groups, as in many a Middle East country. Such challenge does not bode well for the prospects for regional cooperation. Strong economically liberalizing coalitions, which have managed to develop far wider support for their economic program, can afford to reinvent themselves through the democratic process (South Korea). Other such coalitions are still groping with the not-so-theoretical question of how long an economically liberalizing context can remain undemocratic.

### *Neorealism*

It would be naive to ignore contextual variations across regional systems that neorealist theory is so keen in addressing. Four main points emerge out of our discussion of interactive (systemic) effects in this regard. *First*, the domestic political rationale of nationalist-confessional coalitions creates systemic effects conducive to unmitigated security dilemmas. *Second*, the presence of predatory nationalist coalitions in the neighborhood affects the ability of the liberalizing camp to transcend militarization and compels it to balance adversaries in the region. *Third*, cooperation among liberalizing coalitions can create a new regional balance of power, as in the Middle East, between the partners to the peace talks and nationalist-confessional coalitions (Iran, Iraq and Sudan) throughout the region. That cooperative frameworks can have negative security externalities for third parties is not new.

The *fourth* observation takes account of the undeniable fact that initial

(security) conditions do matter, even where liberalizing coalitions face each other. Clearly, Israel and Egypt (let alone Taiwan and China) are not Brazil and Argentina. At the same time, how far do we get without integrating coalitional influences into the picture? On the one hand, the *absence* of genuine security constraints is no guarantee for regional cooperation. Even benign security contexts (as in the Southern Cone) have produced conflict situations at worst and limited cooperation at best. Only liberalizing coalitions in the 1990s have unleashed the full cooperative potential of this region. On the other hand, the constraints placed by difficult and genuine security considerations on Middle Eastern states are far heavier than for Brazil and Argentina, but not unsurmountable. The extent to which other important regional partners share a liberalizing agenda can soften the impact of such constraints. For many years, Arab states' challenges to the legitimacy of the Egyptian regime loomed large in Egypt's inability to move beyond a cold peace with Israel. As liberalizing coalitions reached a critical mass in the region as a whole (in a number of states under their rule, and within the PLO), a new collective path took hold, leading to the Declaration of Principles between Israel and the PLO (1993), the peace treaty between Jordan and Israel (1994) and, perhaps, to a future comprehensive settlement of the Arab-Israeli conflict.

To be sure, distributional struggles in the context of a cooperative Middle East process clearly are likely to reflect the shadow of a zero-sum past, whereas distributional struggles among Southern Cone or GCC partners bear the imprint of years of variable gains from mutual interaction. That is, liberalizing coalitions differ in terms of their starting points for the construction of cooperative regional orders. And the distance travelled towards the Pareto-frontier matters.

### **Conclusions and Suggestions for Future Research**

The framework suggested here allows for a wide range of possible research designs, from a dynamic analysis of pairs (triads, and beyond) to in-depth longitudinal studies of the impact of coalitional successions in a single state.<sup>47</sup> Empirical studies along these lines can help specify further:

1. The wide variation in coalition types throughout different countries and regions. Individualizing comparisons (Tilly, 1984) stressing peculiarities

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47. On the advantages of research designs that combine cross-spatial and cross-time variance, and permit 'slides of synchronic comparisons through time', see Bartolini (1993).

in the makeup and behavior of coalitions can be useful in exploring the scope and limits of coalitional arguments.

2. The precise impact of political institutions, both domestic and international, on the longevity of both liberalizing coalitions themselves (first-order effect) and of the regional arrangements these coalitions help bring about (second-order effect). The debacle of such coalitions in the Middle East, and of the peace process they engendered, bring the centrality of this question into relief. On the international level, the conditionality imposed by international donors and institutions on the PLO, for instance, occasionally had the unintended result of weakening this coalition to the point of virtual collapse. On the domestic level, it is unclear whether the emergence of national democratic institutions within the Palestinian camp (elections in particular) and beyond, will eventually weaken or strengthen these coalitions – and the peace process.

3. The intricate relationship between political and economic liberalization on the one hand, and regional orders on the other. The ability to map the interaction between the first two variables will be further enhanced by ongoing efforts to take stock of the recent experience of industrializing economies and those of former centrally planned economies. This may help clarify the precise conditions under which democracy and cooperation are linked beyond the stable zone of peace, in a way that extant theories of the democratic peace are not yet able to do.

The conceptual advantages of the coalitional framework offered here include:

1. Transcending old *level-of-analysis* categories, by linking the global and subnational (embedded in a coalition's preferred grand strategy) to explain regional outcomes.

2. Helping articulate the conditions under which predictions from *neorealist, interdependence or democratic peace theory* seem more likely.

3. Providing a *unifying framework* for comparing different regions, flexible enough to allow variation in the extent to which state officials or powerful societal forces play a more crucial role within a coalition in defining and implementing strategies.<sup>48</sup> Neither state autonomy nor a unified state are postulated; the two are both a matter of degree and subject to empirical analysis, via the identification of contending coalitions.

4. *Explaining the roots of many civil wars*, the incidence of which is expected to be higher in the new era. Concentrating on domestic coalitions and their competition allows us to pay greater attention to challenges to

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48. On coalitions as 'policy networks' linking state and society, see Katzenstein (1989). For a useful discussion of state autonomy see Caporaso and Levine (1992).

regimes (rather than to the state), and to conflicts arising from the irreconcilable demands of ethnic and confessional groups, often in alignment with economic ones. In other words, the framework accommodates internal (inter-coalitional) as well as external (inter-state) competition, while avoiding the sometimes imprecise concept of 'state-making' as the organizing principle of regional relations in the industrializing world.

5. *Eschewing exceptionalist theories of Third World behavior.* Coalitional arguments have provided some of the most cogent explanations of great-power behavior (Lamborn, 1991; Snyder, 1991a; Rosecrance and Stein, 1993), and can hopefully do no less for the balance of the international system (some of which is considered to be at the threshold of graduating into the great-power category). At the same time, the conceptualization attempted here makes allowance for the particular world-time under which states define their choices for war and peace.<sup>49</sup>

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49. The world-time against which emerging regional orders are being defined now is characterized by a highly integrated global economy, an integrating multilateral institutional foundation in world politics, and a disintegrating revival of confessional allegiances that remained dormant throughout the Cold War era. For an expanded analysis of this world-time, see Solingen (forthcoming, 1996).



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