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**Interests, Ideas and Norms: The Strategy of 'Symbiosis' in the
European Neighbourhood Policy**

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**Interests, Ideas and Norms: The Strategy of ‘Symbiosis’ in the
European Neighbourhood Policy**

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The paper discusses the interplay of interests, ideas, institutions and norms. It seeks to provide a refinement of rationalism by integrating ideas and norms as variables of its analysis, and test it by examining the preferences of rational actors that led to the emergence and establishment of liberal democracy and regionalism in the advanced western countries. Once the rationale of these two historic normative developments within the West is stressed out, the process of the European Neighbourhood Policy is to be seen as part of a strategy of normative expansion, corresponding to ideas and perceptions of interests that currently prevail in the EU countries, and which the EU member states developed to promote their preferences for stability, security and economic development. The ENP has been chosen by a Union seeking to avoid the immediate internal disturbances associated with enlargement (institutional adjustment, distributional consequences), while at the same time attain expected mutual gains.

Introduction

This paper is an analysis of the European Neighbourhood Policy (ENP) seen as a strategy of normative expansion. As Tsoukalis has noted, ‘the Europeans have values as well as goods and services they would like to export.’¹ Economic integration and the expansion of liberal democratic norms constitute the normative agenda of the ENP which offers us the occasion to conceptualise the relation of interests, ideas norms and institutions, and their role in domestic and international politics.

Part One provides a necessary introduction to the discussion about the interplay of interests, ideas, norms and institutions. This is the general analytical framework for the ensuing study of the ENP. From a rational standpoint which views self-interest as the driving force of action, and drawing on contributions from competing theories, it is argued that ideas are rationally conceived and endorsed by self-interested actors and their groups, because they are instrumental in the pursuit of their goals. Norms are ideas that have been given prevalence and become institutionalised through a process of interest competition which, albeit governed by power asymmetries, often leads to consensus. Consensus occurs when competing interests seek a framework that ensures their peaceful symbiosis. The analysis develops the concepts of *interest competition*, and their *ideological advocacy*, and introduces the notions of *symbiosis* and *institutional entrenchment*.

I would like to thank professor Panos Kazakos for his indispensable academic support, his stimulating remarks, and his emphasis on methodology. The captivating discussions we had during his courses have been a rich source of inspiration for my academic work. His strong emphasis on theoretical discipline, precision and a clear structure has motivated and supported my ongoing quest for these virtues.

¹ Tsoukalis, 2003, (p. 193).

Part Two provides two case-studies that support the above analysis. Liberal democratic norms have been ideas institutionalised by domestic and supranational actors in western political communities in an attempt to ensure their peaceful symbiosis. Similarly, preference for economic integration appeared as their collective choice with a view to economic growth and prosperity. The Union and its member states seek to expand these two normative sets in its neighbouring area expecting them to perform the same function for which they were introduced and become respected in the West. They seek to enlarge their zone of stability and prosperity to Europe's wider environment using a 'sticks and carrots' practice known as conditionality.

Part Three examines the challenges that the ENP as normative expansion is bound to address. Some originate from the diverse qualities of the EU external environment, while others are inherent in its governing ideas.

At the outset of the paper I deem useful to define the terms that appear in the text. By the term 'ideas', I refer to ideologies as a coherent set of ideas, beliefs, principles and values, to theories as a organised set of tested hypotheses and normative suggestions, as well as to particular beliefs, opinions and values not organised into either of these two sets. 'Norms' are institutionalised ideas that prevail as rules in a community and govern its political, economic and social activity. 'Institutionalisation' is the process in which particular ideas are selected to become norms. Such norms are human rights, the rule of law, and democracy. By the term 'institutions', I define formal and informal organisational entities including legal entities (e.g. the Commission), procedural devices, (e.g. the ECJ system) and regulatory frameworks of norms (organised set of rules, such as a constitution or the Stability Pact). Institutions have a normative content, in the sense that ideas become norms when institutions embody them. For example, a constitution may introduce and guarantee human rights and liberal democratic principles. This is why the terms 'institutions' and 'norms' have been used interchangeably by some authors. 'Structure' is used to describe both norms and institutions. There are also new terms introduced in Part One. Finally, if a term in a sentence is used with a content other than the one defined above, I provide its meaning there.

Part One: Interests, Ideas, Norms and Institutions in Domestic and International Relations

1.1. Theoretical contributions to our discussion on interests, ideas, norms and institutions

There is a plethora of approaches related to the interplay of interests, ideas, norms and institutions by various traditions of thought in the disciplines of economics, comparative politics and international relations. Our discussion is limited here to whether and how interests, ideas, norms and institutions determine the configuration of domestic (state) preferences and the international conduct of states. Similarly, there are national and transnational self-interested actors pursuing their preferences in all the available structures. In a two level approach, norms and institutions constitute both the domestic and the international structure. The discussion ends with a presentation of the paper's premises.

Interests

Interests are the central focus of rationalist theories. For realism, states are the basic units of action having fixed preferences.² For neo-realism, anarchy

² Realism has a plain view of the world. It treats states as units with stable preferences, and rests itself from the burden of analysing the character and role of state as an institution. This construction of international relation has been given an axiomatic character that discharges those who endorse it from the painstaking task of proving their basic premises. States are the dominant actors, but *for whom* do they act? Gilpin refines realism by assuming that state interests are defined by the preferences of domestic elites and strong pressure groups. This refinement verges on a pluralist analysis. A pluralist analysis recognises the existence of domestic and transnational actors with particular preferences. Rational approaches, belonging to a school of thought not limited to the field

determines the actions of states.³ International arrangements are seen as a rational response to anarchy by states seeking their survival. Sophisticated hypotheses about the role and the function of international arrangements are made by the new rationalist approaches. *Liberal intergovernmentalism*,⁴ building on neoliberalism and *two-level games*,⁵ marked a major departure from neo-realism by viewing national preferences as deriving from *a domestic stage of preference formation* where actors pursue their interests through liberal-pluralist institutions. Once a national preference has emerged from such a domestic process, it enters the stage of intergovernmental negotiation. National preferences are thus not fixed but changing within an institutional environment. However, this two-stage analysis has been criticised for focusing exclusively on national preferences while underestimating the presence of transnational interest groups,⁶ and the role of transnational institutions, such as the Commission,⁷ the ECB, and the Court of Justice.⁸ It also treats (domestic) institutions as ideologically neutral, as if they were simply a bargaining structure of competing domestic interests.

The '*governance approach*' involves supranational and subnational actors other than states in a multi-level system of governance.⁹ States transfer powers to supranational institutions when this level is technically thought to produce more efficient outcomes, or when states want to avoid political pressures and the costs of taking unpopular decisions.¹⁰ However, a question is still pending: how states can be certain that the outcome of supranational policy-making will ultimately accommodate their preferences, insofar as they lose the absolute control of everyday policy-making? Is there a reason that, while there

of IR, take individuals as the lowest unit of their analysis, allowing for an in-depth analysis of their position when they belong to various societal factions, their conduct when they form groups, and their evolving preferences. In the paragraphs below the rational approach of analysis is informed by the contributions of constructivism and related sociological trends.

³ Waltz, 1979; Mearsheimer, 1990; Grieco, 1996.

⁴ Moravcsic, 1993.

⁵ See: Putnam, 1988.

⁶ See Keohane and Nye 1972; Putnam 1988; and Sandholtz and Zysman 1989.

⁷ See Smyrl, 1998.

⁸ See Sandholtz, 1996; Risse-Kappen, 1996

⁹ Marks, Hooghe and Blank, 1996; Jachtenfuchs 2001; Hooghe and Marks 2001; Kohler-Koch and Eising 1999; Friis and Murphy 1999. For a governance approach of EU external relations, see Lavenex, 2004; Smith, 2004.

¹⁰ Marks, Hooghe and Blank, 1996.

has been a considerable transfer of competence in some policy areas, in other fields, not only was supranational policy-making rejected, but also a common intergovernmental stance unattainable?¹¹ The multi-level governance treatment of foreign policy needs also to address the question of whether the normative-institutional structure is ideologically neutral. Institutions are usually treated in I.R. as auxiliary variables. Some authors, however, relate them with the role of ideas in domestic and international politics. In the governance approach of the EU for example, Richardson (1996) emphasizes that far from being an exclusively interest-led process politics are influenced by ideas. In his work, ideas and knowledge are to be treated as separate but interrelating variables in agenda-setting. But are ideas distinct from interests?

Institutions

With reference both to domestic politics and international relations, three institutionalist approaches, the historical, rational choice, and sociological institutionalism, offer their accounts on how institutions shape social and political outcomes. Their common point with institutional law and economics is the premise that institutions delineate the range of possible actions, and help select a particular outcome.¹²

Historical institutionalism has sought to demonstrate how formal and informal institutions structure and regulate conflict among groups, and generate outcomes that favour one group against the other.¹³ Institutions constitute mechanisms for conflict resolution, which are respected and adhered to. Power is asymmetrically distributed among groups by a given institutional framework.¹⁴ Far from being a neutral arbiter, the state is regarded as a factor, together with labour, capital and other institutions, that shapes the character and the outcome of group conflict.¹⁵ For some authors, actors are also driven by established worldviews and conventions that are embodied in institutions. These institutions represent long-established conventions which, influence the perceptions and the

¹¹ E.g. the Iraq case.

¹² Goldstein and Keohane, 1993, p. 11.

¹³ Thelen and Steinmo, 1992.

¹⁴ Cf. Steinmo, 1993.

¹⁵ See Hall and Taylor, 1996; Katzenstein (ed), 1978, Krasner, 1980; Evans et al (eds), 1985, Soskice, 1990; Scharpf, 1992; Weaver and Rockman (eds), 1993.

actions of individuals, rendering them more or less predictable. Finally, historical institutionalism stresses path-dependence by viewing established institutions as persistent (Pierson, 1994, Hall, 1986) and by defining the policy responses they generate (cf. Skocpol and Weir, 1985). Institutions generate unintended consequences, in the sense that they direct actors to acquire certain properties and shape their claims according to the given institutional framework.¹⁶ Concerning the creation of institutions, historical institutionalism also sees it as a path-dependent process, which may produce unintended consequences.¹⁷

While for historical institutionalists institutions structure the preferences of actors, acting as a behavioural constraint and having a lock-in effect, for *rational choice institutionalism* institutions are structured by the rational preferences of individuals. Institutional building is a problem of collective action. Actors create and change institutions as a rational response to transaction costs and uncertainty. For the rational choice institutionalism, which imports assumptions from microeconomics and tools from game theory, formal institutions are the products that actors, such as states, have constructed in order to maximise their utility.¹⁸ At the international level institutions are created by states because they offered them reduced transaction costs and the opportunity of socialisation.¹⁹ Institutions as intervening variables mould state actions, but unlike historical institutionalism, actors, such as states, may easily reformulate them to become operative for their interests.²⁰ In rationalist institutionalism, actors' interests are the key for understanding institution-building.

Ideas

Some work by institutionalists has also incorporated the role of ideas in policy-making. North (1990) assimilated ideas into his analysis, arguing that *ideological*

¹⁶ Cf. Pierson, 1996; March and Olsen, 1984, 1995; North, 1990. Hanson (1998) argues that the liberalisation of European external policy is an unintended consequence of the process of European integration, which has created a bias towards liberalisation and has constrained national trade policies which might have opted for protectionism.

¹⁷ In international relations, states, when creating institutions, are neither fully aware of potential implications of their membership, nor do they fully control policy outcomes out of the function of these institutions. Institutions create an autonomous context not fully predicted at the time of their creation.

¹⁸ Keohane, 1984.

¹⁹ Cf. Sandholtz, 1996.

²⁰ Aspinwall and Schneider, 2000.

commitment helps reduce transaction costs and compliance problems. Historical institutionalists deploy an analysis in which institutions affect ideas by privileging some and facilitating or discouraging the rise of new ones.²¹ Historical institutionalists, such as Armstrong and Bulmer (1998), have begun to explore institutions as normative configurations of shared beliefs, perceptions, values and practices. Most views, however, offer a unidirectional account of the relation among ideas and institution-building. The view that institutions are not ideologically-void calls for the study of whether the institution building process is also ideologically neutral. If political life and political change are defined by the ideas selected and privileged by established institutions,²² why institutions originally embrace a particular set of ideas?

Ideas are granted a defining place in the functioning of institutions by *sociological institutionalism* and by *constructivism*. Unlike rational choice, where ideas are exogenous, social institutionalism treats ideas as endogenous to the interaction that institutions internalising norms and practices offer to actors. Institutions with their normative load and their organisational capacity influence the *configuration* of actors' interests, as well as their *understanding* of the broader social and political context.²³ For example, a neoliberal policy stance drives the Commission's activity. Yet, there is no plausible explanation as to why particular sets of ideas have been created and why institutions choose a particular set of ideas among many.

Similar emphasis on the role of ideas and norms has been given by *social constructivism*,²⁴ which views actors' *identities* as *constituted* by their

²¹ Goldstein, 1988; Weir, 1989; Skocpol and Weir, 1985; Hall, 1989 and 1993; Sikkink, 1991; Armstrong and Bulmer, 1988.

²² McNamara, 1998; Berman, 1998, Skocpol and Weir, 1985.

²³ Cf. Jachtenfuchs, 1997.

²⁴ This movement was reinvigorated by leading scholars (Kratochwil and Ruggie 1986; Wendt 1999; Dessler 1989; Kratochwil 1989; and Adler 1997). There are disagreements within constructivist thinking. For work in EU studies, see: Sandholtz, 1993, 1996; Risse, 1996; Jørgensen, 1997; Wind, 1997; Matlary, 1997, Lewis, 1998; Christiansen, Jørgensen, and Wiener, 1999; .Checkel, 1998; Wendt, 1999; Rosamond, 1999; Christiansen, Jørgensen, and Wiener, 2001; Checkel, 2003. Also: Adler, E. (1987) *The Power of Ideology: The Quest for Technological Autonomy in Argentina and Brazil*, Berkeley, California: University of California Press; Katzenstein, P. (1996) (ed) *The Culture of National Security. Norms and Identity in World Politics*, New York: Columbia University Press; Kratochwil, F. (1989) *Rules, Norms, and Decisions*, Cambridge: Cambridge University Press; Searle, J R. (1995) *The Construction of Social Reality*, New York: Free Press. Wendt, A. (1992) 'Anarchy is What States Make of It: The Social

internalised ideas, perceptions, values and norms. Identity formation defined by a given environment is prior to preference formation. Constructivist accounts address interest calculation as constituted and conditioned by social construction.²⁵ Structure is prior to interest formation. This approach argues that structure, namely institutions, ideas and norms, shape the identities of actors and consequently the conception of their interests changes through processes of communication, interaction, socialisation, persuasion, deliberation, knowledge diffusion and social learning.²⁶ Actors are not merely constrained by norms, but they redefine their interests through these processes. A constructivist application in international relations suggests the international system constructs state identities and interests.²⁷ E.g. European integration as a process affects actors' identities, and thereby their behaviour.

Although this view opens a new perspective in political analysis, its main weakness is that it fails to expound on why a particular set of ideas has been previously adopted and observed. Constructivist accounts fail to provide a causal explanation as to why some ideas are produced and become prominent before taking up the task of constraining identities and interests. After all, ideas do not come from Mars. Actors enter the process with at least some proto-preferences. Constructivism overlooks the fact that at some stage before internalising and communicating ideas and values, actors have rationally chosen them *for certain reasons*. Their application is often selective: the 'logic of appropriateness' (March and Olsen, 1998) is strongly contested by the multitude of cases in which some western governments, while protecting human rights in their homeland,

Construction of Power Politics', *International Organization*, 88, 2, pp. 384-396. Wend argues that 'US military power means one thing to Canada, another to a communist Cuba' and that 'masters do not 'cause' slaves, because without slaves they cannot be masters' (p. 25). This simple statement indicates the deficiency of constructivism in causality. Masters have caused slavery by their rational action of enslaving others. Slavery was a reality, not because slaveholders believed that slavery was appropriate behaviour (cf. Finnemore and Sikkink, 1998), but because slaveholders, having the power to impose their preferences in view of calculated benefits, have rationally endorsed that practice. A norm or an institution is rationally created and endorsed, and it is also rationally contested, changed, or abolished by those actors that have the relative power to do so.

²⁵ Wend, 1999.

²⁶ Ideational accounts of sociological institutionalism point to ideas being internalised as consensual or rejected through communicative processes (Risse-Kappen, 1996).

²⁷ Checkel, 1998.

were engaged in serious infringements overseas in countries where publicity did not –at least fully - covered their actions. Even when a given set of values prevails, actors may still have hidden preferences for their violation and often deploy strategies of deviation when possible. The main weakness of constructivism is its dearth of causal explanation, which is related with the absence of testable hypotheses subject to empirical confirmation.²⁸ It claims to explain how norms influence action and interest formulation (through socialisation, persuasion, imitation, institutionalisation, habit etc), but it says nothing about why these norms emerge at all. Why (and not how) people adhere to them? Despite their weaknesses in causal explanation, the main contribution of constructivism is that it innovatively brought norms into the analysis, and kept the door open to a thorough study of the relation between norms and interests.

The above presentation unveiled the confusing placement of three factors: interests, ideas and institutions (which embody norms). Work on the relation between value-driven and interest-driven policy, norms and power, tends to reconcile the two alternatives by acknowledging a relation of coexistence.²⁹ The concept of ‘strategic social construction’, with norm entrepreneurs and the agreement on norms by a critical mass of actors, is a significant contribution by Finnemore and Sikkink (1998), which actually constitutes a major move back to rationalism.

In the following paragraphs I attempt to provide a framework for the relation of interests, ideas and norms/institutions in four stages. If norms are assumed as exogenous, then interests are constituted by a normative structure, and if interests are given, norms are the mere outcome of power-based competition. But how did norms emerge? Which is the dependent and which is the independent variable? This seems like a ‘chicken and egg’ circularity that generates problems concerning the direction of causality in linear, one-way explanations. In these cases cyclical causal schemes, where the two variables interact with each other, are not a narrow escape. I claim that this circular relation between interests and ideas, between interests and norms/institutions, is governed by the actors’ rational thinking.

²⁸ See Moravcsik, 1998.

²⁹ Cf. Youngs, 2004.

Ideas and interests

Indeed, whether ideas constitute interests or whether interests constitute ideas seems like a ‘chicken and egg’ situation. Ideas as vague perceptions of pragmatic conditions go hand in hand with human existence. However, ideas as organised and coherent understanding of the world, as explanatory and normative analysis, are rationally produced.

Ideas are present in two stages, where actors perceive their position and their interests vis a vis the real world (*interest configuration*), and later, when actors are engaged in the promotion of their formulated interests (*ideological advocacy of interests*). Individuals seeking to comprehend their pragmatic position in society choose certain of the existing ideas (*selection of ideas*). There is a variety of contradictory ideas reflecting the opposing interests of those who created them. In a preliminary stage, individuals have access to existing sets of ideas which mould their perception of their position in society and therefore the conception of their interests. Through interacting with ideas (including theories), individuals diagnose reality and conceive their interests. Few individuals manage to think beyond the existing ideas and create new ones. Their configuration of interest seems determined by the available information, and structured by existing ideas, which often include stereotypes. Interest configuration is both rational and socially constructed.

However, based on rational thinking, some but few individuals or groups have been capable of producing new ideas that offer them a new concept of the world and a normative path to follow (*creation of ideas*). Moreover, based on their perception of interests, individuals often form groups of shared interests that collectively choose, develop and refine the set of ideas they consider as better fulfilling their goals, and proceed to advocate them in public fora.³⁰ They may either select existing packages of ideas (selection of ideas) or embark on the task of inventing new sets of ideas, often in the form of theory or ideology (creation of ideas).³¹

³⁰ See Riker 1962; Coleman 1966; Niskanen 1971; and Hechter and Kanazawa 1997.

³¹ Cf. the concept of norm entrepreneurs in Finnemore and Sikkink, 1998, pp. 896-897.

Since self-interested actors or interest groups have to compete with each other (*interest competition*), they need an ideational package to frame their claims with reference to ‘public interest’ or to accommodate and thus enlist other interests.³² This is the task of *ideological advocacy*. In the first case ideas juggle with common good arguments, while in the second case a set of ideas appears to create ‘win-win’ situations that accommodate major factions of interests. Ideas provide both conceptual underpinnings for decision-making and justifications, ‘rationalisations’, for interest-driven projects.³³ Ideas are thus instrumental, created and informed by rational thought. We may claim that ideas are constituted by interests, to reverse the classical constructivist motto. Only when they are connected to interests can ideas acquire influence and probably the power to bring about changes.

Interest competition

Ideas act as a source of justification and legitimacy (cf. Weber and Habermas). The outcome of interest competition is determined by a) power distribution among the competing groups, which is reflected in their share in the economy, their lobbying capabilities, their organisational skills, as well as their access to policy-making, b) ideological advocacy, i. e. the power of ideas to appeal to others thanks to ‘common good’ arguments and c) the normative-institutional environment. The third factor can be called ‘*institutional entrenchment*’, describing the function of institutions to contain norms that structure interest competition and privilege some actors while disfavouring others.

The creation of institutions and norms

In the previous paragraph we have seen that actors interact with existing institutions and norms. Armed with theoretical and ideological argumentation, they further their preferences within an institutionally defined range of possible choices which shapes and constraints policy-making. Institutions originally

³² See the analysis of G. Majone (1989) making a distinction between motives and reasons, the latter being justifications with an appeal to public interest.

³³ ‘Without Keynes, and especially without the interpretation of Keynes by his followers, expansionist fiscal policy might have remained an occasional emergency measure and not become a way of life’, Steinmo, 1984, p. 31. Also see Majone, 1989, 1996; Stein, 1984; Garrett and Weingast, 1993; Richardson, 1996.

appear as neutral and exogenous but they are not. Institutions constrain interest competition, being the products of a previous battle of interests governed by power asymmetries and the practice of ideological advocacy. This function makes institution-norm creation a crucial choice. This moment entails the choice of institutions, both as an organisational form and as a normative container. Given the importance of institutional entrenchment for future interest competition, in the occasion of norm selection self-interested actors sponsor their preferred set of ideas and seek to shield them by rendering them the norms of the system which will govern future policy-making.

Institutional creation is also determined by power asymmetries, ideological advocacy and the existing institutional-normative environment. In democracies, a citizens' majority needs to affirm constitutional choices. Given that in democracies, an agreement of more than one group is needed for institutions to be created and sustained, interest groups build alliances using ideological advocacy coupled with interest accommodation. It is often the set of ideas and theories that presents an efficiency claim or a win-win outcome, or demonstrates that the gains outweigh the losses and that it is able to compensate the losers, the one that prevails. Prevailing ideas become internalised by existing institutions or lead to the foundation of new ones.

In international relation norms and values reflect a strategic choice of states –as agents- for stability in view of mutual gains.³⁴ Unanimity is usually required for signing or amending a treaty, but in fact power resources, material costs and benefits, threats and side-payments affect the outcome of bargaining.³⁵

Norm creation and institution building is also driven by path dependence and lock-in effects with the exception of revolutionary change. It usually builds on the existing institutional framework. Radical change may occur due to a sweeping shift of power distribution or a dramatic change of circumstances. Usually, when an interest group already enjoys a privileged access to policy-

³⁴ While established perceptions and stereotypes are more rigid and persistent in religion and personal relations, often escaping a rational revision, state action is governed by rational calculation.

³⁵ As stated by the 'rationalists' Schelling (1960), Fearon (1994), and Moravcsik (1993)/ Cf. the 'structuralists-constructivists' Snyder and Diesing (1977), Pruitt and Carnevale (1993) and Schoppa (1999), stressing the social context of international bargaining.

making, its work to maintain its prominent status is obviously easier than that of competing groups facing an unfavourable institutional environment resistant to change.

Agreement on the choice of institutions, however, does not imply that the agreeing actors converge on interests. We shall make a distinction between actors' convergence on the choice of institutions and their interests themselves. The actors agreeing on an institutional set have convergent 'institutional' interests, but they may have conflicting 'distributional' interests, which are to be negotiated within their agreed institutional framework.

Institutional-normative entrenchment and change

We have seen above that the creation of institutions and norms is a significant moment. This is so because they are chosen to strategically regulate behaviour by organising the functions of deliberation, decision, implementation, monitoring and adjudicating. We called this function 'institutional or normative entrenchment'.³⁶ The choice is rational and of particular importance to competing interests. Moreover, norms and institutions may have a deeper influence at the stage of interest configuration and preference formation. Unintended consequences may also stem from institutional entrenchment, when a set of institutions favours a certain distributional option.

However, actors continue to be the ultimate arbiters of the institutional system. For normative outcomes to be sustained in the long run, they must be supported or tolerated by a strong (often majoritarian) coalition of self-interested actors.³⁷

³⁶ Related to the choice of norms and their embrace by institutions, Behrens and Smyrl (1999) observed that 'once a particular theoretical perspective has been 'crystallised' through incorporation into an organizations' self-perception, it may remain static for quite some time, largely oblivious to further developments in the theoretical debate from which it was originally drawn' (p. 423). They did not, however, provide an explanation for this fact. 'Static' theories 'crystallised' into the perceptions of institutions, such as the Commission is nothing but a rational and intentional function of 'entrenchment'. The claim of this paper that self-interested actors seek to elevate certain ideas and theories into norms, because their 'institutionalisation' will entrench policy-making sheds light on this observation.

³⁷ An example of unintended consequences is found in the early ECJ case-law, which laid down the basic premises of EC law: direct effect and primacy. Although not anticipated by the constituent member states, these fundamental principles were accepted and

If a group of actors views that a particular set of norms disfavors their perceived interests, contestation arises, and if a crucial aggregate of actors having or acquiring the necessary power to bring about change recalls trust from this set, negotiated or imposed institutional change is expected to occur. Policy failure also opens up the possibility for institutional change.³⁸

On the contrary, a given normative-institutional set enjoys consensus if it proves successful in mediating between actors' interests. It becomes self-sustained and long-observed. Other normative-institutional sets are frequently subject to revision and change following either shifts in the perceptions or the preferences of the actors that create them, or changes in the distribution of power. I call the first type of norms 'consensual norms' and the second type 'contested norms'. Both types influence and entrench actors, in the configuration of their interests, and the negotiation of their preferences, but the second type is likely to undergo frequent change.

1.2. Symbiosis as a rational choice of self-constraint

We have developed above that interest calculation is prior to structure. Structure is instrumental in the sense that it is designed to constrain behaviour. Hence, to perform that task, prevailing ideas, norms and institutions were rationally chosen, through a process characterised by interest calculation, bargaining and power asymmetries. We also observed that in domestic politics and international relations a rational endorsement of values is necessary for their long observance.

However, while ideological competition mantling interest competition leads to classifications of orthodox and unconventional ideas, there are empirical findings of rare but significant cases where an overwhelming majority of interests has converged on a single ideological platform. This is the case of liberal democratic values in western societies, namely human rights, the rule of law, democracy, and free market. These are the norms that have been governing

incorporated in later treaty amendments, since they were deemed as instrumental in the building of the EC Single Market. Also see Wincott, 1996; Alter, 1996.

³⁸ See McNamara, 1998. However, change in external conditions does not automatically lead to change in policies, institutions and prevailing ideas, since pressures for reform have to compete in an unfavourable environment characterised by institutional entrenchment.

political life in the West for decades. They are apparently ‘consensual’, in the sense that we developed above. Since we argue that ideas are backed by interests, it is intriguing to explore the reasons for this convergence of interests and perceptions.

By introducing the concept of ‘symbiotic arrangements, I claim that competing interest groups, *having first realised that they are in a relation of symbiosis*, seek an arrangement of rule-based constraint, an arrangement which identifies, circumscribes and protects their symbiosis. Symbiosis, defined in biology as a living arrangement, a mutually beneficial relation between organisms, is a state of the world where self-interested actors (or collective actors) have competing interests which are, however, bound in a relation of interdependence. These actors need to arrange their symbiotic relation. These arrangements are of course evolutionary and subject to revision according to changes in the symbiotic relation they are referred to. Liberal pluralist democracy is a case of a successful symbiotic arrangement in advanced market economies. In Part Two it is argued that competing interests are bound together in a relation of symbiosis which led them to create and sustain the system of liberal pluralist democracy as the arrangement best accommodating their symbiotic relation. My finding is that this unanimous domestic and external support for democratic values and norms is explained by their double functioning of attaining and regulating the symbiotic relation of competing self-interested actors: domestically they are conducive to a stable and open political and social environment in which competing interests can be better advocated, negotiated or compromised, while in international relations liberal democratic norms give predictable and limited governments, whose accountability to domestic stakeholders as well as to transnational economic actors is a guarantee for stability and peace in an economically interdependent world.

Part Two: Symbiotic arrangements and the ENP

Part Two links the introductory analysis of the role of norms and institutions under Part One and the application of this analysis on the case of the ENP in Part Three. This section has a twofold task. It is a narrative in support of the paper’s

thesis of the *primacy of interests* and the *instrumentality* of ideas and norms (as institutionalised ideas) in affecting domestic and supranational preferences. It is also the explanatory basis for the paper's claim that the ENP is a strategic normative expansion undertaken by the Union for the fulfilment of its preferences.

2.1. Liberal democracy, free market and economic performance

Free market is an economic system of production and exchange. It was also developed into a normative package. While faced with contestation by particular social and political groups that considered themselves disfavoured by it, free market as a normative set was enthusiastically espoused by those able to run business and engage themselves in profit-rendering economic activity. During the second half of the 20th century, free market as a norm and as a value acquired widespread support in the societies in which economic development due to free economic activity led to a substantial rise of welfare. It now appears as a normative choice that produces a win-win effect through economic growth. Different types of free market economy, with more or less state intervention, are the range of available variations that actors within societies may choose as the symbiotic arrangement for their economic activity. While there are still *distributional* conflicts among competing interests, free market is the locus of a normative convergence of various conflicting societal groups. Free trade can be classified today as a *consensual normative concept*.

Free market is embedded in, and entrenched by norms. It rests on institutions safeguarding free economic activity, mainly the right to property as a *sine qua non* prerequisite for the functioning of free market against the abuses of the state and the vices of the electoral circle when coupled with populism or clientelism.

Democracy is both a set of ideas and a set of norms. It is the utmost symbiotic system in the advanced western societies. Liberal pluralist democracy

has progressively established in Europe and North America during the last two centuries.³⁹

The story is known. But told again, this time under the analysis of Part One, it reveals that liberal pluralist democracy has emerged similarly as the rational choice of the rising business class which from the 19th century onwards theoretically perceived their position –both economic and political- and creatively responded to their given environment through the creation and advancement of a new normative proposal that would best accommodate their interests. Having perceived their societal position within the political and economic system of their time, they creatively reacted against the feudal and aristocratic norms that governed their economic activities, considering it antiquated and counter-productive. That process was of course evolutionary.

The excesses of the monarchic and aristocratic governments were the main reason why these structures were gradually challenged by the rising class of traders and manufacturers. The unpredictable and arbitrary exercise of power has turned it into a source of uncertainty and anxiety for economic actors. Authoritative decisions of unconstrained and unaccountable monarchs distorted economic activity. The first attempts by the rising entrepreneurial class were to delineate the limits of the power of the monarch and the ruling aristocracy. Rules protecting rights negatively circumscribed the freedom enjoyed by the citizens vis a vis their government. The system of liberal democracy appeared first as ‘liberal’ and then as ‘democracy’. But negative freedom did not provide them with the opportunity to influence decision-making, which has usually a significant economic impact. As a result, participation in decision-making was the second claim of the rising entrepreneurial class. But who is to participate? The great puzzle was to construct a threshold allowing *certain* individuals to participate. But participation made dependent on the holding of property is difficult to exclude minor property owners. If participation is open to a vast number of property owners with conflicting interests, there is the danger that powerful interests groups or, less likely, majorities may capture power and use it to the detriment of minorities, such as the ruling elites. Or it may lead to riots and

³⁹ Liberal democracy is a democratic system of governance followed by the protection of human rights including property rights.

conflict. The possibility of expropriation by a majoritarian regime was a source of anxiety for the ruling elites. The majoritarian character of democracy was originally perceived as antithetical to their economic position and as a threat to undistorted economic activity.

The ‘tyranny of the majority’ risk ostracising dissent and minorities, has been the puzzle of much of the early institutional contemplation. Hence, it is an issue that has been solved by the nascent American Democracy. The recipe followed was the establishment of special institutional safeguards against any abuse of power by a single societal or economic faction, together with institutional opportunities that involve all factions in policy-making. Property rights and ‘rule-of law’ institutions have performed the task of preventing the tyranny of the majority and thus enabling the ruling elites to demonstrate a pro-democratic stance and a cooperative ethos. Concepts such as the ‘social contract’ (from Hobbes to Rousseau), the ‘rule of law’, core rights (Locke), and limited government (Locke, Montesquieu) with independent judiciary (Montesquieu) and checks and balances (Montesquieu, Madison) are all theoretical concepts developed through the dynamic rise of the entrepreneurial class from the 17th century onwards seeking models of symbiosis among competing interests. Ruling elites in societies in the process of industrialisation perceived the mutual gains of such arrangements and conceded to the gradual establishment of democracy and the rule of law. Following the political and economic logic that grants property a central role in securing and prompting economic development, property rights, backed by independent judiciary, were introduced in constitutional texts and bills of rights to perform the function of ‘normative entrenchment’: to minimise the risk of expropriation by radical majoritarian decision-making and to encourage investment.⁴⁰

This historical narration leads us to some static observations about the economic rationale for liberal pluralist democracy. Democratic policy-making is

⁴⁰ This function of entrenchment in policy-making is evident in the way it has affected the programmes of early social democratic parties coming into power and facing serious dilemmas. The need for compromise is obvious in the ideological content of major institutions. The apogee of the cooperative ethos came later with the rise of Keynesianism, a dominant theory in post-war West. Not only was there a societal convergence of interests on core governance institutions, but also on economic institutions and ideas, stemming from Keynesianism’s greatest achievement, the reconciliation of distributional interests theretofore perceived as conflicting.

structured by a given set of institutions by delineating a range of acceptable outcomes ruling out other possibilities.

Liberal democracy creates predictable governance. The argument demonstrates that liberal democratic norms, namely individual rights guaranteed by an independent judiciary and the mechanisms of checks and balances, ensured –among other liberties- that economic activity is to be left protected from attempted abuses of power.

Pluralist democracy has also an economic rationale. Power is to be dispersed into multiple agents disallowing dominance by any faction. The pluralist character of modern democracy grants individuals, societal groups, economic and political actors various opportunities for participation and control of policy-making.

In democracy, the possible policy outcomes fluctuate within an ex ante predetermined array. The key is that this array of options still allows considerable room for choices to be determined by elections and deliberation. Elections evoke legitimacy ruling out serious confrontation and radical bombshells. Hence, more than any other system of governance, rule-based democracy ensures political and economic predictability. From its beginning, democracy was liberal, protecting individual rights. Liberalism provided the economic cause of the emergence of democracy and was the reason for its success. It allowed the conciliation and coupling of free market and democracy much more so in a mutually reinforcing way. Liberal democracy is, therefore, the epitome of a symbiotic arrangement.

Are these observations helpful for societies seeking a road to prosperity? Does the application of liberal democratic norms elsewhere lead to growth? Given the circular relation of democracy and free economy, it is unlikely to find what the cause is and what the outcome is.

Current theory is occupied with the question of how a less developed society will experience growth. A significant part of recent literature finds that institutions do significantly affect economic activity,⁴¹ with geography and

⁴¹ Cf. North, 1981, 1990. North stresses the interrelation between economic factors and institutions, as the determinant of either growth or stagnation. By giving emphasis on the ‘structure’ of the economy, meaning institutions, technology, ideology and demographic data, he presents economic history as a narration of institutional changes. For example the rise of parliamentarism in England, guaranteeing property rights, conditioned the huge economic development that followed.

international trade claiming to be two alternative determinants of growth.⁴² Despite the problem of sample selection bias, it argues that the so-called ‘good’ institutions, meaning predominantly limited government, generate and ensure prosperity.⁴³ But reverse causality remains a puzzle. Is liberal democracy conducive to growth or the reverse?

The question for those that believe that institutions affect growth is which institutions are conducive to growth. Do they include democracy or a more minimalist list of requirements, namely property rights? In a series of quantitative studies, institutional economists have explained the sharp differences in levels of development worldwide with references to institutional quality, which includes the concept of good governance and the protection of property rights.⁴⁴

Acemoglu (2003a) gives a historical account based on the difference in prosperity between former colonies such as Australia, Canada, New Zealand, and former colonies in Africa and Latin America.⁴⁵ He argues that the enforcement of

⁴² See Diamond, J. (1997) *Guns, Germs, and Steel*, New York: W.W. Norton & Co. Gallup et al., 1998; Sachs, 2001 stressing geography. Cf. Sachs and Warner, 1995, presenting an empirical interrelation of open-to-trade economies (countries integrated in the world economic system) having pursued subsequent domestic reforms (namely price liberalisation, budget restructuring, privatization, deregulation), with growth. According to their view, trade liberalization forces governments to initiate reform programmes under the pressure of increased international competition.

⁴³ ‘Commerce and manufactures can seldom flourish long in any state which does not enjoy a regular administration of justice, in which the people do not feel themselves secure in the possession of their property, in which the faith of contracts is not supported by law, and in which the authority of the state is not supposed to be regularly employed in enforcing the payment of debts from all those who are able to pay. Commerce and manufactures, in short, can seldom flourish in any state in which there is not a certain degree of confidence in the justice of governance’, Adam Smith, *The Wealth of Nations*, as quoted in Rodrik, Subramanian and Trebbi, 2004, p. 131. See also Buchanan and Tullock, 1962; North and Thomas, 1973; North, 1981, 1990.

⁴⁴ See Knack and Keefer, 1995; Mauro, 1995; Hall and Jones, 1999; Acemoglu, 2001 and 2003a; Acemoglu, Johnson and Robinson, 2001; Acemoglu, Johnson and Robinson, 2002; Acemoglu and Robinson, 2000b; Acemoglu 2003b; Dollar and Kraay, 2003; Edison, 2003; Rodrik, Subramanian, 2003; Rodrik, Subramanian and Trebbi, 2004. However, quantitative, econometric or statistical research runs the risk of reverse causation. That a correlation of two variables does not prove a causal link, let alone the direction of such link, is recognised by economists (Rodrik, Subramanian and Trebbi, 2004, p. 133; Acemoglu, 2003, p. 27). Such correlation can provide the basis of a qualitative research. The IMF research study, presented by Edison (2003), claims to have taken into account the possibility of reverse causation.

⁴⁵ Acemoglu argues that European settlers have pursued two colonisation strategies. The areas where they chose to settle in and introduce their institutions or even experiment with new ones developed, whereas the areas used only for extracting minerals with the use of large numbers of locals or slaves without introducing their institutions were

property rights, political rights and regulatory constraints on the exercise of power (rule of law institutions), and some degree of equal opportunity to societal segments (pluralist democracy and social policies) are the fundamental causes of income divergence among nations. Edison (2003) adds corruption. Sachs and Warner take a minimalist approach viewing property rights, and safety from violence as additional to trade determinants of growth, as well as trade-related reforms, such as macroeconomic stabilization, internal liberalization (price liberalisation), legal reform, and often extensive privatization.⁴⁶ The Commission seems to particularly stress the minimalist approach when it relates institutions with growth.⁴⁷ All these accounts, however, fail to address the significant problem of establishing causality.

The story of the economic rationale of modern democracy in the West has shown that liberal democratic is both an outcome and a precondition of economic development. In this cyclical relation, unhistorical, mono-causal and linear hypotheses fail to provide a plausible explanation. Similarly, they fail to provide us with certain normative suggestions on how a country can reach fully-fledged democracy and economic development. If research is expected to produce some proposals in the face of this cyclical relation of institutions and economic activity, of democracy and growth, it has to trace the hurdles that inhere in each of the two alternative paths, the minimalist approach and the direct move to fully-fledged democracy.

The argument for a direct move to liberal democracy relies on its economic function of preventing the abuse of power. But does democracy alone

condemned to poverty. In the first areas, settlers wishing to live and create in their new land, managed to pose constraints on elites and elaborate on an institutional framework conducive to stability and growth. In the second regions, Europeans were interested in accumulating and exporting wealth from unpleasant natural environments using non-Europeans which remained the majority.

⁴⁶ The minimalist approach stresses the centrality of the protection of property rights as a precondition for development. Protection of property rights has an economic rationale: when property is protected, a stable business climate encourages investment and risk-taking. The view that good governance and institutional reform enhance business climate for (foreign and domestic) investment is present in Community documents, whether referring to accession countries or other partners.

⁴⁷ E.g. 'A functioning legal system, implemented by strong regulatory authorities and effective and independent judiciaries equipped with the powers to protect property rights, are also required to maximise economic activity and production, and accelerate economic growth' (Commission, 2003, p. 9).

wipe out the possibility of arbitrary action or domestic armed conflict? Even though the risk of the ‘tyranny of the majority’ -associated with a threat to property and free economic activity- has been resolved, the risk of social turmoil due to huge income differences that would undermine democratic functions is present in less developed countries. (e.g. the case of some Latin America countries). The mere presence of written documents does not guarantee that they will be respected and observed. The risk of armed confrontation among competing interests is a puzzle for those advocating a direct move to democracy. Institutional attempts to establish democratic institutions in some developing countries have resulted in conflict, civil war and chaos. At the end, their formal incorporation played a decorative role, and was not followed by compliance by politicians, party coalitions, or dictators, for whom such declarations performed a garnishing task. This brings us back to the analysis of why liberal democratic values are created, and raises the question of their relation with income levels and inequality.

Przeworski (1991) argues that democracy is self-enforced. Compliance with democracy is self-interested, in the sense that political groups that lose an election comply knowing that democratic institutions leave them an opportunity for future victory. Close to Przeworski’s analysis is our previous account that the common understanding of their symbiotic (highly interdependent) relation by self-interested groups explains their voluntary compliance. However, this state of mind is hard to attain. Democracy relies on a compromise of competing interests. Compromise is feasible in the advanced market economies in which there are developed symbiotic relations, such as between consumers and clients and between employer and employees. The advanced market economies necessitate a cooperative spirit and a commonly agreed normative framework, because economic activity links competing actors in a relation of interdependence which makes compromise and mutual concession a prerequisite for present and future mutual gains. After all, before distribution, income has to be produced.

But is democracy a privilege of advanced economies? Some analyses argue that democracy depends on the existence of a non-polarised society. This means that in a polarised society, democracy is destined to be frail and problematic. Alesina (1998), for example, assigns political instability to society’s

polarisation, the existence of political factions not able to reach a consensus on public goods and overall economic development (1998, p. 38).

Easterly (2001) correlates higher growth, stability, modernisation and democracy with a high share of income for the middle class (namely the middle class consensus).⁴⁸ This association implies a reverse causal relation between democracy and growth from the one we read above. First growth comes and then democracy follows. Once more this claim is related to the view that in economies developing fast and in advanced economies liberal pluralist democracy is bound to emerge out of the claims of the rising business elites and the middle class. On the contrary, serious social confrontation in poor countries, resulting from sharp inequalities in access to power and income, has a huge cost as it destroys the cooperative climate and jeopardises any democratic experiment.

Does the 'middle class consensus' causes stability and growth, and better democratic institutions or the reverse? If polarisation is a result of a strong conflict of groups of interests, to understand whether this jeopardises democracy or whether democracy alleviates polarisation is a complicated task. In democracies anticipation is a powerful incentive for the disadvantaged to comply. In addition, losers comply knowing that their core rights are protected against the potential abuses of the winners. The absence of a better alternative system may provide some comfort that competing societal factions will opt to respect democracy. But for some groups non-democratic action may also be a promising alternative. When great income polarisation is present, the ruling elites may not respect democracy, since empowering majority may unleash pressures for redistribution of income. Having employed a strategy of suppression, they may consider traditional constraints, such as the use of violence, as sufficient for safeguarding their dominant position. Similarly disadvantaged groups may opt for revolt. All these are of course speculations but they may strengthen a negative stance towards direct democratisation.

This negative stance towards direct democratisation is based on the premise that growth comes first and then democracy emerges naturally. In this alternative minimalist approach, economic growth is based –among others- on

⁴⁸ See also Landes, 1998.

property rights protection, which for some authors can be established even by a 'benevolent' dictator.⁴⁹

The concept of the 'benevolent' dictator is a striking oxymoron. But the claim that growth may be achieved by a dictatorship and once attained it may lead to democracy is a plausible hypothesis and a challenging alternative. This view is consistent with the story of the birth and gradual establishment of democracy in the West as a result of its economic growth and the emergence of dynamic societal forces that sought to put an end to the monopoly of power by monarchy and hereditary aristocracy. Democracy is therefore the outcome of an economic and social transformation, namely the emergence of the entrepreneurial class and the middle-class. The obvious refinement of this stance is that democracy is a choice only in developed societies, where the risk of expropriation is minimal and the need for redistribution of income is more moderate and limited to few claimants. Democracy is self-enforced because the social and economic relations in advanced free markets create the objective conditions for its birth and consolidation.

However, social and economic conditions are an enabling factor but do not necessarily lead to the establishment of liberal democracy. First, even a move to free market is a difficult start. In some occasions, a free market may be regarded as threatening to the ruling elites, because it creates new poles of economic power and unleash pressures for democracy. Interest calculation may dictate repression instead of some form of liberalisation. Some ruling elites remain absorbed in maintaining power and enlarging their economic share, for example in a state-controlled economy (e.g. in North Korea).

Secondly, economic activity is threatened by arbitrary and unaccountable authoritarian regimes. In China the government has pledged respect for property rights, which together with investment in human capital and infrastructure has encouraged much foreign investment in the country. This seems to uphold the view that good policies may be pursued by dictators. In China, the government's commitment to property rights has created a climate of trust for business,

⁴⁹ Glaeser, LaPorta and Lopez-De-Silanes, 2004; Also implied in Sachs and Warner, 1995, especially with reference to China and Chile.

replacing the absence of formal institutional embodiment.⁵⁰ However, a commitment by an authoritative government to property rights provides no guarantee that there would be no u-turn in the government's attitude. There must be either a powerful external pressure, such as the military presence of the USA in South Korea and the security dependence of that country on the USA, or an elite-consensus in favour of free market to ensure that a government will stay consistent in pro-market policies and the protection of property rights. The latter occurs in China, but there is always the possibility of a dramatic reversal once new societal forces that emerge from the booming economic activity start claiming power.⁵¹ Support of economic activity and respect of property rights by some dictatorial regimes is a *choice* likely to change. It is not a self-enforced *norm*. This is not to suggest that developing China may not take a path to democratisation at some point. In a process of industrialisation and commercialisation the emergent economic actors seek access to decision-making and since their importance for the country's economy constantly rises, the ruling elites know that to refuse opening up the decision making system to the new economic forces is an option hard to sustain at no cost to the economy. The possibility of oppression diminishes as the country becomes more dependent on the rising new economic actors that press for their inclusion in decision-making. To the extent that conflicts are uneconomical, suppression seems not a solution sustainable in the long run. In the minimalist approach the road to democracy is kept open but mined.

On the contrary, a straightforward move to pluralist democracy, when conditions allow it, avoids the hurdles we described above. A political system with limited government, power dispersed to multiple centres, political opposition and independent judiciary offers an institutional consolidation of free market by eliminating arbitrariness and granting market forces with opportunity structures for participation in policy-making. Democracy may lead the elites to

⁵⁰ Rodrik, Subramanian and Trebbi, 2004, p. 157.

⁵¹ Indeed, investment in a non-democratic state, such as China is a risky venture. It is interesting to consider three questions: whether China will adhere to respect for human rights in the future; whether the development of entrepreneurial activity and the rise of capitalist elites and middle class in China will unleash pressures democratization, insofar as the new elites, as stakeholders in economy, would like to have a say in policy-making there, just as it happened in Europe and North America two centuries ago; and how the Chinese establishment will react to such pressure.

make concessions to the poor or the middle class, but, while this may involve an initial shock to the ruling elites, it is accompanied by rigid property rights protection that reassures property owners. A perception of community is gradually developed among competing interests. Democracy emerges endogenously and, although it unleashes competing social forces, it produces stability and, together with investment in human capital and open education policies, it generates growth. Starting with limited government and independent judiciary a climate of trust is established that favours investment. Eventually, middle class consensus may be an outcome of democratic, rule-of law societies, which eventually enjoy a high level of income.

Market economy, rule of law and democracy are three interdependent factors conducive to stability and prosperity. Nevertheless, as we have seen above, both the minimalist approach (the protection of property rights) and a direct move to fully-fledged pluralist democracy are imperfect alternatives. Both of them uphold the premise that growth and democracy are interrelated but neither of them guarantees an even track to either of them. Seeing that democratic institutions are convergence points of the various conflicting interests that compete within society, and given that liberal democracy and economic growth proceed hand in hand in a cyclical self-reinforcing relation, it seems that the 'steady-state' of compromise is mobile, as the economy grows and democratic institutions are gradually established. The process is thus evolutionary. Social confrontation is eased when economic growth is accompanied by a gradual step to democracy. At the end of this process, fully-fledged liberal and pluralist democratic institutions remain the most comforting assurance of stability in an advanced market economy.

It is also interesting to examine the fact that in recent decades there have been exogenous pressures on governments for reform and compliance. International monitoring committees and panels report on violations of human rights, economic sanctions have been imposed on recalcitrant governments that seriously and consistently breached human rights. In an interdependent world, economic and political rewards and sanctions act as a strong external pressure for domestic reform. The European Union's persistent use of conditionality towards

its neighbours is a form of external pressure. In Part Three we shall examine the additional challenges that this strategy faces.

2.3. The controversial preference for economic integration.

Regional economic integration has been the shared preference of member states of the European Communities for more than half a century. This process emerged within the structure of free market (capitalist) economy. EU member states have supported the expansion of their regional arrangements through enlargement and more recently embarked on expanding integration through the alternative strategy of the ENP. Based on the analytical framework we established above, we will explore its rationale.

Regional integration has been a major field for economic analysis. Nevertheless, economists are ambiguous as to the benefits and costs of regional integration. Orthodox economic literature predicts significant benefits from regional integration and trade and factor liberalisation (as a second best solution to global integration), while alternative views predict divergence to the detriment of poorer areas. Controversy in economic theories originates from contested assumptions, methodological tools and empirical data collection. This paper does not intend to provide a comprehensive economic analysis of regionalism, but a brief presentation that reveals this controversy.

Traditional economic literature builds models that predict efficiency gains from trade created by regional integration (trade creation leading to efficient resource allocation and specialisation based on comparative advantage), reduction of production unit costs by economies of scale, increased competition, and improvement in the terms of trade with non-members, while it views losses from possible trade diversion.⁵² Trade creation or diversion depends on the circumstances of each case. In further factor liberalisation, economists view gains from capital mobility and the (re)location of production. The orthodox prediction is backed by empirical findings that open economies tend to converge, while

⁵² Robson, 1998; Also: Grabbe and Hughes, 1998; Freund, C. (2000).

closed economies do not, which albeit contested, is strong and influential.⁵³ Poor countries tend to grow faster than rich countries, as long as they are open to international trade.

The outsiders of regional arrangements have to consider the costs of exclusion, the loss of market access for their products due to discriminatory trade policies.⁵⁴ Divergent product standards also impose an indirect discrimination against outsiders. Discrimination in any form negatively affects the country's attractiveness to investment. To the extent that these negative effects are to be released with regional integration, governments of neighbouring countries seeking to boost economic development will opt for participation in the regional arrangement.

Alternative views, present a more complicated picture of the effects of regional integration. Popular in previous decades, cumulative causation models predicted divergence and concentration, while the more recent 'new economic geography' and 'new trade theory' presents varied outcomes depending on labour costs, labour mobility, taxation and other factors.⁵⁵

In an interest-led world, the first question is who gains out of economic integration. Economic integration is a process with winners and losers, gains and costs, expected benefits and side-effects, which pose challenges to economic actors for restructuring and adjustment. Our account that stresses the interrelation of ideas, theories and interests shall address the following questions: which theory is embraced by each specific interest group? Are there any interest groups desperately seeking for a theory to accommodate their interests and shape them into policy suggestions? Which is the endorsed theory that governments and bureaucracies follow when they seek to increase the GDP per capita, which is assumed to be their fixed preference? And finally, which is the real outcome of competing interest competition, in view of their symbiotic relation in free market economies?

Political science stresses the driving role of actors that expect gains from regional integration arrangements. Mattli (1999) in his insightful analysis of

⁵³ See the empirical work of Sachs and Warner, 1995, pointing to an interrelation between open economies and convergent growth performances.

⁵⁴ Frankel, Stein, and Wei, 1995; Frankel, 1997.

⁵⁵ Mainly through the work of Krugman, Venables, Ottaviano and Fujita.

economic integration relates the efficiency gains, which economic analysis ascribes to integration, with payoffs to self-interested governments and political leaders seeking to advance the general welfare with a view to re-election. It also emphasises that regional integration is launched, when market forces anticipating gains demand the initiation of regional arrangements or trade liberalisation projects, and when governments are convinced that the process will result in general welfare improvement. The empirical finding of Mattli is that absence of market pressure leads to failure. This brings us back to an interest-based explanation of processes and policies. Market forces are domestic or transnational, exercising their lobbying activity at all the available levels of decision-making.⁵⁶

Societal actors will favour regionalism and trade/factor liberalisation if they expect gains. Theory and empirical studies have demonstrated who gains and who loses. Besides winners, regional integration in trade or in factors causes –temporary or permanent- losers. A careful reading of benefits and costs predicted by classical models (Heckscher-Ohlin-Samuelson, Viner) discloses the groups that lose from regional integration: the relatively scarce factors of production should tend to favour protectionist policies, since trade will reduce their incomes.⁵⁷ Business relying on imports will favour trade liberalisation.⁵⁸ Transnational corporations (TNCs) will particularly benefit from capital mobility and the multiple available location options.

In the case of trade creation, when the products of domestic inefficient industries are replaced by cheaper imports from a member state, inefficient industries, hitherto protected by national tariffs and quotas, automatically join the club of losers. There is also controversy over whether unskilled labour is negatively affected by trade with developing countries.⁵⁹ Even if the countries

⁵⁶ See Mattli's analysis of the case of the EU, in chapter 4 of his book.

⁵⁷ Cf. Midford 1993; Rogowski 1989; and Frieden and Rogowski 1996. Eichengreen, 1998, notes that interest-based approaches in political science have used models, such as the two-factor, two-sector Heckscher-Ohlin-Samuelson model and the three-factor, two-sector Jones-Mayer-Mussa model to claim that different groups favour different trade strategies. E.g. a country's relatively abundant factor of production and the export-oriented sector that uses it will favour a liberal trade policy, while the scarce factor and the import-competing sector that uses it will favour a restrictive policy (p. 3)

⁵⁸ Cf. Destler and Odell, 1987; and Frieden and Rogowski, 1996.

⁵⁹ See for example Wood, A (1995) and his references.

end up better-off, some domestic groups suffer from increased competition and need to undergo restructuring or exit.

We have seen that in pluralist democratic societies, governments' choices are significantly determined by interest group competition, characterised by power asymmetries and theoretical argumentation. Winners and losers from integration in trade and factors have to enter a theoretical battle and make an appeal to common good, based on formal analysis, empirics, narrative or simply arguments. Groups shall adopt an economic rationalisation of their interests, which is found in economic analyses. Economic analyses may be complemented by a general appeal to identities, values and vision.⁶⁰

Regional economic integration is backed by prevailing economic theories, which support free trade and advocate regional integration as at least a first good step towards global economic integration. Those in favour of trade or/and factor liberalisation have a wide range of academic arguments to choose from. Neoclassical economics from Solow's steady-state growth model to contemporary ones provide them strong theoretical arguments framed in formal mathematic language. Disfavoured groups, on the contrary, have been anxiously searching for an economic rationalisation of their claims within an unfavourable institutional environment. Until the emergence of the so-called 'new' approaches such as 'new economic geography', and the 'new trade theory', most of them have relied –though often tacitly- on the decreasingly popular Myrdalian or Marxist arguments, and thus remained unable to invalidate the conventional economics.

But while interest competition between those favouring regional integration, as some sort of freer trade, and those opposing it, is governed by power balances and ideological advocacy, its outcome is ultimately determined by the *symbiotic relation of both groups*. Since they are all dependent on economic growth, workers and traders, industry and services, the strongest economic argument about how growth is to be achieved prevails. Unorthodox views may have discovered inequalities, and losing groups, but the orthodox theory that supports integration has clearly demonstrated with formal models a road to growth. With no growth, there are fewer work places, fewer state

⁶⁰ Schimmelfennig, 2001.

revenues, fewer funds for security and social policies. Without growth, a vicious circle of underdevelopment will affect both winners and losers, because both groups are bound in a relation of interdependence.

In the case of European integration, a pro-integration stance has dominated for both economic and political reasons. The first six member states had strong trade links and launched a heavily institutionalised process of economic integration backed by both the economic argument that their national markets were of inadequate size for the development of export-oriented companies, and the political argument that free trade and economic cooperation has interdependent economies do not make war to each other.

But besides public interest, domestic interests remained the central driving force for European integration, which began with two sectors characterised by a high degree of inter-industry interdependence in Germany and France: coal and steel. The EC was constructed to have a pro-integration stance, and it has performed the task of normative entrenchment of any ongoing competition among interest groups related to the choice of enlarging or deepening regional integration.

Within such an environment predisposed in favour of regional integration, the disfavoured groups still have a strong numerical presence, which they have been using to extract compensation. Influences of power are evident in the cases of certain policies running counter to orthodox theory suggestions. While prevailing theories suggest liberalisation, the fact that certain areas like agriculture remains persistently protected and funded, adds support to the view that ideas should match power distribution in public debate to cause action and change. Some groups, albeit with no strong normative alternatives, may block or delay a path which is widely believed as efficient. Some others can't.

Finally, Mattli argues that regional integration is sustained when demand for regionalism (from market forces) meets supply from governments building institutions, and addresses the problem of coordination, compliance and the unequal distribution of gains -throughout and within member-states. The EU is the prime example of a long-lasting regional arrangement where compliance has been ensured through the role of the Commission, and the ECJ, two major

institutional guarantees of the process.⁶¹ It is also a successful case because of its generous capacity to compensate the most vociferous disfavoured groups and the laggard regions

2.4 The ENP as an expansion of norms.

We have discussed above that liberal democracy, free trade and economic integration are three concepts that currently enjoy unanimous support in the West due to their perceived function of accommodating competing interests and producing gains for all. The European Neighbourhood Policy is a strategy aiming at exporting them to the EU's neighbouring environment. The EU members expect a utility similar to the one that liberal democratic norms including human rights, free market and regional integration has created domestically. That is to say stability, security and economic development.

Indeed, in a series of papers the Commission stresses the relation of interdependence between the EU and its neighbouring countries both in economy and in politics. It then places stability and economic development both within and outside EU's borders as the two interconnected goals of the new neighbourhood strategy.⁶² The European Neighbourhood Policy pledges to avoid 'drawing new dividing lines in Europe, and to promote stability and prosperity within and beyond the new borders of the Union'.⁶³ Common issues between the EU and non-EU neighbouring states call for a new comprehensive strategy with

⁶¹ EC law experts have focused on the active role of the Court in advancing European Integration, especially as to the free movements of goods and other factors of production, often naming its stance as judicial activism (See Hartley, T.C. (1996) 'The European Court, Judicial Objectivity and the Constitution of the European Union', *The Law Quarterly Review*, 112, pp. 95-112, and Shapiro, M. 'The European Court of Justice', in Craig, P and DeBurca, G. (1991) *Evolution of EU Law*, pp. 321-345. However, their objective was not to provide a political analysis for this stance. States accepted the dicta and their institutional repercussions, given that afterwards they did not amend the treaties to subvert the Court's judgements.

⁶² 'Over the coming decade and beyond, the Union's capacity to provide security, stability and sustainable development to its citizens will no longer be distinguishable from its interest in close cooperation with the neighbours. Interdependence –political and economic– with the Union's neighbourhood is already a reality' (Commission, 2003, p. 3).

⁶³ Commission, 2003, p. 4

an innovative institutional design, which besides addressing common threats and challenges shall open up new perspectives for stability and prosperity.

The fact that security (avoiding conflicts within or among neighbouring countries) is a preference of the Union, and its member states, needs little explanation. Security apprehensions have always driven the external policy of states and their international organisations. What shall be added here is that security and stability are not only virtues by themselves, but they are also considered to be a *sine qua non* prerequisite for economic development. Stability is a necessary precondition for any business entity to establish trade links, to engage in commerce and to invest in a country, while economic development in its turn ensures political stability. Stability and development are therefore two poles in a self-enforcing, cyclical relation.⁶⁴The ENP strategy goes beyond managing common security threats to embark on a broader, very ambitious project for domestically-sustained, self-enforcing and institutionally-entrenched stability and development.

If stability and prosperity in the wider area are the commonly agreed EU preferences, the previous analysis of the political and economic function of liberal democratic norms explains why the Union's strategy to open up European integration and advance a package of liberal democratic institutional reforms in the neighbouring countries is believed to attain them. It also reveals the challenges and hurdles that render this strategy of norm expansion highly challenging.

First, liberal democratic norms, free market, and economic integration emerged in the West gradually and simultaneously. There is still the question concerning the poor economies of whether liberal democracy with limited government leads to growth, or whether economic activity backed by property rights protection gradually opens the way to democracy. This question has not yet satisfactorily addressed. It is a problem of circularity where the definition of which variable is dependent and which independent is knotty. Studies of particular countries do not provide us with a general conclusion. We have shown that both routes are laid with different stakes. We have predicted that both alternatives may lead to an advanced economy and liberal pluralist democracy,

⁶⁴ See Barro, 1991; Alesina et al., 1996; Alesina and Perotti, 1993.

given that these two systems are self-reinforcing. Liberal pluralist democracy best accommodates free market. Property rights imposed by a dictatorship may stir growth and this may unleash pressures for democratic reforms. A fully-fledged democracy relying on consensus may ensure stability, property, and through investment in education and other social policies may lead to growth. Both options need to surpass hurdles distinct for each route. This is highly uncertain. The double strategy of the ENP to promote both liberal democratic elements and free trade reflects that uncertainty.

Secondly, there are differentiated societal characteristics in the countries involved. The fact that the liberal democratic set of norms has been proved a success story in Western Europe as conducive to stability and prosperity is no automatic guarantee that it will be smoothly introduced and applied in other societies. Obstacles are posed by groups resistant to change, ruling elites, and often wide masses. Among the major factors that differentiate the case of some countries a major one is the rising position of irrationality in the form of religious fanaticism.

Thirdly, there are challenges regarding the EU member states which initiated the ENP. Although the concept of regional integration is currently prevailing, it is challenged not only by the groups already considered to be disfavoured by it, but also by a growing assembly of actors that were previously supportive of it, and by the new alternative economic literature. This question is linked with the unexpected or underestimated disturbances which globalisation brings to the advanced economies.

These three categories of challenges to the strategy of the ENP will be briefly discussed in the last Part of this paper.

Part three. Challenges and Obstacles to the ENP's twofold strategy

3.1. Incentives for, and limits to liberal democratic reforms in the neighbouring countries

In Part Two, it was noted that the preference for democracy has a strong economic rationale. This observation is directly linked with the strategy of the EU to make the opening up of its internal market to neighbouring countries dependent on their adherence to the Union's 'shared values'.⁶⁵ The Union's motivation for promoting these reforms is clear: institutional approximation is expected to lead to a ring of well-governed countries with predictable, effective and reliable, 'limited government', familiar with the Union's modes of governance, with the same concerns, same vision and same practices. Moreover, predictable governance will facilitate foreign investment. And in order to tackle transnational issues such as migration, organised crime, environmental and public health concerns, nuclear hazards, energy transport etc, the Union needs a credible interlocutor to cooperate on a common understanding. Finally, stability, the central policy objective of the ENP for the broader area, is expected to have beneficial effects for the EU border-states.⁶⁶

The Union exerts pressure on its neighbouring countries to launch reforms. Participation in its regional trade arrangement and accession to it were made dependent on core institutional reforms. The practice known as 'conditionality' has posed a dilemma to ruling elites between gradual reforms or exclusion. Conditionality has been illustrated by Schimmelfennig and Wagner's as reinforcement by reward (2004). More precisely, conditionality is a 'sticks and carrots approach',⁶⁷ and constitutes 'reinforcement by reward and by punishment'. Inclusion comes as a reward; exclusion is the cost of non-compliance. The Union offers incentives, asks returns, awaits response, and then grants status. Financial assistance through programmes such as Meda/Tacis is conditioned on each state's progress towards reforms. This is a 'soft' approach as opposed to the 'hard' tactics of violently imposed reforms.

⁶⁵ Commission, 2003, p. 12.

⁶⁶ See Ades and Chua, (1997): regional instability disrupts trade flows and fuels military spending. Reducing regional instability is also beneficial to the neighbouring countries. Cf. the huge economic cost of military expenditure from the 50s onwards in Greece located in the troublesome area of the Balkans and Turkey. Also see the empirical work of Knight, Loayza, and Villanueva (1993) 'Military Expenditures and Economic Growth: An Empirical Analysis', which demonstrates that military expenditure has a significantly negative effect on growth, by crowding out private investment and creating external diseconomies and misallocation of resources.

⁶⁷ Tsoukalis, 2003.

When the Union calls its neighbouring states to initiate domestic reforms towards democracy, rule of law and efficiency, its bargaining position is conditioned primarily on the attractiveness of the benefits it offers. Nevertheless, unlike enlargement, where the Union is applying a ‘take it or leave it’ approach, the effectiveness of conditionality under the ENP is dubious. Asking concessions in return for granting participation is strong, when the benefits offered to third states are significant. Given that the ENP offers a limited bunch of ‘privileges’, the Union shall have limited expectations.

Nevertheless, we have noted that democracy is self-enforced and democratisation is a process initiated domestically. Economic development unleashes pressures for democratisation by self-interested actors and interest groups in view of the economic benefits of liberal pluralist democracy. *The internal nature for democratisation* is evident in the case of the former socialist states which moved smoothly to liberal pluralist democracy during the 90s. In most of these countries there has been a remarkably undisturbed transition to free market and fully-fledged democracy due to the fact that the process enjoyed widespread consensus. The reason for this is that despite the sharp decline in economic indices these countries were developed economies and enjoyed a high level of education. The initial economic shock was easily offset by the infrastructure which, though antiquated, was already in place for upgrading. Transition was facilitated by a strong societal consensus, by the absence of social or political polarisation and by an electorate rationally expecting improvement of their standard of life through emulating the western paradigm. In the case of the Eastern European countries of accession, conditionality added little in support of democratisation, given that in these states the political and societal actors have already unanimously espoused democracy and voluntarily embarked on reforms. Conditionality mainly facilitated the technical issue of incorporating the ‘acquis’.

Hence, conditionality has to build on an endogenous choice for reforms towards liberal democratic norms. Equally, in the case of the ENP, the addressees of the strategy should share both its preferences and the underlying explanatory and normative analysis. There must be a convergence of preferences and perceptions. This is why these countries, having different starting points, distinct preferences and capacities, pose a new mix of constraints that the ENP shall

address. The ENP is to a large extent an ‘external dimension of internal politics’,⁶⁸ but it is also connected with the preferences formed within its neighbouring states.

The practice of conditionality is also used to affect the preferences of domestic actors.⁶⁹ Seeing that the drive for reform is internal, conditionality works internally through *domestic empowerment* of reform-oriented governments or/and societal sections, civil society organisations, business associations, reform-minded political groups.⁷⁰ Conditionality affecting domestic preference formation is an added means to facilitate institutional change. This function presupposes a pluralist domestic preference formation process (at least to some degree).⁷¹ Conditionality through domestic empowerment becomes a useful tool in countries whose democratic institutions are still frail, either because their transition is at stake (Ukraine) or its democracy is problematic (Turkey). Indeed, conditionality shall meet an endogenous drive for reforms, stemming from rational perceptions of interest.⁷² An external pressure for deep-rooted reforms is expected to strengthen and speed up a self-enforcing process of domestic changes.

If the ruling elites choose reforms, this requires their adjustment to new conditions. Adjustment, however, does not necessarily undermine their dominant position. In fact, liberal pluralist democracy is well tailored to accommodate the interests of business elites, while offering opportunity structures to all

⁶⁸ As Lavenex has described it, ‘rule-extension towards non-member states may follow functional needs when it is seen to increase the efficiency and problem-solving capacity of internal policies’ (Lavenex, 2004, p. 681).

⁶⁹ See Brücker, Schröder, and Weise, (2004), which describe the process of enlargement as a war of attrition.

⁷⁰ See Knill, and Lehmkuhl 1999; Börzel, and Risse 2000; Vachudova 2001. Schimmelfennig and Sedelmeier endorse an ‘external incentives model’ (2004) in which conditionality is a strategy of rewards that affects governments’ choices through intergovernmental bargaining or indirectly through the differential empowerment of domestic actors

⁷¹ See Mattli and Plümper, 2002, with respect to prospective membership: ‘leaders in more democratic regimes had a greater incentive to push ahead with these costly ‘institution-building reforms’ which, in effect, aligned their countries with EU rules and institutions [...] Indeed, they saw reforms establishing sound private governance supported by effective judicial and administrative institutions as the most promising way to generate and attract investments needed for vigorous economic growth’, p. 551. Cf. Schimmelfennig, 2002 constructivist approach.

⁷² See also Przeworski, 1991, Chapter, 2: Transitions to Democracy, and the concept of democracy with guarantees for liberalising regimes.

stakeholders. The counter option of recalcitrance coincides with economic underdevelopment, poverty and social unrest which are likely to result in regime subversion. However, if conditionality is to be seen as part of a general ‘socialisation process’ through ‘institutionalisation’,⁷³ it is easy to see the impasse of the underlying analysis: conditionality will probably not alter the policy stance of authoritarian political regimes, whose preference for preserving their political power does not coincide with the Union’s vision of establishing liberal democratic values.⁷⁴ Regardless of the size of the rewards and the cost of non-compliance, authoritarian regimes may ignore economic benefits for the sake of their political survival. Those governments that are unwilling to endure institutional change will content themselves with the benefits of gradual world market integration.. And, while isolated ‘pariah’ regimes will reject any such process, the recalcitrant regimes that have established links with the Western states and depend on their support may adopt –under the threat of exclusion- a dilatory method, with innocuous verbal commitments to democratic reforms but no substantial progress.

Furthermore, the neighbouring countries involved in the strategy are currently characterised by a significant political and economic heterogeneity. There is a diversity of problems, as some countries have severe security challenges, such as Lebanon, Israel, and Algeria, while others, like Moldova and Ukraine are experiencing grave economic hardship. The Union shall expect progress to be uneven due to the diversity of conditions among the candidate states.

Another crucial question is whether democracy and human rights can be sustained in societies in which large parts are imbued with religious fanaticism. In many societies in the Middle East, religious leaders enjoy or seek to acquire a central role in both policy-making and societal life by mobilising large religious masses. Being the most politicised monotheistic religion, Islam helps them considerably. Is Islam compatible with the development of human rights and modern democracy?

⁷³ The term is taken from Risse, Ropp and Sikkink, 1999.

⁷⁴ This is currently the case of Belarus and Libya.

In Turkey, the strategy to establish a western-type state democracy was the exclusion of political Islam through secularism enforced by the military and the government. In Turkey elite-driven secularism has tried to forcibly westernise the state and society. To a large extent it was successful: modern Turkey is closer to the West than any other Middle East country. Its present place as a candidate for EU membership implies that the elite-driven choice of secularism and suppression of political Islam is causally related with the fact that Turkey is as western as to be capable of at least negotiating its accession to the EU. Enforced secularism, however, came with a price. Modern Turkish democracy remains highly problematic. Oppressing political Islam by violence was also the last-minute choice of the elites in Algeria after the elections of 1991 when extreme Islamists won the majority of votes. The Algerian case still haunts the discussion of democratisation in the Middle East. Democracy may open the doors to extreme Islamism, which after using democratic institutions to reach power may subvert it and establish a tyrannical theocracy. The example of Iran adds support to this claim. It also raises the question of whether Islam is compatible with liberal and pluralist democracy.

Dalacoura (2003) argues that a liberal interpretation of Islam is possible. She argues that the failure of 'liberal' Islamists was a result of the social and political conditions in the Muslim countries. For Dalacoura Islam is not an inherently illiberal religion. Yet, her claim that human rights are better encompassed in a metaphysical context clashes with my analysis that the foundation of these rights is rational, since they emerged and were established as the rational outcome of the interaction among self-interested actors responding to evolving social conditions. If some early human rights declarations in the West (mainly the US texts) have evoked God, this is because any outcome of institution-building needs an additional veneer of legitimacy and an appeal to its addressees. This metaphysical embrace is again an instrumental choice but, given that norms are rational products, it is not capable of preventing a rational revision by society if conditions and perceptions change. Secondly, unlike these metaphysical appeals, religions are ready-cut ideologies that do not allow much scope for interpretative manoeuvres. Although religions were creations of human societies, their basic claim that they are revelations by God render them rigid.

Unless their writings are vague, which does not often occur in the Koran, even the most powerful group or government is unable to impose a fitting interpretation. The sharp contrast between religion and liberal democracy is that, although they were both creations of human being, the former by evoking its divine origin ceased to be rational and thus subject to rational revisions. Religions perform a form of normative entrenchment of societal life in the most persistent and absolute way. Ruling elites or their adversaries who may want to use these ready-made sets of norms in order to acquire power have to accept them as such.

This is why liberal interpretations of Islam, namely interpretations that ignore or reframe the illiberal phrases of the Koran and other traditional practices, have failed up-to-now. Illiberalism is not a problem particular to Islam. This is an inherent characteristic of all religions when they are not confined to the private sphere, i.e. when they are not a matter of personal choice. It is a fact of history that societies whose level of social development and education is low are societies where religion has a strong say in their political life. These societies are necessarily conservative. In the West, social and economic progress limited religion to the private sphere, together with their ‘authentic worldviews’ that disallow doubt, dissent and revision. It was the rebirth of rationality after Enlightenment through the social and economic transformation of Europe from that time onwards and not a liberal interpretation of Christianity that led to liberal pluralist democracy. But, while liberal democracy was the product of rational (or rationalised) societies, is rationality a guarantee of human rights and democracy? This is Dalacoura’s anxiety when she reminds us of the numerous violations of human rights and the crimes committed by secular regimes. However, a secular political system is not a synonym of a rational society respectful of liberal democratic norms. Although some secular political communities were not liberal and democratic, and often caused human disaster, the enablement of rational thought –freed from religious authenticity- allowed in other occasions the birth and establishment of liberal democracy through negotiation and compromise. Only rational thought, unchained from authenticity, provided the fertile ground for societal actors to seek and establish the symbiotic arrangement of liberal

pluralist democracy. Deep-rooted rationalism, not enforced secularism, or metaphysical substitutes, is the necessary condition for liberal democracy.

Back to the main analysis, it becomes obvious that, if for some states the adoption of the whole package of liberal values and norms is unrealistic, narrowing the agenda and selecting those norms whose promotion is both attainable and significant is a plausible alternative. Hence, the EU itself has adjusted its preferences to specific states or groups of states. For Mediterranean states emphasis is placed on security and stability, conflict resolution and migration. For Eastern European states, economic considerations and emphasis on consolidating democracy and rule-of-law institutions are stronger. In its much more symmetrical relations with Russia, a nuclear power and a major energy supplier, the EU shall adopt a *sui generis* stance, possibly bypassing the ‘values and norms’ cause, and treating it as an economic partner to be engaged in a mutually lucrative cooperation. Russia’s creeping and uneven path to democracy should be discreetly encouraged, mainly for security reasons.

Three considerations mostly prompt a realist adjustment of the strategy a) different prevailing interests concerning trade, economic cooperation and democracy in neighbouring countries, b) different EU interests for each state or group of states, c) asymmetries of power among neighbouring states. Given this diversity of current political and economic conditions and preferences, the Union embarks on a differentiated approach.⁷⁵ Consequently, from an incentive to achieve uniform compliance conditionality may transform itself to a mechanism of *treatment differentiation*. If varied geometry is the unavoidable consequence of a differentiation of preferences, and if this is to occur within the EU, European integration will take the form of concentric circles both internal and external to the EU.⁷⁶

3.2. Free market, free trade and economic challenges under the ENP

⁷⁵ See Commission, 2003, p. 15. This is also reflected in the Commission’s country-specific or regional Action Plans.

⁷⁶ Internal varied geometry is already present with EMU. External varied geometry emerges from the different existing frameworks of cooperation, such as the Partnership and Co-operation Agreements (PCAs), the Tacis programme, Common Strategies towards Russia and Ukraine, Euromediterranean Association Agreements, and the MEDA programme.

In the previous section, we noted that regional integration creates winners and losers, and that the choice for integration is an outcome of a process of interest competition. The predominant economic view has supported -albeit with deviations- the opening up of trade and factor mobility, and helped those in favour of liberalisation. But the neoclassical growth theory that predicts convergence in income is contested by both the older ‘cumulative causation model’, and the increasingly popular contemporary ‘new economic geography’ and ‘endogenous growth theory’.

In Western Europe regional integration advanced without serious confrontation due to the fact that the Western European economies were already densely interconnected. Regional integration continued with the inclusion of South European States in the 1980s, whose level of development and labour costs were lower than the average in the EC. This accession did not provoke serious negative repercussions in the economies of both the advanced economies and the laggards. On the contrary, the lower factor costs in the South played no noteworthy role in the allocation of economic activity, while the increasing returns present in the North West industrial and urban centres did not prompt a movement of economic activity from the ‘periphery’ to the centre. On the contrary, the South economies of Spain and Portugal, assisted by generous Community funding, experienced some growth of their GDP and their standard of living.

Yet, regional integration creates losers who await compensation. When losers are not able to prevent a disfavouring policy course, due to weak power or weak advocacy by theory and ideas, they may be powerful enough to extract side-payments, often generous. European economic integration was sustained by generous mechanisms of side-payments to farmers (the CAP), the lagging regions (the Structural Funds) and the weak national economies (the Cohesion Fund).⁷⁷ Compensation has been central to the consolidation of EU integration

⁷⁷ See for example Pollack, 1995. Also see Behrens and Smyrl (1999) noting that the ECPR was a ‘politique d’ accompagnement’ for the Single European Act. Behrens and Smyrl study the influence of ideas in policy-making and the choice of a theory by a particular institution, in this case, the Commission. However, their analysis implies either the assumption that the Commission is a benevolent actor with a preference for efficient policies, or that it has only ‘institutional interests’. They are agnostic as to the discussion

even under a controversial economic justification. The success of the EU until now rests on both its mechanisms of compliance and coordination, as well as on the generous financial aid to its weaker members, regions and the farmers.

However, compensation comes with a heavy fiscal price, which in the case of the EU was aggravated in 2003 with the entrance of eight weaker eastern economies. Their pressures for increased funding clash with the fiscal difficulties that the donor-states currently face. What is impressive is that the responses of both groups revolve around existing EU structures: the weaker countries appeal to structural and cohesion policies, while most net-givers invoke the domestic fiscal constraints imposed by the Stability Pact. Both of them also face the institutionalised upper limits of the EU budget. These are cases of discomfort with the given institutional framework, stemming from the divergent preferences of states and of powerful domestic groups. Confrontation within the Union is caused by its inconsistent policies designed to accommodate various interests. Discomfort with EU policies and institutions such as the CAP, the ECB and the euro, possibly creates a momentum of institutional adjustment. Knowing that it will take time for the Union to settle its inconsistent policies through institutional and norm change, the economic limits of further enlargement have become clearer,⁷⁸ and an alternative to enlargement has to be constructed.

The ENP emerged out of the originally underestimated challenges of enlargement, seeking to avoid further institutional and economic headaches, but also to grasp the expected mutual gains from regional integration (trade creation, location effects etc). This is a strategy that offers ‘everything but institutions’, as Prodi put it, also implying ‘everything but the budget’. The ENP is offering an extension of the internal without the institutional and distributional burdens of enlargement. If the ENP is to overcome the difficulties of enlargement, what are the expected gains from an ENP-type regional integration first for the EU and its

about the role of institutions by the institutionalist approaches, which places interests behind the creation and function of the institutions. The inconsistency between the central project of the Single Market and the complementary ECRP does not stem from the oxymoron of choosing two opposing theories for each policy. This oxymoron is the result of both domestic and transnational interest competition in which theoretical claims performed a task of ideological advocacy.

⁷⁸ There are also institutional considerations caused by an enlarged Union: the difficulty of reaching consensus, the heterogeneity of policy orientations, even technical problems of the everyday workings of the Union

domestic actors, and secondly for the neighbouring states and their domestic actors?

The 1990s was a turning point. The world economy experienced two major changes: the gradual but considerable opening up of global trade under the system of the WTO and the establishment of free trade between the former socialist states of Eastern Europe and the EC states. For mobile capital seeking lower labour costs this is a favourable event. However, the benefits to national economy from free trade among countries with sharp differences in income and labour costs are ambiguous. Even the dominant economic theory that endorses free trade predicts short-term (or middle term) turmoil, a need for painful restructuring and a great bulk of negatively affected groups. Globalisation and the sudden eastward enlargement provoked a shock to the advanced European economies with higher labour costs and a problem of competitiveness coming from the early 1980s. Relocation to cheaper labour markets certainly helps labour-intensive companies but it provokes at least temporarily a shock in the domestic labour market. Further opening up of trade with the neighbouring countries is an additional challenge for the EU economies. Gradually the domestic turmoil from relocation and competition in labour costs may affect the balances in the process of domestic interest competition between the proponents of freer trade and the proponents of some sort of increased protection. The 'new economic geography' and the 'new trade theory' provide new scientific arguments to those who have been uncomfortable with the conventional economic pro-liberalisation stance. 'Strategic trade theory' has removed the blame from those calling for protectionist measures.

Moreover, the 'demand-side' for the ENP is weak. For the EU market forces, the EU of the 25 is already a large market and economies of scale are already present. Lower labour costs as an incentive for investment can be found in the Eastern EU member states. EU market forces favouring mobility already enjoy a large and heterogeneous market in terms of wages, taxation internal market, while market forces favouring trade liberalisation experience the gradual opening up of international trade under the auspices of the WTO. The neighbouring countries have already the advantage of lower labour costs and geographical proximity to the Union's big markets, as well as a third feature,

which distinguishes them from accession countries: the non-application of the *acquis*, mainly product, environmental, labour, and health and safety standards. These advantages are offset by what can be labelled as ‘institutional barriers to trade’, which consists of duties, quotas, and different product standards (indirect obstacles to trade). When the institutional cost of trade is removed as a result of a FTA or a customs union, geographical proximity is enabled to produce its effects in the way that economic literature presents.

However, most of the neighbouring countries remain unattractive to capital and trade, since they are small and poor markets with unskilled labour and low productivity, while their political instability, inadequate protection of property-rights, unstable currencies, government interventions, corruption and excessive red tape pose significant risks to commerce and investment.

For the EU governments, the ENP is another instance of the institutionalised ‘systematic bias toward liberalization’. Nevertheless, although heavily institutionalised, this ‘bias’, driven by interest and backed by theory, is still subject to the changing outcomes of domestic interest competition and to a changing external environment. EU governments already face strong unrest from groups disfavoured by economic integration. Unable to provide side-payments, with most economies in recession or slow growth, and with severe fiscal problems, governments and political forces concentrate on mitigating the losses – originally underestimated- by trade liberalisation and factor mobility within and outside the Union. The puzzle becomes greater with economic analysis claiming that trade liberalisation and further integration may create little gain for the developed countries,⁷⁹ or even leave the developed countries worse-off.⁸⁰ When the North appears to lose, governments have to seriously reconsider their stance, particularly if market forces consider defecting to the counter-demand for relenting market integration under the pressure of increased competition in labour costs and prices.⁸¹

For the time being, a radical revision is unlikely to occur. This is so, because so far the alternative economic theories currently provide the

⁷⁹ Baldwin, R. E., Francois, J. F. and Portes, R. 1997. and the critique of Dani Rodrik.

⁸⁰ Spilimbergo, A. 2000. Trade can worsen the welfare of the developed countries, if the South is large compared to the North and/or the preference for low-technology goods is high.

⁸¹ See the EU-Chinese confrontation over China’s soaring exports to Europe.

disadvantaged groups with little and complicated prescriptive analysis and fewer policy suggestions to fill their present theoretical vacuum. When an alternative and realistic theoretical proposal is missing, change pursued by opposing interest groups is unfeasible. Besides, unrest with the existing structure, even if majoritarian, has to overcome an unfavourable institutional framework, and need to come up with alternative suggestions appealing to public interest or mutual gains.

For the neighbouring governments, the benefits and costs of regional integration for their national economies seem less obscure. Unhindered access to the Single European market and flow of capital (FDI) are the incentives for participation. Exclusion, as we showed above, has significant costs. However, policy-makers come to terms with contradictory economic analyses about the effects of regional integration on their economies. Along with the controversial claims of economic analyses, some policy-makers are still influenced by the popular post-war view in developing post-colonial countries that protectionism and discriminatory industrial policies consolidate nationhood and incubate infant industries.⁸²

Finally, ideas and theoretical analysis influence governments' choices, as Goldstein claim,⁸³ only under the assumption that governments seek to maximize national welfare. This is simply an assumption for the sake of our analysis, which has been challenged by a series of 'public choice' studies on international trade, governments and interest groups.⁸⁴ Self-interested governments often seek to remain in power despite the cost in the general welfare or security of their citizens. Ruling elites may anticipate direct benefits from a state-run economy. In addition, interest groups may become able to impose their preferences on their government to the detriment of welfare-maximising policies. Either by aligning with powerful elites, or merely relying on their control of violence, governments may disregard even the most plausible economic suggestions.

While demand from the part of the EU for a 'wider Europe' as envisioned by the ENP is weak, and demand from neighbouring states rests

⁸² See Part Two. Also: Eli Heckscher, 1955, focusing on mercantilist trade and industrial policies in Europe.

⁸³ Goldstein 1993.

⁸⁴ See inter alia: Baldwin, 1982; Dougan, 1984; Irwin, 1994.

unclear, the institutional supply is also too feeble to ensure compliance and coordination. Without the side-payments associated with membership and outside the institutional framework which ensures compliance within the EU, compliance and coordination in 'wider Europe' are likely to be problematic. Aspects of trade and factor liberalisation are facing criticism by a differentiated audience. Even though regional integration currently enjoys the privileged position of being an 'orthodoxy, it remains a process still vulnerable to reconsideration. The Union seeks to design the ENP as tailored as possible to the special needs and circumstances in each of the neighbouring states, but it also has to address its domestic anxieties and controversies.

Conclusion

The premise of this paper, that self-interested individuals rationally endorse theories, does not run counter to the view that norms define the range of their options and thus constrain their action. The choice of norms that define the possible political outcomes is again rational. One needs to realize that actors and their alignments hold the power to shape and change ideas, create, promote or impose norms, infringe them or be exempt from them.

For interest groups those ideas that accommodate their interests are functional and need to be promoted as the generally applicable norms. Interest-groups seek to advance their ideas to the norms of the system that govern the behaviour of all actors, and employ a strategy of ideological and theoretical advocacy. To become 'orthodox', ideas shall make an appeal to the public interest. Rarely, a set of ideas, initially proves to be beneficial to all, and ends up enjoying widespread consensus. Western democratic rules constitute such a rare occasion. However, in all other cases, normative choices result from interest competition among asymmetrical actors, whose claims are also supported by ideas and theory. In some occasions of interest competition, ideas, although more contestable, acquire consensus or acquiescence as the ones best accommodating those groups that are bound in a 'symbiotic' relation. This is the case of economic integration. Core institutions are sustainable if they rely on a strong

and lasting ideological consensus built upon a durable convergence of institutional preferences. Institutions are subject to change when their supporting basis of interests changes. Therefore trade and factor liberalisation, *as institutionalised today*, is not exempt from strategic revision. Norms generate unintended consequences that in the long may alter the stance of the stakeholders which are currently embracing them.

The paper argues that the expansion of the ENP constitutes a major project of institutional reconfiguration in the neighbouring area, aiming at economic development and political stability. These preferences of the Union and its member states for their wider environment are linked with theoretical perceptions about two central pillars of its policy: the outcomes of economic integration and the role of liberal democratic institutions in ensuring stability and growth. However, the ENP has to address a diversity of external and domestic challenges. There are obvious challenges from a differentiated neighbourhood. There are additional challenges from the domestic discontent caused by regional and global economic integration, which gives rise to the critical question of whether this process, as it is heretofore evolving, will continue to enjoy such a remarkable convergence of perceptions at home. As this external strategy is now being developed, European actors should first sustain the symbiosis domestically and not miss their cooperative ethos.

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