Membership Conditionality and Institutional Reform: The Case of the OECD*

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Prepared for presentation to the Annual Meeting of the International Political Economy Society, Claremont Graduate School, October 25th 2013

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Abstract

The process of joining an IO may lead to liberalization before membership. Thus studies that only evaluate compliance after membership underestimate the effects of the institution. Conditional membership may be one of the most important sources of leverage for IOs. The rule-makers establish rules that dont go far beyond what they would otherwise do, but rule-takers often must accept a broad range of policy reforms they would not otherwise consider. The influence of accession conditions has been studied in the context of EU and NATO, where sizable benefits motivate major concessions by applicants. This paper examines a much less powerful organization, the OECD. The politics of joining organizations touch closely on concerns about status and legitimacy as well as functional demands for cooperation in complex issue areas. This is especially true for the elite club of the OECD. Yet surprisingly deep reforms have been made by applicants to enhance transparency of regulations and liberalize the economy as part of the process to become a member. This paper examines OECD membership from perspective of institutional design of accession conditions and effectiveness to promote policy change. Statistical analysis highlights broad conditions related to democracy and geopolitics that encourage earlier entry into the OECD relative to other countries while there are surprisingly less clear patterns for the role of trade and financial openness. Case studies of Japan, Mexico, and Korea are used to examine how the expected status gains from OECD membership motivated specific reforms in regulatory policies and trade. These countries outside of the transatlantic core of the organization sought to benefit from association with the advanced industrial democracies. Through policy reforms to meet the demands of members and on the basis of shared liberal orientation and geopolitical alignment, these outsiders were accepted into the club.

1 Introduction

The endogeneity of entry into international agreements has been a central challenge to theories of institutions. Theories explain the demand for institutions in terms of their ability to resolve information problems and facilitate mutual gains through cooperation. Those states that stand to gain from cooperation are more likely to choose to establish and join the institutions, which necessarily means that the effect of the institution is in part due to screening effects (Downs, Rocke and Barsoom, 1996; Martin and Simmons, 1998; Simmons, 2005). Analyses of institutional effectiveness that compare members to non-members are subject to criticism for failing to control for the propensity to join the institution. To address these challenges, it is necessary to understand the politics of joining organizations. Research highlights the need to give attention to both the supply and demand side influences on membership decisions when studying accession for organizations ranging from the WTO (Pelc, 2011; Davis and Wilf, 2013), the EU (Schneider, 2009; Gray, 2009), and NATO (Kydd, 2001). This paper contributes to building a theory of selection into organizations through investigation of one organization, the Organisation for Economic Co-operation and Development (OECD). It offers three insights into selection: first, to show selection is non-random; second, to demonstrate how conditional membership brings policy reform; finally, to illustrate that screening occurs across more dimensions than the policies regulated by the organization.

The OECD serves as clear example that membership is not random as one observes strong patterns of correlation on income, alliance, and democracy. This is important caveat in light of the large number of political science studies that use OECD membership as criterion for analyzing subset of countries without explicit attention to determinants of OECD membership and potential biases or outliers that could arise in their research as result of sample selection. The paper provides empirical evidence of how conditional membership brings policy change. Entrants make substantively important commitments to liberalize trade, finance, and investment policies during accession in order to achieve membership approval. Finally, the selection process is revealed to be both screening for countries that favor economic cooperation and attraction of like-minded states on more diverse criterion such as geopolitical interests.

The OECD is an organization of countries dedicated to promote development. As such its policy scope extends across a range of different economic policy dimensions including trade, finance, and investment where there is overlapping mission with other multilateral and bilateral agreements. It has played a central coordinating role for development aid and stands as the only multilateral organization to develop agreements on bribery and taxation. More broadly, its reports include environmental, labor, and education policies. Through monitoring reports and production of consolidated data on policies, the organization functions as a think tank and center of information sharing among members and broader international community.

The organization has weaker enforcement than the WTO but actually appears to have larger effect on trade liberalization among members. In one study, Rose (N.d) finds that OECD membership increases the average value of bilateral trade by over fifty percent, which is more than the increase attributed to belonging to either the GATT/WTO or IMF. In a specification of gravity model that includes dyadic and importer and exporter year fixed effects and controls for membership in alliances and EU (EEC for early years), Davis and Gowa (2013) find that there is a positive and significant effect of the OECD on imports; the effect size is almost half the magnitude of that for EU membership, and four times larger than the effect of GATT/WTO participation (the latter is statistically insignificant).

The challenge to understanding the effect of OECD, however, is that selection into the organization is endogenous with decisions to undertake economic reforms and to improve relations with existing members. On the one hand, trade liberalization prior to joining would cause downward bias that could mean the above results underestimate the effect on trade.[1] On the other hand, if these reforms are undergone for reasons unconnected to joining the organization itself, the positive effect attributed to membership is spurious correlation. Membership may screen for those states that already have positive economic reform preferences (Downs, Rocke and Barsoom, 1996; Von Stein, 2005; Gray, 2009, e.g.). Furthermore, membership selection is not only a function of economic reform trajectory but also political relations. It is no accident that Turkey was a founding member of OECD because it had been among the recipients of

[1] Rose (N.d, p. 688) makes this point directly.

Marshall Plan aid as member of NATO, while East European membership in OECD came after the end of the Cold War opened political relations with the West. Democracy has also become explicit criterion for membership. To the extent that economic reform trajectory, positive political relations with the West, and democracy are all likely to correspond with benchmark measures of economic outcomes such as trade, it is very difficult to identify the causal effect of membership. More understanding of selection into membership is necessary to provide basis for future research into effectiveness.

The evolution of the OECD from twenty founding members in 1961 to thirty-four members today reveals several puzzles. How did an organization with no formal conditions required for accession maintain core features as a group of like-minded countries while expanding beyond its origins as economic counterpart to NATO? Contrary to conventional wisdom, the rich country club includes developing states and has been open to non-democracies as well. Turkey's status as founding member is pertinent, and accession by Mexico in 1994 reinforces the diversity of membership. Nevertheless, the OECD is *not* universal organization and remains a small club that requires applicants to meet rigorous standards before entry. But this presents a second puzzle. Why would countries make reforms on entry to an organization that offers benefits to members and non-members alike? Theories of institutions suggest that discrimination and reciprocity form foundation of logic supporting institutional cooperation. Thus it is unusual to see cooperation that does not follow logic of reciprocity.

This paper analyzes the OECD accession process with attention to the debates on both the supply and demand side of the membership decision. I develop an argument about strategic learning and status-seeking in which states choose whom to emulate when deciding to join international institutions. Existing members act as gatekeepers to exclude those who do not appear likely to fit in the club. This dynamic allows for more agency by applicant states than is commonly seen in the literature on diffusion where states respond to competitive pressures or common culture and region as basis for policy convergence. At the same time, the supply side restraint, which may be dictated by non-economic considerations at the whim of current members, creates space for agency on the side of the IO such that membership is more than simple reflection of preferences. Those that join must meet both criterion: preference to become like the advanced industrial democracies and sponsorship by existing members. Using case studies of three "outsiders" who join the club, Japan, Mexico, and South Korea, I illustrate the prominence of status and affinity in the efforts by leaders to make the necessary concessions to gain entry to the OECD.

The paper proceeds with a review of institutional theories on accession and membership in organizations and develops my argument that states select based on similarity of type more than specific conditions. To show the features of membership, descriptive statistics compare OECD members with non-members along key dimensions. I analyze selection into the organization with a duration model of time to join the OECD that highlights the importance of political variables for democracy and geopolitical alignment to bring more rapid membership even when controlling for key economic measures and regional location. A case study section explores more closely the decisions to join in terms of the motives of the applicants and the specific policy reforms they agree to undertake as price of membership.

2 Membership Conditionality and IO Leverage

The motivating question is to explain the determinants of membership and how the accession process brings policy reforms. My study applies insights from theories of collective action and coercive bargaining, but emphasizes the informal nature of the conditions that motivate states to seek membership and win approval.

2.1 Literature review

The design of institutions is closely related to their membership. Koremenos, Lipson and Snidal (2001, p. 783) writes: "If an institutional arrangement restricts the benefits of cooperation to members, actors have an incentive to pay the price of admission to the club. One of the most important features of institutions is to define those boundaries of membership." When states face a problem of collaboration where free-riding requires centralization and strict enforcement, they are more likely to seek restrictive membership.

The benefits of creating a small like-minded club also arise under circumstances of uncertainty. Raising costs to membership offers one way to increase confidence that a state is of the type willing to cooperate, in effect forming a costly signal of cooperative type in the formal modeling terminology (Koremenos, Lipson and Snidal, 2001, p. 784).

The small club configuration also may arise as the result of power distribution. When great powers face more divergent interests with other international actors than amongst themselves, Drezner (2007, p. 67) argues that they will form club standards; "Club IGOs, such as the Group of Seven countries(G7) or the OECD, use membership criteria to exclude states with different preference orderings and bestow benefits for in-group members as a way to ensure collective action." He points to examples such as the 1997 OECD Anti-Bribery Convention which was quickly concluded among OECD members after a failed attempt to negotiate on this issue at the United Nations (ibid., p. 77). Once negotiated within the smaller group, the United States and Europe effectively exported these standards to a wider range of countries.

Yet there are conflicting pressures against reducing member size. In the face of distributional costs, larger membership is thought to promote cooperation by supporting diffuse reciprocity, issue linkage, and broader total gains (Keohane, 1984; Koremenos, Lipson and Snidal, 2001). To the extent that an institution provides gains to powerful states, it must elicit the voluntary cooperation of other states through institutions so that it can avoid the need for compelling their actions.[2]

Governments face a catch-22: it is risky to allow a state to enter the institution when it is not already compliant, and yet this prevents adding governments on the margin that could be influenced through participation in the institution, either from socialization or from functional institution arguments about raising the costs of defection and improving coordination for mutual gains. For example, Pevehouse (2002) argues that IOs shape democracy *after* states have joined rather than through membership conditionality.

One suggested solution to this depth-breadth trade-off is for states to form institutions around a small core of liberal states and expand as other states experience convergence of preferences through exoge-

[2] Stone (2011) connects *voluntary* participation as the foundation of legitimacy for an international organization, but does not focus on the breadth of participation.

nous process. Downs, Rocke and Barsoom (1998) theorize that this form of *sequential liberalization* can achieve the most overall cooperation. There are also possibilities for states to construct differential membership through varying the entry conditions and commitments across the membership (Gilligan, 2004). In a study of the European Union eastern enlargement negotiations, Schneider (2009) shows that the concessions offered by new entrants varied widely and long transition periods introduced what in effect was discriminatory membership. In a key contribution, she highlights that the cost benefit analysis must be viewed on both sides in terms of how much gains were seen from enlargement for the existing members as well as the applicants. When policies are complementary or neutral, enlargement presents few problems; it is in policy areas that present rival consumption characteristics that distributional conflict may become an obstacle (Schneider, 2009, p. 60). These are policies where more participants directly reduces the benefits to each as they share the limited resource such as budget transfers.

The basis for common interests need not be limited to one issue dimension. Indeed it is through issue linkage that international institutions construct packages of agreements acceptable to wide membership. Even outside of the scope of the institution, side payments and foreign policy considerations offer incentives for states to seek membership. Moravcsik (1998) in his theory of European integration shows how geopolitical interests alongside economic gains for powerful member states shaped their demand for construction of regional institutions.

The process that brings about policy convergence has been widely studied across a range of issue areas under the rubric of diffusion literature. In their influential research on this topic, Simmons, Dobbin and Garrett (2006) portray states making interdependent decisions to adopt similar policies that they see other countries adopt, and posit four diffusion mechanisms as coercion, competition, learning, and emulation. States are shown to have adopted IMF Article 8 largely from competitive market pressure as regional neighbors adopt similar policies (Simmons, 2000). More broadly economic and political liberalism in the form of market reforms and democracy have spread across countries (Simmons, Dobbin and Garrett, 2006).

In context of membership, using conditions of accession to bring policy convergence represents one form of coercion. Although presumably there are sufficient benefits for applicants to voluntarily undertake this process, the one-sided nature of being a candidate for membership opens the opportunity for members to demand reforms fit to their own interests. The pressures that arise from exclusion as key market competitors receive benefits of membership forms a competition-based rationale for seeking membership. Here one expects states to seek membership when their competitors are members and as they come to recognize need to adopt the entry condition policy reforms simply to remain competitive.

The second two sets of diffusion mechanisms account for why leaders would decide to adopt specific policies. Learning as a mechanism as developed here emphasizes the role of shared knowledge that leads states to draw on the lessons from experiences of other countries. As one example, Latin American countries updated their beliefs about gains from privatization as they observed states successfully navigate privatization reforms to achieve high growth (MESEGUER, 2004). Here the attraction of membership would arise from the success of members adding greater validity to the policies that they advocate. Organizations themselves become an active agent spreading information to promote policy change through this mechanism. Finally, emulation represents a more passive form of learning in which states follow cues by actors they are close to in a process of determining the appropriate behavior.

Finally there are arguments of shared norms and identity that bring states to seek common membership in organizations. Schimmelfennig (2001) explains European integration in terms of norms constructed through rhetorical statements about unity that forced leaders into positions not supported by rational interest calculation of costs and benefits. Once states had become "rhetorically entrapped" in their expression that European integration was based on an ideology of "pan-European community of liberal-democratic states" such that once the Central and East European countries could show that they shared liberal values and norms, the EU members found it difficult to exclude them despite the likely costs of doing so (Schimmelfennig, 2001, p. 48). When membership represented entry into a *community*, it fell outside of normal bargaining dynamic. Yet it is unclear whether the appeal of community norms is sufficient to lead applicants to make reforms when there is domestic opposition - Kelley (2004) finds that European accession for eastern states brought more policy changes in the controversial area of policies toward ethnic minorities through the mechanism of conditionality (coercive diffusion), with little evidence that socialization processes led to change of policies by changing beliefs.

These arguments are at the forefront of decisions about enlargement for the OECD. From a functional perspective, the organization can better serve its own mission to coordinate economic policies for growth and prosperity if it includes more countries. At the end of his term as OECD Secretary General, Donald Johnston made the pointed remark that "how are you going to shape the global economy if you're basically working with a minority of it"(Woodward, 2009, p. 105). At the same time, inevitably the addition of more countries introduces greater heterogeneity of preferences which can block decisions in a consensus organization. For zero sum issues, adding more members comes with real costs for distributional conflict. Sociological perspectives are also not free of this trade-off. Broadening membership adds further legitimacy and greater weight of peer pressure, but also reduces the sense of community and shared norms. Committee meetings that are overcrowded with participants are less likely to yield discourse and build small-world networks.

2.2 Selecting for Similar Type

My focus is on the demand side shaping why applicants seek membership. I argue that rather than passively responding to economic competition or following role models defined by social relationships, governments select into a group as a deliberate choice to expose themselves to more competition and peer pressure. States seek status and success through association with the elite club. This process combines aspects of learning and emulation. The accession decision goes beyond learning described in the policy diffusion literature because it involves accepting a broad set of principles and participation in an ongoing dialogue over future policy direction. To the extent there is any assessment of policy efficacy, it is the sense that OECD members are the "advanced nations" with valuable information on a wide range of policy issues. Joining their circle confers status by virtue of membership and offers opportunities to learn how to be successful like these countries have been. Where the sociological tradition rightly gives attention to how countries can be shaped by following a lead country or prevailing policy trend, this overlooks the goal-oriented nature of deciding to join a group of countries. The decision to join the

OECD represents an effort to change identity. The applicants seek to have their position in international society defined by their attributes as liberal states. As such applicants are self-sorting into the group of rich, liberal democracies of the Western alliance.

This explanation stands in contrast to commitment mechanisms whereby states endeavor to buy credibility through increasing the costs of defection. With its weak mechanisms of enforcement, the OECD is a poor tool for tying hands. At entry countries can make reservations to exclude sensitive policies, and after entry the worst cost of violating OECD principles lies in critical commentary. Real policy commitments are made as part of accession, and the peer review mechanism raises costs of defection, but stronger tools lie in other multilateral organizations for countries in need of locking in policy liberalization.

The status premium placed on OECD membership also suggests a non-economic dimension to economic competition. Joining the WTO provides differential market access, but in its role as a think tank, OECD services are equally available to all states. Yet market actors responding to uncertainty may rely on the OECD as a brand. Whether in financial markets or in competition for investment, the status of OECD membership may carry value. Gray (2013) argues that investors face uncertainty and rely on cues about countries reliability based on their peer group, and provides evidence that membership in international organizations can increase bond ratings.

The status-seeking motive for accession does not relegate the action to symbolic politics. Applicants must undertake policy reforms to earn entry to the club. Current members recognize the cost of admitting new members when there are only weak enforcement mechanisms. They have incentives to carefully screen for those countries with strong commitment to OECD principles and conditions that will make them responsive to OECD peer review. Demanding liberalization during accession negotiations is the most effective way to assure that entrants will not lower levels of cooperation. Screening for commitment follows the logic of coercive diffusion and leads to expectations that only after applicants have experienced change in preferences on economic policy will they be admitted. It is the concern with making sure that governments will be responsive to OECD peer review and not dilute the OECD brand that encourages attention to conditions outside of economic policy reforms. Here the members look for friends, who can be rewarded through membership and are expected to remain cooperative.

Both the demand and supply side of membership suggest that non-economic conditions of similarity will attract members to an organization. Specifically, political regime type and geopolitical alignment form important criterion to shape membership decisions. On the basis of common interests, states seek status by association and are welcomed into a club that relies on weak tools of enforcement and offers diffuse benefits.

3 Overview of OECD

3.1 Origins of the OECD

The OECD grew out of the Organization for European Economic Co-operation (OEEC), which had been the organization established in 1948 to oversee implementation of the Marshall Plan aid. European governments were divided over the form of European integration with rival positions for an intergovernmental free trade agreement (EFTA) and a more centralized approach to delegate supranational authority within the European Coal and Steel Community, and the OEEC membership was split with seven in the former group and six in the latter. At the same time, the tensions of the Cold War had placed necessity behind efforts to strengthen NATO and even proposals to form an economic council within NATO to take over the OEEC role (Carroll and Kellow, 2011, p. 48). Against this background, twenty countries agreed to instead transform the OEEC into a new organization that would fully include the United States and Canada while shifting to focus from European development to a broader mandate of economic cooperation. The organization incorporated the codes of liberalization and peer review monitoring practices that had been central to the OEEC and adopted the goal to achieve fifty percent increase of GNP for the aggregate membership over the first decade from 1961 to 1971 (Carroll and Kellow, 2011, p. 51).

Three important points stand out from the origins of the OECD: European-centered membership, Cold War context, and overlapping mandate with other organizations. Expanding outside of Europe would weaken the European role within the organization, but at the same time allow the organization to carve out its own niche. Alternatively, the organization could have evolved into a parallel European regional association that would have eventually been supplanted entirely by the EU.

3.2 Costs and Benefits of membership

Member dues are assessed based on paying a share of the OECD budget according to proportion of national income, such that larger states pay more up to a cap of 25 percent of total budget (Carroll and Kellow, 2011, p. 15). The G7 group of large states provide three-fourths of the core budget and also fund 'pet projects' through voluntary contributions (Woodward, 2009, p.46). The budget process introduces an area for distributional conflict regarding enlargement to include small countries that will pay a negligible share of the budget while still drawing fully on organization resources.

States agree to provide information to the OECD, and thus to expose their performance to public assessment. The peer review process builds on this information to provide the primary enforcement mechanism of the organization as states' policies are examined in detail within a given area with the purpose to evaluate whether the state is meeting the best practice standards that have been established through OECD decisions (Woodward, 2009, p. 57). The widely used economic surveys represent an extensive review of economic data through a process that incorporates the members self-assessment as well as analysis by the secretariat and questioning by other members before completion of a final public report. OECD output ranking governments according to common benchmarks can become ammunition for domestic groups to use against their own government where its progress is found lacking. For states that have record of political interference to 'cook the books' of accounting, compliance with objective data categories and reporting represents unwanted transparency.

The Codes of Liberalization (formally two agreements, Code of Liberalisation of Current Invisible Operations and the Code of Liberalisation of Capital Movements) form the core OECD agreements. They embody the commitment of the organization to pursue liberalization of trade and capital. Subsequent agreements such as the 1994 decision on "National Treatment for Foreign-Controlled Enterprises" have since expanded commitments to FDI and other areas. In all cases, states are allowed to make reservations that carve out individual exceptions. Governments notify members of their policies related to the Codes, and are subject to peer review. The organization lacks formal procedures for sanctions, and instead relies on a states' concern for reputation and the role of persuasion to shape policy choices.

Status conferred by membership represents a benefit that is difficult to quantify in value, but nonetheless stands out for importance in the cases of new entrants. While to some the stereotype of the OECD as a 'rich country club' is derogatory, joining the ranks of an exclusive group offers an imprimatur of acceptance in the top ranks of international affairs. This nebulous concept is at the same time rival given that more members in the organization will only dilute the signal attained by those who join.

From a market perspective, the value of association with the rich club can pay off in real terms through the channel of investor confidence. One benefit from membership that was especially important for the countries that joined in 1990s was in the form of lower interest rates on capital. Due to rules determined by the Basel Committee on Banking Supervision decision to apply zero risk weighting for bank loans to all OECD governments, accession to the OECD would substantially lower the cost of capital for Mexico and Korea (Claessens, Underhill and Zhang, 2008, p. 317). In part due to recognition that this led to excessive capital inflows into Korea that contributed to its financial crisis shortly after joining OECD in 1996, the 2004 revision to Basel rules on banking introduced a more complex risk assessment procedure that would end the zero risk weighting for emerging market OECD members that had been enjoyed by Czech Republic, Hungary, Mexico, Poland, Slovakia, South Korea, and Turkey (Ibid., p. 327).

The greater access to policy learning is cited by many participants as key benefit of engaging in OECD. In extensive interviews with OECD member governments and the organization secretariat, Carroll and Kellow (2011, p. 38) remark that all without exception emphasize policy learning. Being "in the room" for committee meetings and technical discussions matters for both influence to shape the output of decisions and for opportunities to receive information. Staffing the organization is largely from members who send their officials to attend committee meetings or to serve within the organization. These national representatives play a critical role in the information exchange that is central to the OECD mission. Emile van Lennep, former OECD Secretary General, said "ninety-nine percent of our work concerns the exchange of experience and the elaboration of lines of action" (Woodward, 2009, p. 24). Through directly participating in this process, member states can tap into the wealth of knowledge from the experience of their peers and the technical materials prepared by the Secretariat. Bureaucratic incentives favor membership as a means of access to positions within the Secretariat and on committees. Serving in Paris is an attractive assignment for location as well as expertise and connections that are valuable for professional development.

Many of the public goods provided by the OECD in its role as policy think tank are available to all states. Each year the organization publishes more than 200 reports (Woodward, 2009, p. 57). As would any think tank, the organization actively disseminates its knowledge. Even the peer review assessment OECD Economic Survey has been undertaken by countries that are not members such as China and Brazil. Furthermore, the policy changes enacted by governments to conform with OECD recommendations do not discriminate among members and non-members in their application. When governments seek to liberalize trade and capital according to the Codes of Liberalization, they do so on MFN basis rather than conditioning the policies to apply to fellow OECD members. In this sense, there are few direct observed benefits to membership.

3.3 Accession Process

Unlike many other multilateral organizations, the OECD does not set conditions or process for accession.[3] The OECD Convention sets out the following rules in Article 16:

> The Council may decide to invite any Government prepared to assume the obligations of membership to accede to this Convention. Such decisions shall be unanimous, provided that for any particular case the Council may unanimously decide to permit abstention, in which case, notwithstanding the provisions of Article 6, the decision shall be applicable to all the Members. Accession shall take effect upon the deposit of an instrument of accession with the depositary Government.

These general terms allow considerable discretion for the current members to admit or exclude applicants. Currently, OECD decisions have called for new members to have both market economy and democratic political institutions. Yet founding members included states under authoritarian rule (Spain

[3] Although see Davis and Wilf (2013) for discussion of how GATT/WTO also allows considerable discretion over accession.

and Portugal) at the time, and democratic reversals in Greece and Turkey were not grounds for exclusion. Likewise, even as Cyprus has met the demanding conditions for economic and political reforms necessary to join the EU, it remains excluded from OECD due partly to objections by Turkey on basis of tense political relations. The obligations of membership consist of commitment to implement the codes of liberalization agreed to by members, and this represents the main policy reform condition for applicants. A 2004 agreement in the Ministerial Council Meeting accepted a working group proposal that was intended to provide more specific guidelines for selecting candidates for accession, and yet instead reflects the ongoing discretionary nature of admitting countries to the club. Carroll and Kellow (2011, p. 123) describes that the criteria for suitability can be boiled down to four points: "there had to be 'like-mindedness'; the state had to be a 'significant player'; there needed to be 'mutual benefit' from membership; and there had to be regard given to 'global considerations', particularly keeping some sort of agreed 'balance' between European and non-European members."

At first it would seem that income represents a critical threshold to define a subset of countries eligible to join. Yet this belies the early membership of Turkey as founding member. Furthermore, recent entrants are far down the list of countries in terms of economic size. Woodward (2009, p. 105) refers to "minnows" like Estonia that ranked between Uganda and Jordan in terms of World Bank rankings of GDP in 2007 when they were invited to initiate accession to join the OECD.

The European origins of the OECD continue to privilege those from the region even as the organization embraced Japan and Australia early on. Today members span all continents, with the exception of Africa, and South Africa is among the countries to have expressed interest in membership and get involved in the 'enhanced engagement' with OECD that is intended to prepare countries for membership. Thus we can see that even while there is a common set of characteristics shaping the organization, they do not represent firm criterion for democracy, wealth, or location.

3.4 Common Features of the Like-Minded Club

A brief overview of the characteristics of members and non-members in the OECD confirms the expectation that income for the "rich country club" is higher than non-members. Figure 1 shows the average per capita GDP for OECD members relative to non-members over time. Not only are the members wealthier, the gap between the rich club and the rest has increased. Nevertheless, it is also important to examine the distribution of income shown in figure 2. The box plot of OECD members is centered at the mean income of 22.55 thousand U.S. dollars (over the full period 1961 to 2012 taking the average income for

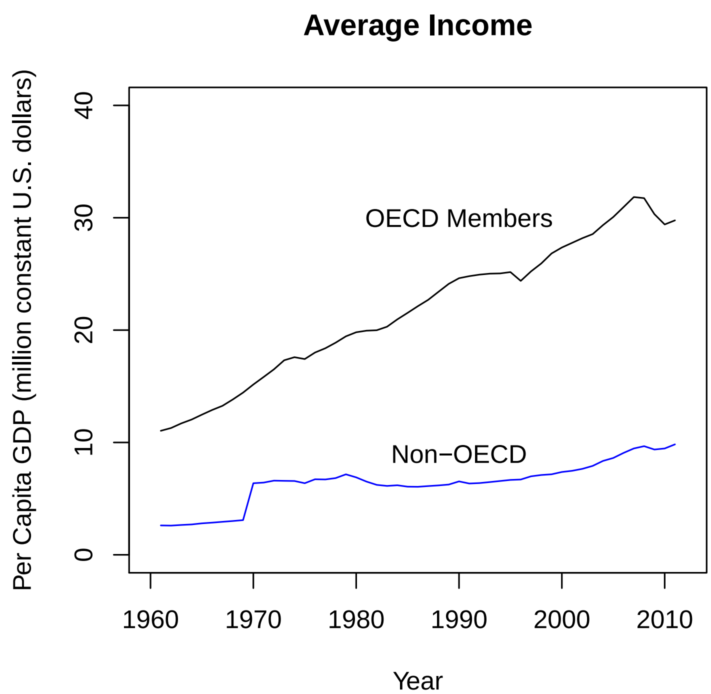

Figure 1: *Income Trend*: The figure displays the mean per capita GDP of OECD members and non-members over time.

all members in each given year), with a large cluster of high income outliers above the fourth quartile. The non-member distribution is more skewed with a lower mean income of 6.65 thousand U.S. dollars and longer tail of high income states. This clearly demonstrates that while the OECD members are rich on average, there are also many wealthy non-members, including those with oil wealth, tax havens, and some industrial economies such as Russia.

Figure 3 shows the dominance of democratic regime types among OECD members where the modal polity score is the highest level of 10 for consolidated democracies. Nevertheless, authoritarian governments have been members of the OECD. Non-members over this period from 1961 to 2012 have authoritarian regime as the modal polity score, but many states achieve high democracy scores without entry to the liberal club.

Within the non-member grouping are important actors that have embraced many of the liberal economic and political policies advocated by OECD. India and Brazil stand out as two democracies that are major emerging markets of importance to the global economy but remain outside the OECD. As the target of outreach by OECD they participate in "enhanced engagement" and undertake peer monitoring by requesting an economic survey report on their economic policies, and yet India has explicitly stated

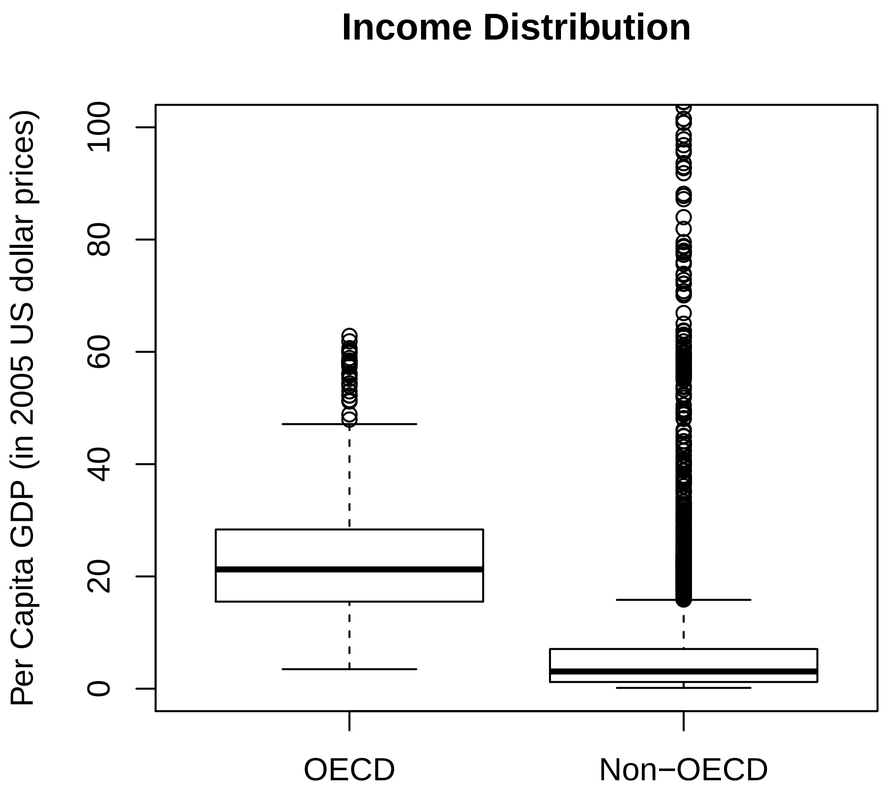

Figure 2: *Income Distribution*: The figure displays the distribution of per capita GDP for OECD members and non-members over the period 1961 to 2012.

it does not seek to formally join OECD and Brazil also eschews negotiations toward accession. For both their international status derives from leadership of the developing world, rather than seeking entry to the advanced industrial world despite taking all efforts to achieve economic growth. Singapore long ago achieved income levels that surpass that of many OECD members and would easily meet most of the policies for liberal market economy. Its non-democratic status may be one obstacle, but Carroll and Kellow (2011, p. 122) emphasizes that Singapore has not applied because regional identity makes Singapore seek to avoid any step that could upset its neighbors or detract from the image as a 'Chinese island in a Malay sea.'

This leads to the third dimension of similarity that shapes the OECD members: geopolitical alignment. Figure 4 clearly displays the pattern of shared alliances among OECD members, who on average

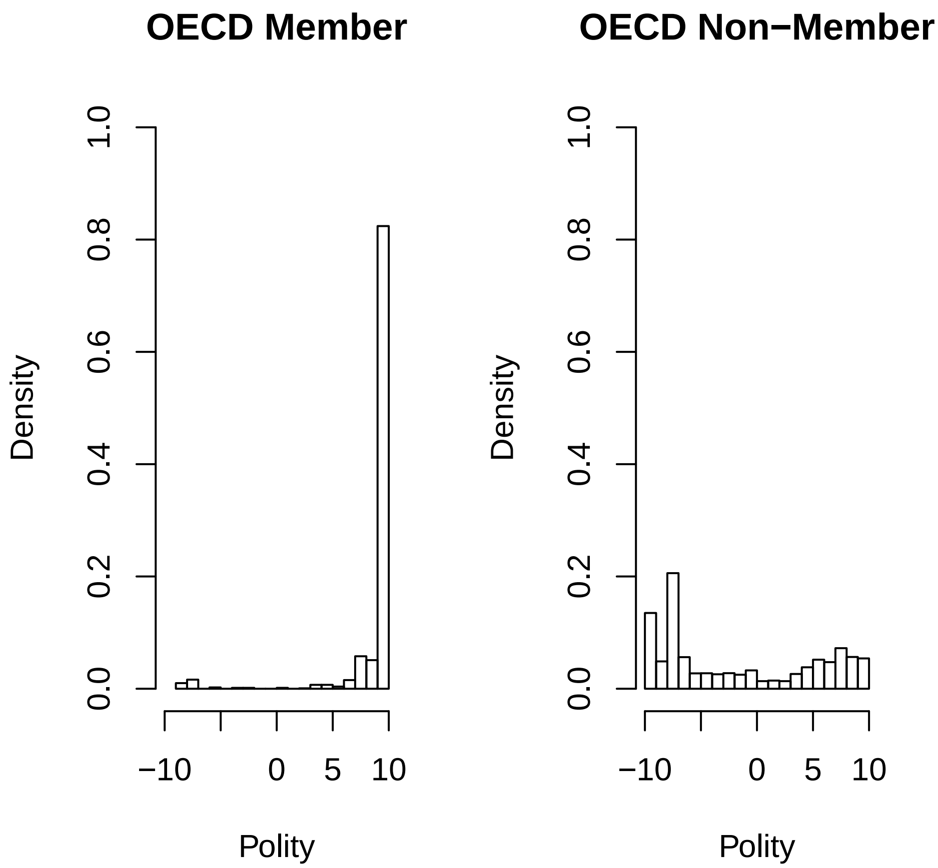

Figure 3: *Political Institutions*: The figure compares the frequency of government institutions across the range of Polity score index in which -10 is authoritarian and 10 is fully democratic.

have alliances with ten fellow OECD members.[4] The organization had its origins within the effort to use economic cooperation to build cohesion in the Western Alliance and all NATO members joined the OECD. This accounts for why Turkey as a non-democratic and poor country joined the ranks of OECD founding members in 1961. Nevertheless, the founding group also included nonaligned Switzerland, Austria, and Sweden and many non-NATO countries would form those who joined the organization in subsequent enlargement.

Another measure of geopolitical alignment is voting similarity in UN General Assembly roll call votes.[5] Looking at the trend of UN voting patterns for the OECD and non-OECD subset of countries

[4]The alliance data is from Correlates of War Formal Alliances Version 4.1.

[5]The data here are from the s3un variable in Anton Strezhnev; Erik Voeten, 2013-02, “United Nations General Assembly Voting Data”, http://hdl.handle.net/1902.1/12379 UNF:5:NpHV5DXWPNWMWOrLGTjQYA== Erik Voeten [Distributor] V5 [Version 5]

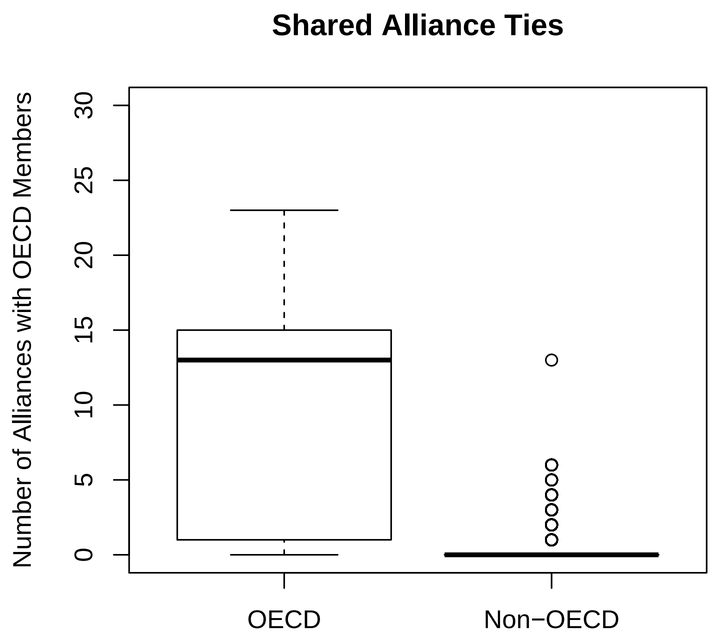

Figure 4: *Alliance Ties*: The boxplot graphs display the distribution within the OECD membership in comparison to the non-member countries in terms of the number of shared formal alliances with OECD members.

over time in figure 5 shows the consistency across different periods in the higher similarity of OECD members in their voting affinity with the United States (left graph) and three major European states (right graph). Figure 6 displays the distribution of UN voting similarity for OECD and non-OECD countries when pooling observations over the entire period from 1961 to 2012. The higher similarity of OECD members with both the United States (left graph) and three major European states (right graph) further supports the geopolitical similarity of members. Yet one also observes clusters of countries outside of the OECD that have very convergent UN voting records, as seen by the group above the fourth quartile in the non-OECD sample. Likewise, UN voting among OECD members encompasses a wide range of values. This may be a like-minded club, but it allows for diversity of opinion on some issues that arise in UN General Assembly voting.

In summary, the descriptive statistics support the general view of OECD membership representing wealthy democracies of the Western alliance system. On the margins, however, the criterion for advanced income, democracy, and geopolitical alignment were in some cases seen as substitutes such that meeting one dimension would compensate for falling short on another dimension. The rest of this paper will

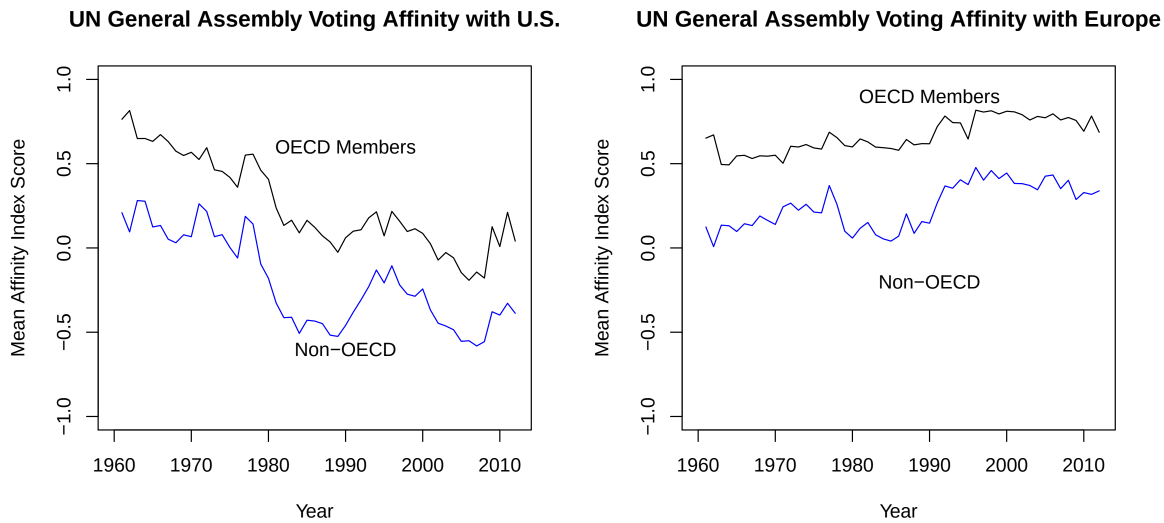

Figure 5: *UN Voting Pattern Over Time*: The graphs display the mean affinity scores for UN voting across the OECD membership in comparison to the non-member countries. The affinity index ranges from -1 to 1 and is calculated based on voting across the three categories of affirmative, abstain, and negative votes with higher values reflecting greater similarity in voting. The figure to the left represents similarity with the United States and the figure to the right represents similarity with the United Kingdom, France, and Germany (taking the average of similarity with each of the three European states).

examine more closely how states on both sides of the membership question weighed their readiness to join across these issue areas.

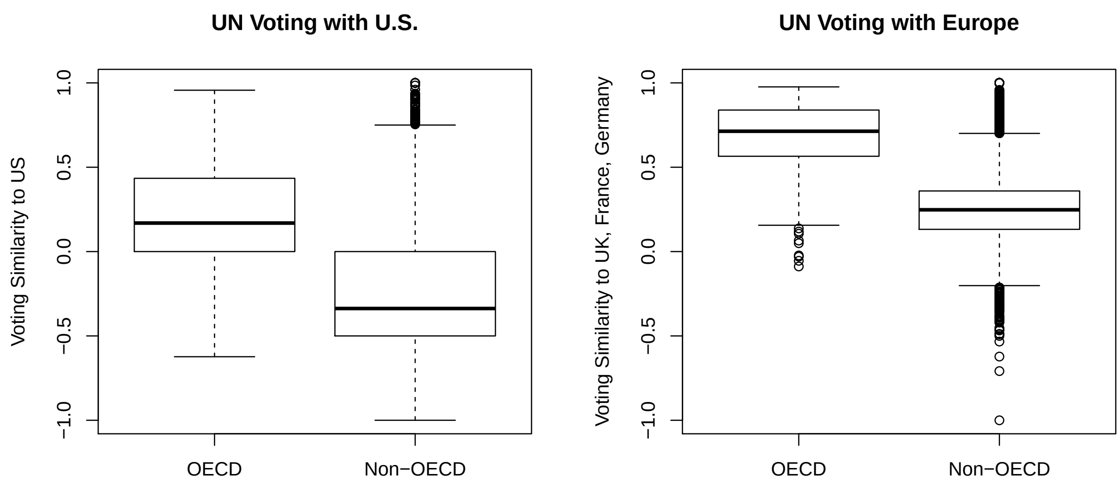

Figure 6: *UN Voting*: The boxplot graphs display the distribution within the OECD membership in comparison to the non-member countries in terms of their voting in the United Nations. The affinity index ranges from -1 to 1 and is calculated based on voting across the three categories of affirmative, abstain, and negative votes with higher values reflecting greater similarity in voting. The figure to the left represents similarity with the United States and the figure to the right represents similarity with the United Kingdom, France, and Germany (taking the average of similarity with each of the three European states). The data pools data from 1961 to 2012.

4 Statistical Analysis of OECD Accesssion

To more fully examine the correlates of membership in the OECD I use a duration model to estimate the time for a country to join the OECD from the date of its establishment in 1961. The question of interest here is why Turkey would be among the original members to join in year 1 while Mexico would join thirty-three years later and others such as Singapore remain outside of the organization. In the context of hazard model estimation, the model estimates the rate of "failure" by which is meant membership in the OECD as the dependent variable.

I first look at how different groups have distinct baseline survival trend when describing the rate of failure. Figure 7 shows the estimated survival curves using Kaplan-Meier estimates. The first graph on the left shows the significant difference for European countries relative to non-European countries as the former have a sharper decrease in the probability to remain outside the OECD for each year following the establishment of organization. For the display of descriptive comparison of the variation in survival probability, U.S. allies offers easy comparison as dichotomous measure for geopolitical orientation. The right graph reveals the smaller but nonetheless statistically significant difference between the survival probability of U.S. allies and non-allies with the former more likely to have joined at any specific period in time. The figure highlights the clear pattern for European countries and U.S. allies to be among the first to line up to join the OECD.

Given the expectation that there is not a constant rate of failure, the cox proportional hazards model is appropriate specification that allows me to include time-varying covariates while also controlling for the clear strong pull of European geography.[6] The sample includes 150 countries for the period from 1961 to 2011. Standard errors are clustered on country to to take into account possible correlation of error terms across years within the same country.

The key relationships highlighted above in descriptive statistics are tested in the regression analysis with focus on how not only income but also alliances and democracy exert positive pressure on countries to join the organization. My main variable to measure geopolitical interests is the number of allies within existing OECD membership (COW alliance data), and I also examine the effect of UN voting affinity to members. I use the polity 2 index to measure democracy. Location in Europe is important variable

[6] I apply the Efron method of ties. Countries enter the dataset in 1961 with the founding members experiencing failure in year one. All countries exit the dataset after year of failure when join OECD or in 2012 for those that do not join and are right-censored.

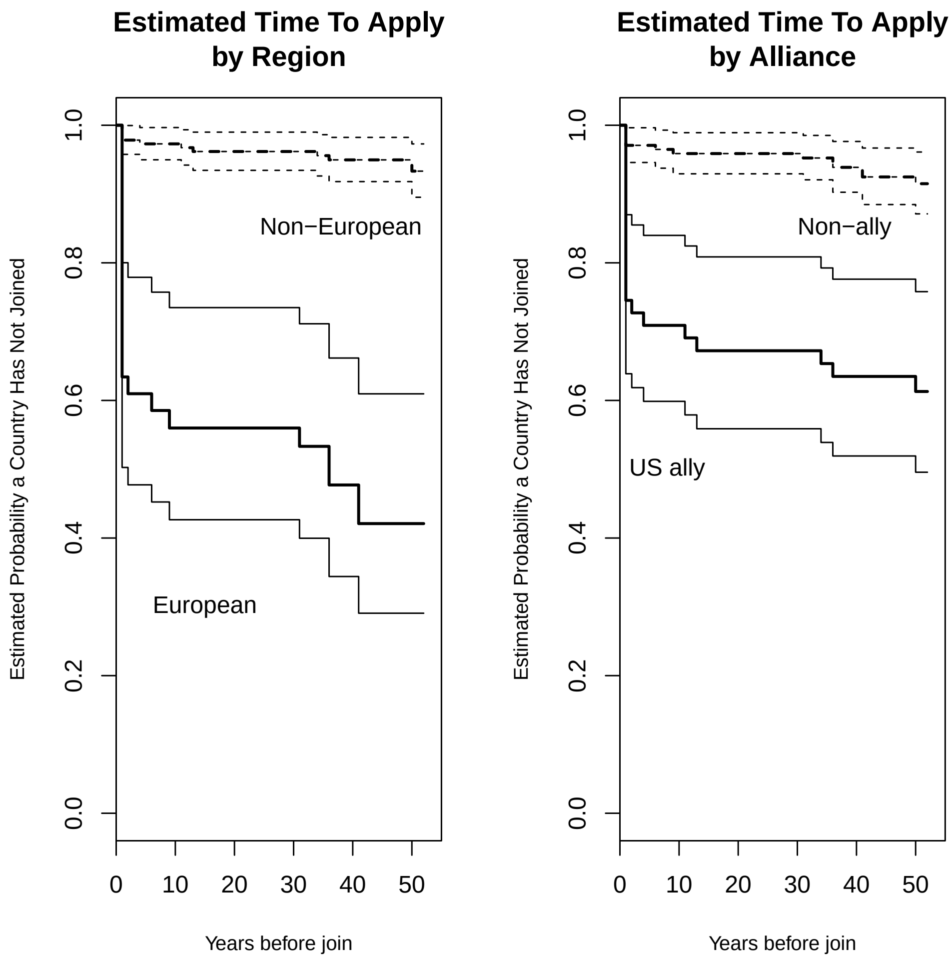

Figure 7: *Estimated Negotiation Survival Curves*: Using Kaplan-Meier estimates of survival, the figure shows the estimated probability for a country to remain a non-member

Variable	coef	exp(coef)	robust se	z	p
Alliances (sum of OECD allies)	0.10	1.10	0.04	2.47	0.01
Polity	-0.06	0.95	0.04	-1.40	0.20
Polity x log(time)	0.11	1.12	0.04	2.89	0.00
European region	1.00	2.72	0.37	2.67	0.01
Per capita GDP (log)	1.95	7.00	0.29	6.70	0.00
Trade openness	-0.01	0.99	0.00	-1.74	0.08
IMF Article 8	0.15	1.16	0.34	0.44	0.70

Table 1: *Cox Proportional Hazards Estimates For Time to Joining OECD*: Results of a Cox Proportional Hazards Model estimating the time to join for all countries.

because the organization has its roots in European development that continues to shape the character of organization.[7] Three variables control for economic determinants of membership. Income is measured as per capita GDP (Real GDP at constant 2005 national prices in mil. 2005US$ from Penn World Tables), and is expected to have positive effect conforming to the notion that OECD represents rich country club. Liberal trade and financial policies form key benchmarks for economic policies conducive to participation in the organization; I include measures of trade openness (imports and exports share of GDP) and an indicator of whether a country has ratified IMF Article 8.

A test for whether covariates meet the proportional hazard assumption shows that this assumption is not met by the polity measure of democracy, which indicates that the residuals are not constant over time. Therefore it is necessary to model the effect of democracy as conditional on time through adding an interaction term between polity and the log of time since 1961 Box-Steffensmeier and Zorn (2001). All other covariates in the model meet the proportional hazard assumption without interaction.[8]

Table 1 presents the coefficient estimates indicating the direction and significance of effects (coefficients in the cox proportional hazard model are not otherwise informative about substantive effect size). The results confirm that alliances with OECD members make a non-member have higher probability to

[7] In the baseline specification shown in the paper, Europe is included as control variable. Additional models show that using the alternative to stratify based on European and non-European countries to allow for distinct baseline hazard (akin to fixed effects) yields consistent results.

[8] Including GDP in some additional specifications, however, is problematic because it does not meet the proportional hazard assumption. The model does not converge when including multiple covariates interacted with time. I focus on the polity variable where conditioxnal effects on time are most plausible in theory.

Variable	coef	exp(coef)	robust se	z	p
UN voting affinity with U.S.	1.46	4.31	0.72	2.04	0.04
Polity	-0.05	0.95	0.04	-1.08	0.30
Polity x log(time)	0.09	1.10	0.04	2.36	0.02
European region	1.41	4.10	0.47	3.02	0.00
Per capita GDP (log)	1.68	5.38	0.32	5.23	0.00
Trade openness	-0.01	0.99	0.00	-1.32	0.20
IMF Article 8	0.27	1.31	0.32	0.86	0.40

Table 2: *Cox Proportional Hazards Estimates For Time to Joining OECD*: Results of a Cox Proportional Hazards Model estimating the time to join for all countries.

join at any given time than those not having common security interests. Table 2 shifts to replace alliance count with UN voting affinity to the United States as measure of geopolitical similarity. In both specifications, there is significant and positive effect on the predicted time to join the organization.

Democratic institutions have a more complicated relationship that is conditional on time. Only later in the time period does the polity score measure become significant to increase the hazard rate. The OECD members appear to have shifted to embrace democracy as informal condition for membership in the mid-1990s after having accepted non-democratic founding members. The ongoing diffusion of democracy over the period is in part encouraged by the OECD but also arises through separate mechanisms. The key point here is that during later years in evolution of the OECD, democratic institutions became an important factor to increase the speed with which countries join. To the extent that democracy is a determinant of membership, it is challenging to assess the effect of membership in the organization itself on democratization.[9]

As expected, European countries have a positive and significant increase in rate of joining organization. Income also speeds membership. Surprisingly, trade openness if anything slows entry into OECD while being an Article 8 signatory has no significant effect. These variables represent rough proxies for a countries capacity to accept the OECD Codes of Liberalization. These results do not support the view that selection into the organization represents screening for countries based on high levels of openness and prior commitments for financial policies.

[9]See Mansfield and Pevehouse (2006)

In summary, the regression analysis has revealed the multiple dimensions upon which countries consider membership. Those that are the most likely to have joined early are not only wealthy, but also those with alignment in security and UN voting. Over time, democracy has emerged as factor that also speeds some countries to higher rate of joining.

5 Case Studies of OECD Accession

Three case studies shed light on the features that shape the demand and supply of membership for OECD. Since the European countries represent a challenge to separate the processes of parallel or sequential accession to the European Community, I have chosen to focus on three critical cases for expansion outside of Europe. I start with the case of Japan, which represents the most significant example for the organization to step outside of the transatlantic scope of its origins. The Mexican and Korean cases represented stretching the organization both in regional scope and in economic conditions as the OECD welcomed developing country members. Given the selection on three cases that go forward to join the organization, there are limits on any broader inferences about the selection dynamic. On the basis of descriptive inference from these cases, future research can pursue more general tests of the argument.

5.1 Japan

Japan's accession in 1964 was the first expansion of the OECD beyond the founding group of twenty. For the OECD it was a major step to show that the new organization would not remain tied to its roots as an organization for post-war recovery in Europe. to Japan, the entry was a mark of its arrival among the lead industrial countries. Prime Minister Ikeda had trumpeted an income-doubling plan that would be the hallmark of his four years in office from 1960 to 1964. To achieve this goal he launched a series of economic reforms that achieved remarkable high growth. His foreign policy also placed new emphasis on the need for Japan to build ties with Europe to balance already strong ties with United States and form "three pillars" in support of free world (Iwanaga, 2000, p. 214). As part of this strategy, Ikeda went on 1962 tour of European capitals and expressed interest in Japan's membership in OECD.[10]

Beginning in 1960, Japan had joined the Development Assistance Group, which would soon thereafter become the Development Assistance Committee in the OECD. As a country limited by its constitu-

[10] A Ministry of Finance official attributed the initiative for OECD membership as arising during the Prime Minister's trip. *"OECD kamei to shihon torihiki no jiyuka"* (OECD Membership and Capital Account Liberalization), Kinzoukai (August, 1963), p. 24.

tion from substantial military policy contribution to international security, foreign aid has evolved from its role as a quasi-reparation policy after the war to an area for Japan to appear as leader in international affairs and engage in more burden-sharing with the United States. For a trade dependent state, promoting development in other countries was also central to its own prosperity. This sometimes raised challenges to extent that trade interests encouraged giving aid tied to projects that would benefit Japanese firms, while the OECD monitoring of aid policies pushed all countries including Japan to reduce the amount of tied aid. The government made the decision that greater prominence through participation in OECD aid coordination was worth the cost of inviting scrutiny over its aid policies.

Joining international organizations has played important role for Japanese foreign policy in the post-WWII era as it tried to end pariah status as defeated nation and engage fully in international community. By the 1960s as its economic growth had taken off, membership in OECD had symbolic importance. When discussing the prospect of OECD membership in the Diet, Prime Minister Ikeda engaged in a long speech about the praise he heard from other nations for Japan's economic revival and democracy after the war and expressed the priority of his new cabinet to policies that would raise the level of the economy, education, culture, health and social welfare of Japan; after listing details on the increasing trade volume and liberalization he said the scheduled accession to the OECD and IMF Article 8 demonstrated that Japan's international role would take even heavier weight.[11] In a detailed book that collects the input from key government and business leaders to analyze Japan's accession to the OECD, which was published in 1964 by the leading Japanese think tank Japan Economic Research Institute (JERI, *Nihon Keizai Chosa Kyogikai*, the introduction states that "Our country has now come to hold economic power as a first class industrial nation comparable to that of the European and American nations. In light of this economic reality, Japans participation in the OECD is not only extremely 'obvious' but also 'necessary' for both our country and the OECD."(Shimomura, 1964)[12] Long priding itself as the first Asian country to have achieved high levels of economic development, there was an eagerness in Japan to embrace the role of helping to add Asian perspective within a European-centered organization. For these symbolic reasons alone, membership was celebrated as major accomplishment for Japan.

There were also expectations that joining the OECD would have positive contribution to economic growth through access to information. As one example, the JERI report noted Japan's ongoing struggle to counter high inflation, recommended that "Japan should seriously learn from these OECD countries,"

[11] Lower House Diet Testimony, 18 October 1963, parliamentary record [008/010]44 no.3.

[12] I thank Shiro Kuriwaki for extensive help translating this book.

which at the time enjoyed lower inflation rates than Japan (Shimomura, 1964, p. 127). Other references to specific policy areas where Japan hoped to learn from the experience of OECD members that are singled out in the JERI report include helping regional banks to manage foreign currency transactions and the balance between competition policies and support for industries. Speaking at a forum shortly after conclusion of the negotiations for Japan to join OECD, a Finance Ministry official extolled the main benefit of membership would be through the interaction with officials from other countries in committee meetings where Japan could learn from the practice of other countries so that "reflecting on experience of other countries, Japan should adopt those policies that are good," and also share where it may have excelled with a unique approach to economic policy.[13] The expected value of such information for Japanese policy also was a topic in the debate in the Japanese Diet prior to ratification of the agreement to join OECD. One LDP politician Seiichi Inoue stated that there were two reasons for Japan to seek OECD accession: first, because through joining the OECD Japan could increase its voice in international society, and second, because learning from the experiences of other countries would help Japan to weather the currents of the a liberal economic order. [14]

Trade liberalization by Japan had continued as process from accession to GATT in 1955, bilateral negotiations, and removal of a significant number of import quotas that had been maintained for balance of payments purposes but were ended with the agreement to accept IMF Article 8. Entering the OECD and participating in its trade policy community presented an opportunity to move toward more active engagement for Japan as "peer" (*nakama*) taking its part to shape the international order Shimomura (1964, p. 128). Beyond opening its own market, Japan saw OECD membership as adding new leverage in its effort to eliminate the discriminatory trade policies held against Japanese exports by many OECD members.[15] Here the symbolic and material benefits overlap as the JERI report suggests that by becoming member of economic club Japan would gain new forum and voice to protest these policies,

[13] *"OECD kamei to shihon torihiki no jiyuka"* (OECD Membership and Capital Account Liberalization), Kinzoukai (August, 1963), p. 43.

[14] Upper House, Diet Testimony of the Foreign Affairs Committee, 24 April 1964. Diet Record [001/001] 46 no. 18.

[15] When Japan acceded to GATT in 1955, fourteen GATT members invoked Article 35 of GATT as a means to deny MFN treatment to its trade, and this number increased further as the European colonies also invoked Article 35. By fall of 1961 with support of the United States, Japan had seen the GATT commission report on the problem and the Japanese government was involved in intense negotiations with each of the governments to win their removal of Article 35 exclusion (Komatsu, 1963, p. 165). Although by 1964 several countries had revoked Article 35 treatment, the weak negotiation position of Japan to win MFN status left many discriminatory barriers in place against key Japanese exports.

which it described as a problem given that Japan was an “equal peer” (Shimomura, 1964, p. 135).[16] An official with the Ministry of Finance warned that the discriminatory trade policies would not be dropped immediately upon Japan entering the OECD, but through gradual process as other countries came to see Japan as one of them and not so different. [17]

Japan underwent a range of significant policy reforms as part of joining OECD. Some of the areas that were highlighted as problems from the Japanese side included pressures to limit such key industrial policy tools as the government support of shipping industry and restrictions on use of the Foreign Capital Law and Foreign Currency Law to screen approval of new technology, which had often been used by government to favor targeted industries and reduce so-called ’excess competition’ through centralized control of access to new technology from abroad (Shimomura, 1964, p. 92). Concessions to liberalize shipping were among the most difficult at a time when Japan saw its shipping industry to be in crisis, but when it became apparent that refusal on this point would delay accession the government agreed to phase out the policies limiting use of foreign shipping within the span of two years (Shimomura, 1964, p. 68). At the same time, as a global leader in ship-building, the Japanese government was frustrated by subsidies of OECD member governments for their weakening ship-building industries. While Japan was at the same time completing commitment to Article 8 of IMF for removal of capital controls, OECD accession brought additional expectations for financial liberalization. The government was very reluctant to open to foreign investment. At the time of accession, Japan included reservations that would allow it to maintain its restrictions on direct investment in manufacturing sector, uphold government role for auto insurance policies, and continue to limit participation in securities markets by non-residents. Nevertheless, there was recognition that the reservations to exclude particular policies from liberalization would face ongoing pressure through debate in the OECD (Shimomura, 1964, p. 92).

Because of OECD membership, Japan rushed its entry into Article 8 with attendant reforms to payment and contract base capital account transactions. Some within Japan argued that these steps were being taken too quickly as result of the push for OECD membership. An official with the Bank of Japan commented in August 1963 roundtable discussion that there was a sense that Japan was rushing capital liberalization, but that delaying further would only make more difficult because European states were liberalizing and the gap between them would further widen.[18]

[16] I thank Shiro Kuriwaki for highlighting this important point.

[17] *“OECD kamei to shihon torihiki no jiyuka”* (OECD Membership and Capital Liberalization), Kinyukai (August, 1963).

[18] *“OECD kamei to shihon torihiki no jiyuka”* (OECD Membership and Capital Liberalization), Kinukai (August, 1963).

Given its status as a leading industrial power, the accession by Japan to OECD would only augment the ability of organization to coordinate policies for the economic order. As Foreign Minister Ohira stated when asked why OECD accepted Japan's membership, "I believe they correctly evaluated that the world economy cannot be managed by disregarding Japan's economic power."[19] There was little domestic controversy in Japan surrounding accession, although the Socialist Party objected to accession on grounds that it was anti-communist and represented an 'economic version' of NATO (the Socialist Party had just lost out in the fierce 1960 revision of the U.S.-Japan Alliance Treaty) (Iwanaga, 2000, p. 216). One Socialist Party member, Soji Okada, said in testimony before the Foreign Affairs committee that Japan seemed to only be trying to pretend to be member of advanced countries, while its preparation was weak and this was too soon for it to join.[20] Public support was strong, largely because of the status associated with joining the OECD and because it was viewed as step by Japan to strengthen ties with Europe, which could reduce the heretofore complete dependence on United States as key actor for both security and economic dimensions of Japanese foreign policy. The internal discussion of OECD accession within Japan reveals that the key benefits were foreign policy benefits from a new pipe with Europe and increased stature in the international community along with concrete economic policy objectives to both push forward liberalization in Japan and abroad.

5.2 Mexico

The case of Mexico's accession to OECD must be viewed within the context of its negotiations to join NAFTA. Having already agreed in 1990 to pursue free trade agreement with the United States and Canada, the decision by government the next year to announce its intent to join OECD was complementary step to further broaden scope of its economic reforms beyond the United States and Canada. Indeed, during the anxious period when U.S. ratification of NAFTA was uncertain, some reported that OECD membership would provide alternative way to lock in reforms of Mexico even if NAFTA were rejected in U.S. Congress.[21] Ultimately, the negotiations to join OECD from 1993 to 1994 followed the formal signing of NAFTA in 1992, and formal acceptance of invitation to join OECD on May 18 1994 occurred during the first year that NAFTA entered into force. Nonetheless, while NAFTA understandably attracts more attention as the key transformation of Mexican economic policies, joining the OECD

[19] Diet Testimony cited in Iwanaga (2000, p. 216).

[20] Testimony of the Japanese Diet Upper House Foreign Affairs Committee, [005/134] 46 no. 18, 24 April 1964.

[21] 1993 May 12, The Financial Times, "Survey of North American Free Trade Impact on Mexico". 1993 June 15, Wall Street Journal, "Nafta or Not, Salinas Pursues Free Market."

was itself a meaningful step in the process.

The Salinas government that launched the series of economic reforms within Mexico also took the first step to deepen relationship with OECD. The OECD Observer report at time of Mexico joining OECD notes that in 1990 the Mexican government "took the initiative of broadening the scope of its dialogue with the OECD ... by sending an exploratory mission to learn about the Organisation and the possibilities for strengthening ties with it."[22] Whereas the government had declined an earlier OECD invitation to participate in the OECD steel committee, it chose to join the committee in a September 1990 agreement with OECD and quickly moved forward on privatization o the industry the following year. Speaking to the OECD Council in 1992, Salinas confirmed that Mexico would like to join the organization and take a larger role in the world economy.[23] To the extent that the government was undergoing deep trade liberalization through NAFTA, following on its accession to GATT in 1986, the challenging aspects of OECD reforms were focused in other areas outside of trade. In particular, Mexico expressed early reservations about whether it could undertake liberalization of capital account and in areas of oil privatization and telecommunications.[24] Despite the clear reluctance of Mexico to allow free capital movement, finance also stood as area for gains - the likely improvement of Mexico's status on credit markets was also noted within Mexico by leading financial groups.[25]

After negotiating with members, Mexico made several reservations but also agreed to reforms in critical areas. In particular, the reservations allow Mexico to continue to restrict some cross-border capital operations such as foreigners conducting transactions in pesos and in areas of financial services and transport services.[26] At the same time, FDI liberalization went beyond NAFTA commitments with new legislation passed to open Mexico to investment from all countries without restriction to either NAFTA or OECD members and a new stock market law passed to offer access to the domestic market for foreign issuers. Daniel Dutzin Dubin, a Mexican official leading the accession process, said that OECD countries were concerned about the lack of a mechanism for the settlement of disputes, which led to the Mexican government including a multilateral mechanism for the protection of investments the

[22] 1994 Jun/Jul, *The OECD Observer*, "Mexico, 25th member of the OECD."

[23] 1992 Jul 22, Reuters News, "Mexico Seeks OECD Membership and Active World Role".

[24] 1992 Dec 2, Agence France-Presse, "Mexico to hold talks on entering OECD in 1993."

[25] 1992 Sep 1, *El Siglo de Torren*, "Disminuir el riesgo de invertir en Mxico al entrar a la OCDE." See also commentary in 1993 Jun 7, *International Herald Tribune*, "Cut in Mexicos Debt Cost Is Likely if It Joins OECD Capital Markets."

[26] Pierre Poret (1994 Aug/Sep), *The OECD Observer* no. 189, "Mexico and the OECD Codes of Liberalisation."

new Foreign Investment Law.[27]Like Japan before it, Mexico had to agree to liberalize maritime services.

While surging forward on liberal economic reforms, Salinas took a slower pace toward democratization. After Mexico joined the OECD in May 1994, Mexico held elections at end of the year that allowed international observers and were recognized as step toward partial democracy. Yet it would be several more years before Mexico would represent a consolidated democracy. While some consider OECD membership pushing along this process, it is largely in a backup role. Peer review in the OECD does not extend to political institutions, and socialization is the main channel through which it could exercise positive influence on political reforms. Clearly at the time of accession negotiations, members were willing to accept Mexico more on the promise of liberal political reform than through actual completion of the process.

From the OECD perspective, the question of Mexico joining brought conflicted views. There was recognition that expansion could reduce level of cooperation. Carroll and Kellow (2011, p. 97) cite statements by a Belgian minister calling for postponement of formal dialogue with Mexico (and Brazil and Indonesia) by warning against "watering down and disorganising the group at the expense of the close co-operation among the 24 of us." At the same time, expansion offered opportunity to increase influence both through the reforms demanded of applicant countries and through the greater reach that the organization would have based on larger membership.

When it came to selection of whom to favor for admission, it was clear that political ties and not only the assessment of policies mattered. European members emphasized the importance of including East European countries in transition while the United States, Canada, Australia, and Japan led in effort to broaden geographic scope. Colonial legacies also shaped positions as Spain and Portugal took more inclusive positions toward including Latin American countries in OECD work and were advocates for Mexico. From the perspective of market reform and democratization, it was clearly premature when discussion arose about Eastern European governments joining OECD in 1990. Pushed by political interest, the OECD Council took unusual step to establish Centre for Co-operation with European Economies in Transition to promote their ability to fulfill conditions necessary for accession to OECD through assistance and advice.[28] Ultimately Mexico would join one year earlier than the first of the Eastern European applicants (Czech Republic in 1995 followed by Poland and Hungary in 1996). The United States and Canada strongly pushed for Mexico while opposing a German request for rapid acceptance of the East

[27] 1993 Apr 6, *El Siglo de Torren*, "Cambiar La Ley de Inversion Extranjera, Compromiso de Mexico con la OCDE."

[28] Statement of Chair of working group of Council cited in (Carroll and Kellow, 2011, p. 159).

European countries.[29]

Upon entry to the OECD, Mexico left the Group of 77 coalition of developing countries that coordinate policies in the United Nations. Having been a founding member and leader among the coalition, this represented a clear shift of identity. Nevertheless, in many multilateral fora Mexico remains advocate for developing country perspective. The inauguration in 2006 of Angel Gurria as the first OECD Secretary General from a developing country carried symbolic importance to show both Mexico's ascendance to the pinnacle of international society and the outreach of OECD as a global institution.

5.3 Korea

Korea's accession to the OECD has been blamed by some in Korea for rushing its liberalization of capital flows and setting the stage for its descent into financial crisis and IMF bailout one year after joining the organization.[30] Fierce criticism in parliament called government officials to testify on why financial liberalization was so mismanaged. The causes of Korea's crisis are too complex to attribute to one source, and such an explanation lies beyond scope of this paper. In many ways the problem is that Korea tried to partially implement capital liberalization, while not implementing the appropriate supervisory structures to regulate against risk. Yet this debate itself reveals that joining OECD involved significant policy changes. Unlike Mexico where it negotiated to join OECD largely as a backup to NAFTA, for Korea this would be the first major liberalizing commitment.

Korea first expressed interest in OECD membership under the military rule of President Chun Doo-Hwan in 1983 when it was at the start of its remarkable economic growth miracle. The leading conservative daily reported the president saying that in order for South Korea to be treated as a developed country, one possible way of achieving this would be to join the OECD, a group of countries already labeled as such.[31] The repeated theme was that "challenging" itself through OECD membership would be a way to speed up Korea's economic progress. At the same time, critical commentary warned against expensive dues and costly liberalization.[32] After a year of preliminary investigation into what membership would entail, Myoung Ho Shin, who was then serving as the counselor to the Korean Embassy in Paris met with OECD Secretary General Jean-Claude Paye. He was told that Korea was unlikely to be accepted with an

[29] 1993 Jun 4, *The Financial Times*, "OECD to Open its Doors to Mexico."

[30] This is widely noted in media commentary in Korea, and also a point in scholarly research (e.g. Lee, 2000; Kalinowski and Cho, 2009).

[31] *Chosun Ilbo*, January 21, 1983.

[32] *Chosun Ilbo*, January 23, 1983.

explanation that "the OECD was an exclusive club not one that accepted all who want to join and that the members did not want new members since they already felt there were too many and it was not efficient for dialogue. So he told me no."[33] This shelved the idea without Korea launching a formal application process. As with a social club, the informal process dictates that countries are invited to apply, and so this exchange set aside Korea's potential membership for the next decade.

Changes at the OECD signaled that Korea would now be treated as a serious candidate for membership. Starting in 1989, the OECD began outreach to both the East European economies in transition and other "dynamic non-members" including Korea that would involve them as participants in OECD committees and help initiate a dialogue towards their eventual membership. The eagerness of European members to welcome the transition economies of Eastern Europe and the pushback from other members wanting broader geographic scope pushed forward both Mexico and Korea as prime candidates for the OECD (Carroll and Kellow, 2011, p. 96). Korea had already started on the path to becoming a liberal market democracy with its first democratic elections in 1987 and decision to accept IMF Article 8 in 1989. The Korean government included OECD membership in its 1991 five-year plan with schedule to join by 1996.[34]

Presidential leadership advanced Korea's bid for membership in the OECD in 1992. As a former activist for democracy under authoritarian rule and the first civilian to be elected, Kim Young-sam fulfilled important step in the consolidation of democratization process that had begun in 1987. He advocated a "*Segyehwa*" policy for the globalization of Korea in terms of both society and economy. Joining the liberal democratic club of advanced countries to guide international economic cooperation formed one concrete target within this overall program calling on Korea to undertake liberal economic and political reforms in an outward looking process. Kim Young-sam included a pledge to seek OECD membership as part of his election platform in his successful bid for the presidency in 1992. Lee (2000, p. 125) writes that "Kim expected that accession to the OECD could elevate the nation's status in the international community while also increasing his own political popularity." Byung-il Choi, the President of the Korea Economic Research Institute, also stated that it was a political decision to apply: "President Kim Young Sam had strong motivation to globalize Korea, using the phrase 'segyehwa' as the Korean language word for globalization. Presidential power at that time was very strong. He may have believed that if during his tenure Korea could join OECD it would make for better society. Some thought that if

[33] Interview by author, Seoul Korea, 10 July 2013.

[34] 1991 Oct 17, *Asian Wall Street Journal*, "South Korea: OECD Application."

Korea joined, the code of conduct and information sharing would help lift up the management skills for Korean business."[35]

And yet it was not the case that membership was easily accepted as the right course for Korea. Within Korea the question of membership was fiercely debated and challenged by the opposition party.[36] The government undertook a proactive effort through creating pamphlets about OECD membership to distribute widely to not only politicians and scholars but through broader outlets to inform the public. Myoung Ho-shin, who would play key role in negotiations for Korea to join OECD in his role as Deputy Minister of International Finance, stated:

> We had to educate on why need to join OECD. We said that now is the time for us to have rules and regulations so as to be a really developed country, and so we must learn and get information. We argued that the easy way to learn would be to join the OECD where information exchange and discussion would help us. We say now is the right time and that we are not taking on excessive liberalization and are doing what is within our competence. We also held seminars and summoned groups to come for meetings so we could explain banking policies.[37]

The government sales pitch for joining OECD included in addition to the above-mentioned opportunity to learn from advanced countries the concrete benefits for businesses from improved international credibility and lower interest rates on loans (Lee, 2000, p. 126). The influential *chaebol* saw to benefit from greater access to capital from abroad and favored introduction of competition to strengthen domestic financial industry.

This case represents clear example of demands for substantial reforms as condition of membership. Between June 1993 when OECD agreed to negotiate towards Korean membership and the formal application in 1995 and approval in 1996, the government engaged in multiple rounds of talks at the OECD. Although Korea had opened the capital account, the governments of OECD were clear that further financial reforms would be necessary to meet OECD standards prior to accession (Carroll and Kellow, 2011, p. 152). Typical are the comment by U.S. ambassador to the OECD David Aaron in October 1994: "OECD membership is not the beginning point of the liberalization process, it really has to be seen as

[35] Interview by author, Seoul Korea, 4 July 2013.

[36] *Kyunghang Shinmun*, March 16 1995.

[37] Interview by author, Seoul Korea, 10 July 2013.

something near the climax of that process."[38]

Demands made on Korea included raising foreign investment ceiling and ending foreign bank restrictions, allowing full currency convertibility, lifting capital controls on international Korean companies, relaxing rules on merger and acquisition, trade liberalization, and labor law revisions. For joining the OECD, the biggest challenge for Korea would be liberalization of the financial sector where Korea had a very restrictive market regulations prohibited foreign takeover, limited equity holdings, and the won was not fully convertible. Byung-il Choi, the President of the Korea Economic Research Institute, described the changes: "The government completely controlled the financial sector such that in truth there were no 'private' banks. The OECD membership would bring a sea change."[39] Although the changes of policies were large relative to the closed financial markets in place in Korea, the government limited the scope and pace of liberalization. When the Korean government brought its financial liberalization plan to the OECD for negotiations, days of negotiations ultimately led members to accept its plan for sequencing the reforms according to its own gradual plan.[40] The government favored liberalizing short-term capital inflows first while maintaining controls on long-term investment (e.g. strict limits on foreign ownership of Korean companies), and refused to open bond market participation to foreigners. The rationale was that government could more readily restrain *chaebol* through restrictions on long-term investment and needed to play "traffic cop" allocating funding among the small group of large firms to avoid market distortions. Supervision of banking industry was supposed to help manage influx of short-term capital, and allowing liberalization here for financing trade and bank transactions promised immediate gains to boost the economy. Korea's large conglomerates stood to benefit from increased access to capital, while restricting long-term capital flows reflected old developmental state bias against foreign direct investment (Kalinowski and Cho, 2009, p. 225). Later, critics would cite this as the mistake setting up Korean financial system for instability, given that the supervision of banking remained inadequate and failures of the newly established merchant banks would form onset of financial crisis and large short-term debt

[38] David Brunnstrom, "Seoul Must Speed Liberalization for OECD Place." Reuters News, 21 October 1991.

[39] Byung-il Choi, Interview by author, Seoul Korea, 4 July 2013.

[40] Myoung Ho-shin, Interview by author, Seoul Korea, 10 July 2013.

made country vulnerable when foreign creditors lost confidence and decided to withdraw funds. Yet at the time, commentary in the western media focused on how Korea had not gone far enough and would need to continue with its pledge to continue liberalization in coming years. According to the *Financial Times*, "Korea accepted only 65% of the OECD codes on financial liberalisation against an 89% acceptance rate by the average OECD member."[41]

In an example of the shifting benchmark for membership, Korea faced demands on labor law policies. European members were critical of the restrictions limiting number of unions in a firm, barring third-party arbitration of labor disputes, and the ongoing arrests of labor activists. In response to the demand for assurance that it complied with labor laws deemed essential by OECD members (although none were listed as criterion in OECD agreements), the Korean government formed a labor law committee to draft outline of changes. When the Korean government was late in its proposal for labor policy reforms, the OECD governing Council delayed its final decision meeting on Korean membership, thus holding the issue as a breaking point for the conclusion of the accession deal.[42] Ultimately, members decided to accept a letter of assurance from the Korean government that it would reform its laws so as to follow the core labor standards of the International Labor Organization.[43]

Although much of the draw of membership is aspirational to follow the successful example of members and learn from their policies, Korea also faced a counter-example from the Mexican experience. At the height of Korean efforts to liberalize its financial policies for OECD membership, the most recent member Mexico was undergoing financial crisis that would require massive bailout by United States to underwrite the value of the peso as currency flight threatened to erode the last of the countries foreign reserves. Cautious voices within Korea pointed to the Mexican example as they urged that Korea should wait to undertake reforms. Yet President Kim was undeterred in his push for joining the OECD, although the application was delayed by a few months as Korea negotiated over the need to follow its gradual plan for liberalization.

[41] *Financial Times*, 14 October 1996, "South Korea Braces for Restructuring."

[42] 1996 Oct 10, Financial Times, "Labour Law Threat to Korean OECD Bid".

[43] *Financial Times*, 14 October 1996, "South Korea Braces for Restructuring."

Once OECD accepted Korean terms, the membership question had to go before Korean Parliament where it faced considerable debate. Opposition ranged from those who favored accession but sought further delay to lengthen transition for slower liberalization process to those who strictly opposed accession. Financial firms whose interests were directly threatened had formed lobbying coalition. Many leading scholars in Korea also voiced opposition. Several ruling party member legislators joined the opposition parties with criticism that hurrying into the OECD could bring in excessive financial inflows that would make Korea vulnerable to a crisis similar to the Peso crisis experienced by Mexico. For example, one member of the ruling party Park Myung-Hwan said "The price we will have to pay by entering the OECD is too great in consideration of our lack of preparation."[44] Ultimately, the government proposal was ratified in November 1996 with a vote 159 in favor and 101 against.[45] OECD would become the 29th member of the OECD the next month.

In light of the subsequent financial crisis, many came to regret the price paid to join the OECD. As one of the leading negotiators for Korea's OECD accession, Myoung Ho Shin concluded, "I do not think it was premature for Korea to join. We could recover from the crisis quickly. Globalization is an opportunity but can also have negative impact. Overall it is not harmful."[46] Even for critics who see the reforms undertaken in the early 1990s as faulty, withdrawal from the OECD is not raised as serious proposal. One scholar noted that when the most recent financial crisis led him to advocate for imposition of short-term capital controls, "the government officials would say no, giving as the reason the OECD commitments. Bureaucrats think of OECD as setting a global standard that we must abide by. As if we need to be good students! Korea is obsessed with country ranking and the comparison of countries in OECD is taken very seriously. In the 2008 crisis, I argued that there was reasonable necessity to impose restrictions on short-term flows, but their final defense was always the commitment to OECD."[47] For better or worse, Korean leaders are too proud of OECD membership to consider withdrawal or rejection of its principles.

[44] 1996 Oct 1, Agence France-Presse, "South Korea's ruling party faces mounting opposition to OECD membership."

[45] 1996 Nov 26, Agence France-Presse, "South Korean parliament ratifies controversial OECD entry".

[46] Myoung Ho-shin, Interview by author, Seoul Korea, 10 July 2013.

[47] Byung-il Choi, Interview by author, Seoul Korea, 4 July 2013.

6 Conclusion

The OECD represents an unusual organization in its broad scope of policy mandate accompanied by low levels of legalization with peer review as the primary form of enforcement. Yet it appears to have in some areas emerged as an effective organization - whether increasing trade among members or establishing common regulatory frameworks. Failed negotiation for a multilateral investment regime and limited direct effect on member policies serve as reminders that its powers are no greater than what members decide they support as best practice. The influence of the organization in the complex milieu of institutitutions with a hand in guiding global governance lies in its size and credibility - small enough to offer serious deliberations among members who often share similar preferences and can be trusted to move in the recommended policy direction. This makes the question of enlargement especially delicate for the organization.

From the perspective of institutional design, there are important implications from the pattern of discretionary accession. The rational design volume of *International Organization* (Koremenos, Lipson and Snidal, 2001) as part of setting up ideal types raises the expectation for organizations to be inclusive or exclusive in membership based on the type of cooperation problem that countries face. As a function of the wide scope of issues facing the OECD, this organization defies such categories. The vague formal rules and ad hoc practice applied in accession process suggest that OECD members favor discretion about how inclusive or exclusive to be for any given period or applicant. On the one hand the membership remains a small subset of thirty-four states with a club identity. On the other hand, the OECD has admitted developing countries and widened its geographic scope beyond the transatlantic partnership in ways that allow more heterogeneity of interests. As with any social club, it suits members to retain their own autonomy to define whom to admit. Thus even when the OECD attempted to clarify terms of membership, its guidelines were vague and list of new applicants defy any template of membership criterion. The use of discretionary accession rules conforms to theories that greater levels of uncertainty over exactly what is expected of members can maximize the level of reform (Stone, Slantchev and

London, 2008; Schneider and Urpelainen, 2012). This paper contributes to understanding the preferences that underly why countries seek membership and are willing to undertake such reforms.

OECD accession offered leverage for policy change in applicants who were motivated by strong desire to join the organization for the sake of joining, above and beyond their expected gains from specific reforms. Although the countries examined in the case studies had all embarked on a turn toward liberalization of their economic policies and sought OECD membership as one tool to deepen those reforms, they did make some painful concessions as part of accession. Japan gave up key instruments of industrial policy while Korea undertook significant reform of its state-centered banking system. Even Mexico, which had largely completed its substantial economic liberalization as part of concluding NAFTA, found that OECD membership required additional steps. In a process similar to that described for EU enlargement by Schneider (2009), complex bargaining over interests led to a diverse set of outcomes for terms of accession. Members that were eager to see these countries enter OECD (the United States and Japan) accepted some reduction of liberalization even as more reluctant members (EU) added on new conditions such as labor law revisions. Through the changing demands of the members as well as the applicant use of reservations that excluded policy areas from liberalization, each took on a different set of commitments. And yet the premise was that they would continue their reform process to reduce the reservations and bring themselves up to the OECD standards. Also in ways that parallel the experience of the GATT/WTO, the OECD has had geostrategic ties as the glue to motivate economic cooperation (Davis and Wilf, 2013).

Member selection occurred on the basis of the three dimensions highlighted in my hypotheses. As a like-minded club, the OECD consists of countries that share liberal values whether those are achieved by liberal political institutions, economic policies, or commitment to the western alliance. Rather than a rigid package, these criterion form a multidimensional space in which the members have discretion to prioritize one over the other for a particular country or era. From the applicant side, one must clearly add the role of status and emulation. The countries in the case studies were each seeking to gain prestige. Yet there are many ways to seek prestige; admiration for the achievements of the current OECD members on the dimensions of political, economic, and geostrategic policies made these states seek membership where others would not. Ambitious political leaders latched onto OECD accession as a symbolic gesture to build support for their economic reform programs because they knew it held resonance within their domestic public. Even as opponents warned of the risks and disparaged the need to make concessions for vain efforts to gain status, leaders pushed through the necessary reforms and ratification to join.

Appendix

Country	Accession Year	Per Capita GDP	Polity Score	Shared Alliances
United States	1961	42244	10	23
Canada	1961	36335	10	20
United Kingdom	1961	32080	10	18
Ireland	1961	41632	10	0
Netherlands	1961	38391	10	18
Belgium	1961	32994	8	18
Luxembourg	1961	57647	10	18
France	1961	29477	9	18
Switzerland	1961	42317	10	0
Spain	1961	25694	10	18
Portugal	1961	20106	10	18
Germany	1961	35071	10	18
Austria	1961	35891	10	0
Greece	1961	21096	10	18
Sweden	1961	34707	10	0
Norway	1961	58431	10	18
Denmark	1961	32442	10	18
Iceland	1961	29992	10	18
Turkey	1961	13058	9	18
Italy	1962	27239	10	18
Japan	1964	31587	10	1
Finland	1969	32345	10	0
Australia	1971	38042	10	1
New Zealand	1973	24400	10	0
Mexico	1994	12516	8	3
Czech Republic	1995	22894	8	19
Poland	1996	17562	10	19
Hungary	1996	16315	10	18
South Korea	1996	29618	8	1
Slovakia	2000	19516	10	1
Chile	2010	13519	10	3
Slovenia	2010	23743	10	0
Estonia	2010	16740	9	1
Israel	2010	26421	10	0

Table 3: *OECD Members*: The table lists 2011 values for income, democracy, and number of alliances with fellow OECD members.

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