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Globalization and the Strengthening of Democracy in the Developing World

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Scholars and policy makers have long assumed that trade and financial liberalization encourages developing countries to become more democratic; yet no one has developed formal hypotheses about the causal relationship between globalization and democracy. This article shows that these two trends are indeed related, but not necessarily in the direct manner that has commonly been postulated. Combining theories of embedded liberalism and conflict-based theories of democracy, the model presented here depicts the process that affects decisions to strengthen democracy as trade and capital flows increase. I argue that increasing exposure to international export and financial markets leads to improvements in democracy if safety nets are used simultaneously as a strategy for providing stability and building political support. Empirical evidence is provided by econometric analysis covering 59 developing countries for the time period 1972–97.

Developing countries have made tremendous progress toward democracy over the last decade. Particularly since the late 1980s, 70% of less developed countries (LDCs) made substantial efforts to expand political freedoms. Significantly, these important political advancements came at the heels of a more sweeping transformation that occurred in LDCs in the early 1980s: economic openness in trade and financial markets (see Figure 1).[1] The extent to which political changes occurred *after* globalization pressures hit LDCs provides immediate credibility to policy makers who have long assumed that globalization leads to improvements in democracy.[2] Yet, despite these developments, human freedom is still under threat in the developing world (*Human Development Report* 2002). Several countries that took important steps toward democracy during and before the early 1980s have since become more politically repressive (e.g., Pakistan, Peru, Venezuela, and Zimbabwe). More countries (including India, Guatemala, Ghana, Thailand, Argentina, and Turkey) seem to vacillate, sometimes expanding political freedoms and sometimes contracting them. In fact, in the 59-country sample used in this analysis, only one country consistently maintained the highest level of democracy (Costa Rica), while almost 30% of LDCs witnessed a decline in democratic rights since globalization took root in the 1980s.[3] Why have improvements in democracy followed globalization in some cases, but not in others?

Overall, the "Washington Hypothesis," or the proposition that liberalization of both export and financial markets leads to more open political societies in LDCs, has been given scant scholarly attention. While more empirically minded scholars have tested this linkage across aggregate data in a limited way, theorists of politics have not

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[1]General agreement among scholars is that developing countries began "globalizing" around the early to mid-1980s. See *World Development Report* (1999–2000), Yusuf (1999), and Otsubo (1996).

[2]Globalization in this analysis is operationalized by trade and capital flows (as a percentage of GDP).

[3]Sample size is based on data availability. See Appendices A and B for more details.

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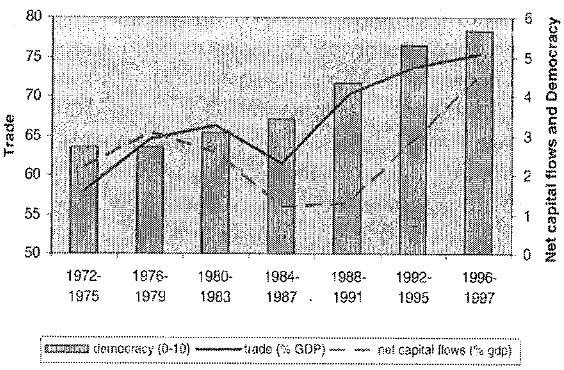
FIGURE 1 Trends in Globalization and Democratization in LDCs



yet asked *how* international market expansion might lead to democratization.[4] I explore the relationship between economic globalization and democratization in 59 LDCs from 1972 to 1997.[5] I propose that if safety nets are used during globalization as a strategy for providing social stability and maintaining political support for the existing authorities, democratic rights in LDCs will improve.

The essence of my argument is that globalization affects the level of democracy because the security and cohesiveness of the governing strata becomes challenged.[6] It is quite clear from the democratization and the consolidation literature that the disunity of elites is a precondition for prominent political change in any nation that is not yet an "absolute" democracy.[7] Globalization fundamentally unravels elite cohesiveness as the degree of control over economic policymaking and performance becomes significantly constrained, and nations are confronted with higher levels of uncertainty, indeterminacy, and hence, social instability. The combination of private sector desertions and mass disenchantment results in the growing political isolation of rulers. Under such conditions, governmental authorities face two options: greater political liberalization or political repression. For liberalization to occur, it must protect to some degree the power and privileges of the existing elites (capitalists, military, bureaucrats) capable of reversing it.[8] Increasing welfare spending alongside globalization can provide this necessary safeguard for elites by encouraging social stability and discouraging voters from contesting power as political and economic liberalization occurs.[9] On the other hand, crackdowns on individual liberties will occur if elites do not have alternative means for regaining societal control. Certain factions of the elites will then perceive the benefits of liberalization to be smaller and will be more inclined to support a hard-line position in favor of political repression.[10] From this perspective, the relationship

[4]The goal here is to offer an empirically testable and systematic explanation of the relationship between globalization and democracy. It is novel in that it clearly depicts the *process* that connects the two variables. Existing research on this general topic suffers from one or more of the following limitations: (1) case-specific analyses that do not offer a comprehensive picture of the trend; (2) broad theoretical discussions of globalization and democracy with little empirical support; and (3) definitions of both concepts are vague and not well operationalized. For example, much of the literature confuses the effects of globalization (broadly defined) on variables such as inequality, labor mobilization, states, and national autonomy with its effects on democracy. Li and Reuveny (2003), Quinn (2001), and Dailami (2000) are exceptions who do test this linkage on aggregate data. However, they neglect the political process which links globalization to democracy in the developing world and tend to favor focus on financial liberalization.

[5]Improvements in democracy, the dependent variable in this analysis, is based on Przeworski's (1991) concept of "liberalization" and Mainwaring's (1992) three-part definition of "democratization": (a) improvements in competitive elections; (b) universal citizenship; and (c) greater respect for civil liberties. This definition suggests that democratization is a movement toward implementing institutions and procedures (elections) and becoming more substantive (civil liberties, economic and political rights). As explained later, democratization is measured by using both Marshall and Jagger's Polity IV dataset and Freedom House's Freedom in the World Country Rating. Note that democratization and liberalization are used interchangeably in this analysis.

[6]I focus on "improvements in democracy" because this analysis applies to two types of countries: (1) those that are considered democratic but the quality of democracy remains tenuous (e.g., India, Venezuela, and Peru); and (2) countries that maintain strong authoritarian regimes (e.g., Egypt, China, and Singapore). Refer to footnote 5 for further clarification.

[7]By "absolute" democracy, I mean a consolidated democracy that consistently scores "10" on the Marshall and Jagger's Polity IV index and "14" on the Freedom House Index.

[8]This is in line with arguments of Przeworski (1991), Drake and McCubbins (1998), Acemoglu and Robinson (2001).

[9]Welfare spending is operationalized by per capita government spending on education, health, and social security and welfare. Note that authorities may also use alternative (noncoercive) means to maintain social control during democratizing reforms, such as wage increases (see Nelson 1991). However, comparable annual cross-country data on real wages are difficult to obtain and, thus, difficult to analyze.

[10]Significantly, O'Donnell and Schmitter argue that the schism between hard-liners (i.e., those who oppose democratization) and soft-liners (i.e., supporters of democratization) is based on the latter's "increasing awareness that the regime they helped to implant... will have to make use of some degree or some form of electoral legitimation" (1986, 16). According to Przeworski (1992), if reformers (or soft-liners) ally with hard-liners, repression will occur. Even in cases of weak or unconsolidated democracies, elites must deliberately reunify and form an "elite pact" regarding their commitment to democracy (Burton, Gunther, and Higley 1992). Heightened political (and economic) conflict stemming from globalization can polarize the elites and thus thwart consolidation.

between globalization and improvements in democratic conditions would be more contingent than is suggested by the Washington Hypothesis.

An interesting pattern emerges from the results. Openness in both trade and capital markets has a robust and *indirect* effect on democratization via social spending. Capital flows, like trade, demonstrate a positive relationship with democracy if and only if increases in social spending accompany increasing levels of globalization. In other words, as trade and financial market integration deepens, significant levels of welfare spending are required before democracy improves. If, however, increasing the level of social spending is either unfeasible or undesirable during globalization, democratization becomes an objectionable strategy. Governments of these globalizing LDCs will opt for greater political repression. Empirical evidence to support these claims is provided by the two-stage least squares (2SLS) statistical method and pooled annual time-series data from 1972 to 1997 for 59 countries.

My analysis proceeds as follows. I first evaluate the relevant literature on democracy and globalization and emphasize the lack of systematic analyses of this nexus. I then pose a theory of the causal mechanisms that underlie the relationship between international market openness and democratization in LDCs. Next, I present the model specification and research design and an interpretation of my results follow. Finally, I present the implications of the findings.

The Literature

Systemic theories on the prospects of LDC democracy in the contemporary era of globalization are lacking.[11] The existing democratization literature tends to ignore the fundamental importance of two primary generators of globalization, trade and capital flows. Well-known scholars of democracy have overlooked such international level explanations and predominantly focused on four classes of domestic level explanations: economic development (Lipset 1959; Marks and Diamond 1992); class coalitions (Moore 1966; Rueschemeyer, Stephens, and Stephens 1992; Therborn 1977); worsening income inequality and instability (Alesina and Perotti 1996; Burkhart 1997; Vanhanen 1997); and the role of political elites in either encouraging or discouraging democratization (Acemoglu and Robinson 2000; Drake and McCubbins 1998; O'Donnell 1973; O'Donnell and Schmitter 1986; Przeworski 1991). The globalization literature is concerned with the effects of market integration on *states* more generally (Cerny 1995; Garrett 1998; Katzenstein 1985; Keohane and Milner 1996; Strange 1998), but it neglects to theorize about its impact on individual political rights and liberties. The globalization-democracy nexus, though understudied, has not been completely ignored by academics (Armijo 1999; Armijo, Biersteker, and Lowenthal 1994; Dailami 2000; Li and Reuveny 2003; Maxfield 1998, 2000; Quinn 2001). But these authors either do not develop formal hypotheses about the causal connection, or do not test them.

It is not difficult to see why globalization should affect democratic arrangements in developing countries.[12] Much of the democratization literature argues that exogenous economic forces can exacerbate elite schisms and create an opening for democracy (Gasiorowski 1995; Haggard and Kaufman 1992; Im 1987). In the same vein, international market integration triggers new interests and political coalitions (Keohane and Milner 1996). Tensions rise and the political landscape begins to shift as elite and nonelite circles are impacted by uncertainty. Marginalized groups (e.g., unskilled labor) (Rodrik 1997), tradable and nontradable sectors (Frieden and Rogowski 1996), mobile asset holders (Frieden 1991), and private foreign creditors and foreign financial intermediaries (Haggard and Maxfield 1996) begin to compete for policies in their favor. Expectations that globalization is likely to affect decisions to liberalize, particularly in nascent or fragile democracies, are heightened as governments struggle to maintain stability and control in this politically tense environment.

Those who argue that globalization and democratization are indeed correlated tend to focus on the effects of financial liberalization on democracy, not on the impact of trade. Of these authors, Maxfield (1998, 2000) is the strongest defender of the Washington hypothesis that globalization leads to democracy. She argues that capital market development can unseat authoritarian governments by preventing their rent-seeking activities and increasing the bargaining power of business. Armijo (1999) and Armijo, Biersteker, and Lowenthal (1994), on the other hand, doubt that larger foreign capital flows systematically advance more democratic governments. In their view, foreign inflows tend to bolster the incumbent

[11] Huntington (1991), Whitehead (2001), and Pevehouse (2002) are important exceptions that do consider the effects of global variables (e.g., diffusion, international organizations) on democracy. The contribution of this analysis, however, is its focus on effects of international economic factors on democratization.

[12] This is particularly true in developing nations that simultaneously liberalized their trade and capital accounts. Countries that gradually and sequentially opened up their export and financial markets (e.g., South Korea, Singapore) faced less political instability, except in the cases of crisis (see Haggard and Kaufman 1992).

government, regardless of regime type, while capital outflows threaten it. Importantly, both Armijo and Maxfield caution that the *type* of capital flow can have consequences for democracy in the developing world. Maxfield (1998) argues that portfolio flows to private actors have encouraging implications for democracy, while Armijo (1999) suggests that portfolio flows may cause a shift to authoritarian rule if they lead to balance of payments crisis.[13] Empirical data are needed to distinguish between the Armijo and Maxfield hypotheses and assess whether increasing capital flows tend to support or discourage greater democratic rights.

Li and Reuveny (2003), Dailami (2000), and Quinn (2001) represent the few quantitative cross-national studies that formally test the relationship between globalization and democracy. Although these works make important contributions, they suffer from either one or both of the following shortcomings: (1) the tests include the more developed countries, which can significantly affect the results; and (2) they lack a plausible explanation of the political *process* by which trade and capital flows are linked to democratization.

First, the seminal findings of Przeworski et al. (2000) provide important reasons for why democratization in LDCs should be considered in isolation of the more developed countries. If democracies survive in countries with per capita incomes above $6500 as Przeworski et al. contend, then inevitably strong income effects overwhelm the impact of the causal variables of interest.[14] The question thus still remains if and how globalization impacts democratic rights in the developing world where the majority of countries has incomes below $6500 and continues to maintain either fragile democracies or no democracy at all.

Second, and most importantly, the relationship between democracy and globalization remains undertheorized. Under what conditions do increased trade and capital flows lead to improvements in democracy? Quinn (2001) expresses a plausible explanation of why financial liberalization might undermine democracy. However, he neglects to hypothesize about the implications of a positive effect, and he avoids a theoretical discussion of the trade-democratization relationship altogether. Dailami (2000) similarly lacks an analytical discussion of why increasing capital flows might lead to democracy. Li and Reuveny's (2003) theoretical arguments tend to focus more on the effects of globalization on states, inequality, and instability rather than democracy per se. I attempt to answer such questions and determine why both capital flows and trade might lead to democratization in some cases, and not in others.

These problematics should in no way detract from the important contribution of the existing studies, i.e., their emphasis on the significance of globalization variables in bringing about changes in politics and public policy, particularly with respect to democratization. Clearly, the paucity of scholarship on this subject suggests an enormous gap in the literatures on both globalization and on democracy. The six studies mentioned here thus represent important advances in this direction. Nevertheless, the causal connection between globalization and democratization has yet to be unraveled.

The Theory

The strengthening of democracy in this analysis refers to increases in political equality (Rueschemeyer, Stephens, and Stephens 1992). This requires that a significant majority chooses political leaders in free, uncorrupt elections, *and* it means that the previously disenfranchised have an increasing influence in determining political decisions particularly with respect to redistribution. This idea was emphasized by Acemoglu and Robinson (2000, 2001) and alluded to by Bellin (2000) and Drake and McCubbins (1998). Departing slightly from Dahl (1961, 1982), this definition assumes that power relations play a major role in determining whether democracy will emerge and survive.[15]

In the era of globalization, greater democratic rights can be realized in developing countries. Welfare spending plays a critical mediating role in this relationship. Ultimately, I suggest that *under conditions of globalization, if governments expand the size of the welfare state, important advancements in human freedoms are likely to occur.* This theory contends that decisions about democratization are adjudicated as international market exposure increases because the unity of the governing strata comes under challenge. Both the democracy and the consolidation literature suggest that the lack of elite cohesiveness

[13]Armijo (1999) observes that authoritarian governments can be better at economic management because they are willing to disenfranchise actors opposing reform (e.g., urban labor).

[14]Note that the $6500 value was calculated at 1985 PPP dollars. Using the GDP deflator, the 1995 value is $8667.

[15]This analysis is based on managerial and elitist definitions of democracy (see, for example, Dahrendorf 1959; Lindblom 1977; Skocpol 1979). Such models assign the main role in the political process to a self-chosen group of leaders. Most fundamentally, political power of the masses cannot easily be turned into economic power.

prompts radical political change.[16] In the face of rising independence of private sector groups, increasing economic uncertainty, and growing popular protests, elite cleavages intensify as the effectiveness of coercion becomes widely contested. Greater democratization can serve as a means to sustain (domestic and international) legitimacy of existing elites, minimize domestic opposition, and increase the likelihood of social stability in the globalizing environment. However, as the democracy literature contends, democratization has important prerequisites. Even prodemocracy elites will not opt to grant greater political freedoms unless they can implement a safeguard to secure their positions and privileges. Without such precautions, authorities risk losing political power and personal wealth as democracy increases, particularly since the "losers" of globalization will be in a better position to demand substantial political and economic change. The cost-benefit calculus shifts in favor of political liberalization *under the condition* that social spending can be used to protect elite interests. Fundamentally, as markets expand, welfare spending must precede advances in democracy in order to lower the stakes for elites.

But why, then, do some countries become more politically repressive after globalizing? The caveat is that expanding the social budget may not be a viable elite strategy for two reasons. First, with globalization and rising demands for efficiency and fiscal discipline, elites may face strong incentives to *decrease* social spending in order to promote investor confidence and encourage competitive exports. This is particularly true of LDCs facing adjustment pressures from international financial institutions. Second, increasing the level of social spending as openness occurs is a contentious elite decision because of the stress it can place on elite assets. Countries that are high spenders preglobalization are especially vulnerable to this possibility. Elites in these nations may prefer to engage in repression without making any significant changes to the social budget. This helps explain why some more democratic countries that generally maintain higher levels of social spending experienced setbacks in democratization after globalizing (e.g., Brazil, Venezuela, Argentina).[17] By the same token, repression may be more attractive in low-spending LDCs faced with demands for undesirably large compensation packages. Significantly, in these cases, rulers have better leverage in negotiations with their adversaries.[18] In sum, the antidemocratic position amongst the elite prevails and repression is used to regain stability and order when the costs of using social spending as an instrument are perceived to be greater than the benefits. Globalization's effects on democratization are thus indirect, contingent upon the scope and desirability of redistributive policies (see Figure 2).

To summarize, four basic propositions comprise the core of this argument about the interrelationship between globalization, political liberalization, and welfare spending:

- Globalization tends to create greater economic risks and uncertainty, diminishing elite control over the economy and affecting both private sector loyalty and large sectors of society. The result is social instability alongside waning elite legitimacy.
- If the state is imperfectly democratic, governing elites will fear that the "losers" would use greater democracy to take away their privileges. These elites oppose increasing democratic quality (hard-liners), putting them at loggerheads with elites that prefer democratization (the soft-liners).
- However, if the state provides social spending to compensate (buy off) the injured majority, the masses will be less likely to attack the elite via politics.
- Therefore, in such states, (hard-liner) elites will be more likely to agree to increase democracy.

This theory is based on a specific set of assumptions. First, I assume that globalization is exogenous and so elites cannot necessarily prevent globalization from occurring.[19] Despite the still ongoing debates about the causes of trade and financial liberalization in LDCs, scholars have recognized that most developing countries began liberalizing in the late seventies and early eighties. A recent

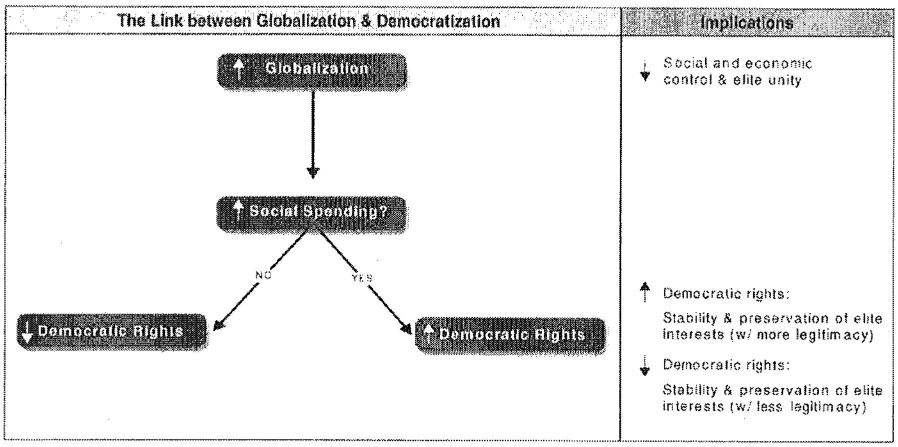
[16]The reigning government depends on other elite groups for support. The full cadre of elites generally incorporates political (or ruling), economic (or business), and military elites. Scholars argue that the breakdown of elite unity affects democratization (Kaufman 1986; O'Donnell and Schmitter 1986; Przeworski 1986). In the case of authoritarian regimes, once elite coalitions are threatened, rulers have more of an incentive to reach out to alternative groups for support. In unconsolidated and weak democracies, elite disunity can provoke repressive regime responses (Burton, Gunther, and Higley 1992). However, leaders will mobilize mass support and credibility if they can negotiate settlements with factions without selling out their followers.

[17]Of course, high welfare-spending countries also face economic pressure to reduce social spending and subsequently engage in repression to maintain stability while globalizing. Brazil and Venezuela (until the late 1990s) are examples. Carlos Menem's regime in Argentina, on the other hand, opted to maintain the status quo in spending and restrain civil liberties after globalization took off in the early 1990s.

[18]Under such conditions, it is easier for hard-liners to convince the private sector that authoritarian regimes are more likely to defend their interests. Soft-liners thus begin to calculate that further repression will best guard the corporate interests of the governing elite.

[19]Importantly, this analysis is not applicable to cases where democratic consolidation preceded globalization.

FIGURE 2 The Theory



analysis on the World Trade Organization (WTO) reports that even the most traditionally closed economies have abandoned the autarkic models of protectionism (Lukas 2000). At best, LDCs may be able to slow the pace of globalization, but many empirical studies throw serious doubt on whether the process is reversible.[20] Increasing international market integration is thus an undeniable fact for both the developed and developing economies. Consequently, scholars are now focusing more on understanding the domestic consequences of globalization in LDCs (Kaufman and Segura-Ubiergo 2001; Rodrik 1998; Rudra 2002). A second major assumption is that stability under conditions of economic inequality is of highest order for governments in this analysis.

Globalization, Threats to Elite Unity, and Incentives for Democratization

Compared to the more developed countries, the pace of globalization has been rapid, and the socioeconomic effects of financial and trade liberalization more severe in LDCs.[21] Consequently, the perceived costs of the effectiveness of repression become a basis for factionalism and elite disunity. To begin with, as public authorities cease economic control, they can no longer count on the private sector for the same level of support. Before globalization, the domestic industrialists, labor aristocracy, nontradable sectors, and owners of fixed assets were more dependent upon the government to secure privileges for these groups and provide rents. As openness occurs, governments can no longer be counted on for *the same level of* preferential treatment and access to specific markets. Private sector attentions necessarily shift, rather, to (attract or deflect) global capital and, to the extent possible, optimize international market opportunities. Globalization ultimately moves business groups towards preferring a more liberal political system that would better allow them to pursue their interests at will.

The case of India is a paradigmatic example of how established patterns of relationships and coziness between private sector and elites become fundamentally challenged. Once globalization initiated the dismantling of India's "License-Permit Raj" in the mid-1980s,[22] the longstanding triad involving politicians, bureaucrats, and representatives of domestic capital was rattled. India's big businesses could no longer rely on state power to secure markets for their frequently substandard and overpriced goods (e.g., Hindustan motors) by excluding foreign competition. Eventually, alongside organized labor, groups of domestic capitalists and India's state-owned public sector undertakings withdrew their support for the existing political elite. This was evidenced by the electoral setbacks of India's longstanding Congress Party in the late 80s and early 90s.[23]

[20] Malaysian Prime Minister Mahathir Mohamad implemented capital controls in 1998, for example, but gradually repealed them in the following months.

[21] See, for example, Rudra (2002) and Kaufman and Segura-Ubiergo (2001).

[22] This was a complex system of licensing and controls that affected every scheme to expand or initiate production, investment, and foreign trade. Raj is the Hindi word for "rule" or "sovereignty."

[23] Interestingly, India's political liberties ratings declined after opening up of their markets in 1991. In this instance, hard-liners gained an upper hand after divisions emerged within the elite.

With the loyalty of economic elites in question, rising social unrest further exacerbates factional conflicts between status quo hard-liners and reform-minded soft-liners at the onset of globalization. Nonelites, usually the masses of unprotected poor, are affected by increasing prices in basic wage goods, skill-biased technological change, unemployment, and macroeconomic instability (crisis) resulting from globalization.[24] Even skilled labor groups in LDCs face greater risks with increasing interdependence.[25] Many analysts of international political economy concede that the benefits of globalization are unevenly distributed and that the resulting tensions can be extremely problematic (see, for example, Rodrik 1997). The costs and efficacy of coercion consequently becomes more difficult to calibrate and deepens divisions within the elites.

Globalization, Social Spending, and Greater Democratization

Ultimately, leaders become more willing to sacrifice some control over assets to minimize their losses. They react in one of two ways to the rising challenges to their legitimacy and, accordingly, disagreements over the costs of repression. The incentives for political liberties expand if they can afford to take some preventative measures, such as increasing social spending, before allowing greater representation. Otherwise, reformist factions of the elite will concur that the costs of democratization will exceed the benefits and repression will occur.[26]

Put simply, the disadvantaged have an input in politically liberalizing societies, and it is therefore in the interests of elites to position themselves and create conditions that will discourage efforts to remove them from office when democratization occurs. Following the logic of Acemoglu and Robinson (2000, 2001), elites allow greater representation once they have sufficiently "bought off the poor" and made contesting political power less attractive. Welfare concessions (spending on education, health, and social security and welfare) are a desirable redistribution strategy because they can pacify the disadvantaged and, at the same time, avoid demands for more radical redistribution of assets (e.g., land redistribution, protectionism, and excessive taxation). Even when particular welfare programs do not always directly favor the absolute poor in LDCs, they are targeted towards the most politically active labor groups that are negatively affected by globalization.[27]

Significantly, however, increasing social spending without democratizing is insufficient to regain private sector loyalties and thereby arrest the growing political isolation of rulers in the globalizing environment. It is only when a specific set of actors can agree on the "rules governing the exercise of power" that elite pacts, or settlements, are accomplished (O'Donnell and Schmitter 1986, 37).[28] But since social welfare spending provides some precaution against disorder (Alesina and Perotti 1996) and can ostensibly contain revolutionary threats, different factions within the elite may be more likely to acquiesce to the provision of greater democratic rights under conditions of globalization.

On the other hand, despite private sector leanings toward a more liberal political environment, if existing levels of welfare spending are at either extreme (too low or too high), and social discontent is high, elites may react to globalization by increasing the level of repression. The size of the welfare state is a function of a host of political and economic variables, including the wealth of a nation, degree of inequality, labor history, and prior budgetary commitments. Increasing welfare spending to a level at which it will (re)create societal order and make the ruling coalition less fearful of democracy might place too much stress on elite assets. At the same time, in high-welfare spending LDCs (e.g., Argentina, Uruguay), the competitive pressures of globalization might prompt elites to preserve their assets by advocating efficiency and exercising fiscal discipline. Hard-liners will then negotiate by convincing their adversaries that avoiding the expansion of political and civil liberties is in their best interests. These nations consequently will *not* experience greater democratization with globalization.

The ideas put forward in this analysis are not entirely new. They have been inspired by globalization studies that

[24]For studies on the adverse effects of openness on labor in LDCs, see Arbache, Dickerson, and Green (2004) and Revenga (1998).

[25]Wood (1997) and Thompson (1995) show that there is no guarantee that wages for skilled labor in LDCs, particularly middle-income LDCs, will be higher with globalization. Wood argues that openness causes demand of both low-skilled and high-skilled goods in middle-income countries to shrink as they are replaced by imports from low-income and developed countries.

[26]In other words, both soft-liners and hard-liners will be equally disposed to use repression.

[27]While certain types of benefits (education) benefit disadvantaged groups more than others in the presence of globalization (Rudra 2004), social security benefits tend to favor the more privileged labor groups in LDCs.

[28]Of course, pacts may include arrangements for distributing benefits, but this is not its main focus (O'Donnell and Schmitter 1986). Disunity problems will thus be left unresolved if elites simply increase social spending and maintain the political status quo. Ultimately, in a globalizing environment, increasing social spending is cost effective if elites are planning to democratize.

have been based on the concept of "embedded liberalism" put forth by Ruggie (1982) and others (Garrett 1998; Katzenstein 1985; Rodrik 1997, etc.) and coupled with elitist and conflict-based theories of democracy (Acemoglu and Robinson 2001; O'Donnell 1973). This investigation extends existing analyses by combining important elements of both sets of theories to derive a testable hypothesis linking international markets and democratization.

The logic of the above argument can be further illustrated with a fairly recent example from Mexico. During the administration of President Miguel de la Madrid in the early 80s, neoliberal market reforms followed by economic crisis challenged elite control. Traditional sources of patronage were eliminated and ultimately, the political core of the Institutional Revolutionary Party (PRI) was weakened (Starr 1998). A narrow victory in the 1988 elections confirmed that the PRI was losing its grip on power in the face of widespread economic crisis and intraparty splits. Soon afterwards, President Carlos Salinas implemented the National Solidarity Program, PRONASOL, aimed toward targeted poverty alleviation, in 1989. Scholars argue that the PRI succeeded in gaining tremendous support through PRONASOL (Dresser 1991; Horcasitas and Weldon 1994), despite the limited impact the program had on extreme poverty and social inequality (see Cornelius, Craig, and Fox 1994). Most significant to this analysis, a number of electoral reforms were implemented following the adoption of PRONASOL.[29] Support generated through this welfare program in the early 1990s increased the confidence of hard-liners in the PRI that greater competition in subsequent elections would be possible without threatening their hold on power. It is thus arguable that PRONASOL played an important role in improvements in Mexico's democracy (Scherlen 1998) *and* the turnaround of the PRI in the 1991 and 1994 elections (Horcasitas and Weldon 1994) after neoliberal reforms were adopted.

To summarize, although globalization creates a "push" for democratization by challenging elite control, elites will not be willing to relax their political authority without a safeguard. If even limited redistribution policies accompany globalization, then the more radical impulses amongst globalization "losers" may be contained, and elites will be less apprehensive of democratization. Political equality can thus increase when the interests and security of the privileged remain unthreatened under globalization.

The Evidence

It is important to emphasize that understanding the international determinants of democratization is not a well-studied topic in the literature.[30] Most of the existing works have been preoccupied with the domestic causes of democratization, and they tend to focus on regime change instead of overall democratic advancements. Using unbalanced panel data and the fixed-effects method, the model here attempts to capture both domestic and international level variables that influence the political process which determines why political leaders may allow improvements in personal liberties.

The Variables

Improvements in Democracy. This study is concerned with improvements in the quality of democracy in the developing world. The use of continuous measures of political and civil liberties is, thus, absolutely integral to this analysis. This permits the dependent variable to capture gradual strengthening or weakening of democracy—a distinction that is fundamental in the developing world and not captured in important works on democracy such as in Przeworski et al. 2000. Dichotomous measures of democracy demand that the analyst assumes an arbitrary cut-off point where democracy "begins."[31] As Quinn (2001) points out, democracy is both an evolutionary and discontinuous process. In many cases where democracy has occurred, the extent of political and civil liberties continues to vary (e.g., Turkey, Bangladesh, Botswana, Brazil, China, Eduador, Egypt, Guatemala, India, Iran, Nicaragua, Nigeria, Paraguay, Syria, and Tunisia). Proper functioning of democratic institutions requires that political freedoms and civil rights are also respected.

Both Polity IV by Marshall and Jaggers (2002) and the Freedom House indicators of democracy are the dependent variables in this analysis. These two measures are commonly used in the literature to assess political freedoms. The former scores democracy on a scale of 0–10

[29]The move towards democratization in Mexico included greater opportunities for opposition movements to take office at state and local levels, relatively greater recognition of opposition victories, implementation of institutional and legal frameworks to fight electoral fraud (e.g., Federal Electoral Institute, Federal Electoral Code), and increased proportional representation in the Chamber of Deputies. Note that the constitutional democratic reform promoted in 1996 by President Zedillo occurred after the adoption of PRONASOL's successor, PROGRESA.

[30]One exception is the diffusion argument explained later in the text.

[31]For instance, Brown and Hunter (1999) use 4 and above as an indicator of democracy, while Kaufman and Segura-Ubiergo (2001) employ the criteria of 6 and above. To apply this to an example, Brown and Hunter's (1999) coding suggests that democracy occurred in 1986 in Guatemala, whereas according to Kaufman and Segura-Ubiergo (2001), democracy occurred in 1996.

(10 being the highest) by three main criteria: regulation, competitiveness, and openness of executive recruitment; executive constraints; and regulation and competitiveness of political competition. Freedom House includes additional political freedoms such as voting rights, the right to compete for public office, and for elected representatives to have a decisive vote on public policies. Civil liberties include the freedoms to develop views, institutions, and personal autonomy apart from the state. Political and civil liberties are added and ranked on a scale from 2 to 14, 2 being the lowest and 14 the highest.[32] Summary statistics for both dependent variables are presented in Appendix B.

Globalization: Trade and Capital Flows as Percent of GDP

Globalization is admittedly difficult to operationalize. The goal here is to test whether deepening market integration has an impact on LDC democratization. In order to incorporate the two primary international forces said to affect domestic politics, I measure the degree of globalization by both capital and trade flows. The conventional measure of openness, exports plus imports relative to GDP, is incorporated in this LDC model. Capital mobility in LDCs is measured by gross capital flows. Gross flows are arguably an exogenously determined measure of capital mobility, whereas capital controls are not, and annual data is available. Besides, globalization is a gradual process, despite the fact that reforms toward openness may be undertaken quite rapidly (Agosin and Ffrench-Davis 1995). I also test the effects of capital flows disaggregated into portfolio and FDI flows. However, FDI is ultimately dropped from the model because it is highly correlated with trade, and it is not significant (with or without trade).

Welfare Spending. For the purposes of this analysis, social spending as a percentage of total government spending best captures welfare effort in LDCs. This measure indicates the relative level of resources that governments are willing to commit to maintain a certain level of stability with globalization and subsequent democratization. It includes spending on social security and welfare, which captures traditional transfers and pensions, education, and health. Each of these components captures somewhat different welfare functions. Total social spending gives us some sense of the magnitude of governments' fiscal commitments to social needs. Since this analysis emphasizes the tangible effects of government commitments to social welfare, the focus is also on actual resources distributed to society. Thus, total social spending measured as a percentage of the Gross Domestic Product (GDP) provides important checks of robustness by testing the effects of alternative specifications of the benchmark regression.

I expect the *interaction* of the globalization and welfare spending variables to be positive and statistically significant. There is no reason to believe that social spending by itself promotes democratization. The incentive for elites to increase social spending and (subsequently) engage in political reform occurs in response to the challenges of globalization.

Control Variables. The other control variables are common to democracy studies: Potential labor power (PLP); economic development (GDP per capita logged and growth); urbanization; inflation; and regional and world democracy effects. PLP is included since Rueschemeyer, Stephens, and Stephens (1992) have emphasized that labor, specifically the rise of the urban working class, is the crucial determinant of democratization. Yet capturing labor's political power in developing countries is extremely complicated. Given the unreliability and weakness of direct organizational measures, I adopt Rudra's (forthcoming) index of potential labor power (PLP) that combines two direct measures of structural conditions in LDC labor market (see Appendix C for details). Incidentally, the Rueschemeyer, Stephens, and Stephens (1992) thesis has not yet been statistically tested across a large number of LDC cases. If the coefficient on the PLP variable is positive and significant, it implies that potential labor power is a fundamental determinant of democratization and confirms the findings of Rueschemeyer, Stephens, and Stephens (1992).

Economic development is the most widely proclaimed facilitator of democracy, a relationship first suggested by Lipset (1959). The economic development thesis has been refined, however, by Przewoski et al. (2000) who found that it is the *survival* of democracy that is likely to occur if the society is better off. Since the majority of the countries in the LDC dataset include countries below the income threshold advocated by Przeworski et al. (2000), I expect that alternate variables in the model may overwhelm the income effects. The expected direction of the relationship is thus not clear.

Urbanization has been used in a several studies of democracy, but it has served as a proxy for different things, such as an indirect indicator of the distribution of economic power resources (Vanhanen 1997), a measure of some aspect of socioeconomic development (Hadenius 1992; Lipset 1959) and of bringing people closer together and making it more difficult to suppress the population

[32] In the actual data set, 1 represents the highest degree of freedom, while 7 represents the lowest. I have reversed this scale in order to improve readability.

(Barro 1999). Taken together, there is some sense in the literature that higher urbanization makes it increasingly difficult for those in power to prevent democratization. As Acemoglu and Robinson (2000, 2001) put it, urbanization makes it more costly for the elite to maintain strong societal controls. It is thus expected that urbanization will have a positive relationship with democratization.

Inflation, often used as a proxy for economic crisis, can have a significant effect on democratization. Gasiorowski (1995) finds that it inhibited democratization in the 1950s and 1960s, but facilitated it in the 1980s. Li and Reuveny (2000) find that the total effect of inflation on the level of democracy in a sample of OECD and non-OECD countries is positive. Following Li and Reuveny (2000), inflation is measured as yearly growth rate of the GDP deflator and included in the model.

Finally, regional (and world) democratic effects take the international political environment into account. Is there a contagion effect from democratic neighbors given that the average level of democracy globally has been increasing since the late seventies? To account for this third wave of democracy (Huntington 1991), both a regional and world democracy variable is included. It is anticipated that the sign on these coefficients will be positive.

Significantly, political histories, such as the colonial legacy of a country, and religious structure are *not* included in this study. According to the literature, ex-British colonies are more likely to become democratic, as well as countries that are majority Protestants because of their emphasis on individualism.[33] The problem is that these variables are relatively constant in the time period analyzed and would create issues of linear dependency in the fixed-effects model used here. Regardless, whether or not a country was a former British colony or majority Protestant would not help explain why changes in political and civil liberties would occur during the time frame of this study.

The Pooled Time-Series Model

Equations 1–3 are designed to test the proposed hypothesis and differentiate between alternative hypotheses. Equation 1 is a direct test of the Washington hypothesis that globalization does have a direct and positive effect on democracy in LDCs. It also serves as a check on the results of existing empirical studies that do not use a fully specified model. Equation 2 models the political process of globalization's effect on democratization, contingent upon increases (or decreases) in the level of social spending, while Equation 3 focuses on the effects of *changes* in social spending. I use both country dummy variables and year dummies to control for country-specific and time-specific fixed effects.[34] Based on econometric technique advocated by Beck and Katz (1995), I correct for both panel heteroskedasticity and spatial contemporaneous autocorrelation. In addition, problems of potential serial autocorrelation within each panel are addressed by estimating and adjusting for a panel-specific AR(1) process. This model follows Achen's (2000) recommendation against applying the standard practice of simply using a lagged dependent to correct for serial autocorrelation. These results provide Prais-Winsten coefficients with Panel Corrected Standard Errors (PSCE).[35]

The sample is regionally diverse and includes 20 upper-middle and high-income (non-OECD) LDCs, 21 lower middle-income LDCs and 18 low-income LDCs. Eastern and Central European countries are excluded because, historically, trade has been endogenously determined by their system of countertrade and participation in Comecon[36] and, therefore, would require a different model. Please see Appendix D for a more detailed list of the variables and their sources. The models are specified as follows:

$$\begin{aligned}\text{democ}_{it} = {} & \text{a} + b_1\text{trade}_{it-1} + b_2\text{kflow}_{it-1} \\ & + \Sigma b_j\text{controls}_{it-1} + \Sigma(b_k\text{country}_{ki}) \\ & + (b_l\text{year}_{li}) \qquad (1)\end{aligned}$$

$$\begin{aligned}\text{democ}_{it} = {} & \text{a} + b_1\text{trade}_{it-1} + b_2\text{kflow}_{it-1} + b_3\text{soc}_{it-1} \\ & + b_4\text{trade}_{it-1} * \text{soc}_{it-1} + b_5\text{kflow}_{it-1} \\ & * \text{soc}_{it-1} + \Sigma b_j\text{controls}_{it-1} \\ & + \Sigma(b_k\text{country}_{ki}) + (b_l\text{year}_{li}) \qquad (2)\end{aligned}$$

$$\begin{aligned}\text{democ}_{it} = {} & \text{a} + b_1\text{trade}_{it-1} + b_2\text{kflow}_{it-1} + b_3\Delta\text{soc}_{it-1} \\ & + b_4\text{trade}_{it-1} * \Delta\text{soc}_{it-1} + b_5\text{kflow}_{it-1} \\ & * \Delta\text{soc}_{it-1} + \Sigma b_j\text{controls}_{it-1} \\ & + \Sigma(b_k\text{country}_{ki}) + (b_l\text{year}_{li}) \qquad (3)\end{aligned}$$

[33]See Przeworski et al. (2000) for a more detailed description of these two control variables.

[34]Note that decade dummies were applied when the unbalanced panel could not estimate year dummies. In all cases that were testable, the results were unaffected by either method.

[35]Estimating a measure of first order correlation (ρ) has the effect of making the time-series data stationary. This measure is used to transform all variables in the model according to the formula: $y * t = yt - (\rho * yt - 1)$. This partial differencing procedure reduces suspicions about spurious results, particularly the concern that the effects of potentially high degree of institutional inertia exhibited by the dependent variable is not captured. Additionally, it is noteworthy that the primary findings were minimally affected when run using a lagged dependent variable. The main difference was that the results for political and civil liberties were less robust than results for the democracy variable.

[36]Comecon, the institution that governed regional trade and payments arrangements in most of Eastern Europe since 1949, is formally known as the Council for Mutual Economic Assistance (CMEA).

Table 1 Possible Outcomes—Models 2 and 3

Elite Options Under Conditions of Globalization	Range of Outcomes: Signs and Coefficients
*(1) increase social spending and democratize**	b_4 *and* $b_5 > 0$
*(2) decrease social spending and repress**	b_4 *and* $b_5 > 0$
(3) increase social spending and repress	b_4 and $b_5 < 0$
(4) decrease social spending and democratize	b_4 and $b_5 < 0$
*(5) no change in social spending and repress**	b_1 *and* $b_2 < 0$ *and* b_4 *and* $b_5 = 0$ *(Model 3)*
(6) no change in social spending and democratize	b_1 *and* $b_2 > 0$ *and* b_4 *and* $b_5 = 0$ (Model 3)
(7) increase social spending and political status quo	b_4 *and* $b_5 > 0$ and low sensitivity of democracy to increases in social spending
(8) decrease social spending and political status quo	b_4 *and* $b_5 < 0$ and low sensitivity of democracy to decreases in social spending
(9) political status quo	b_1, b_2, b_4, b_5 = insignificant

*Expected findings.

Each of the independent variables is lagged in order to take into account the possibility of simultaneity bias.[37] The *b*s are parameter estimates in this equation, while the subscripts i and t represent the country and year of the observations respectively; μ is an error term; b_1 and b_2 are the coefficients for the globalization variables; b_j is the vector of control variables; b_k and b_l capture the country and year effects, respectively.

Significantly, b_4 and b_5, representing the interactive effects of trade and capital flows and total social spending, are the key variables of interest in this analysis. They represent the diversity of choices available to leaders when faced with pressures of globalization (see Table 1). If the theory in this article is true, then the statistical test will confirm options 1, 2, and 5.

Estimating the model by pooling cross section and time-series data has two benefits. First, the use of the fixed-effects model makes it possible to control for unobservable country-specific differences, eliminating much of the omitted variable bias of cross-section data. Second, important changes that have occurred over time in the same country can be assessed. Panel-data analysis ultimately combines the benefits of an increased number of observations with the ability to mitigate country-specific fixed effects.

In order to disentangle the causal relationship between the globalization variables and a government's commitment to welfare, the statistical analysis relies on the application of two-stage least-squares (2SLS) estimation. Recall that according to the principles of embedded liberalism, globalization is said to encourage greater government spending to ensure social stability. Social spending is also endogenous to democracies (see Brown and Hunter 1999). The conventional method for coping with this endogeneity issue and mitigating bias of the regression estimates is to use the instrumental variable approach. The difficulty, however, is to find outside data (or instruments) that are uncorrelated with the error of the equation and at the same time highly correlated with the explanatory variables. Therefore, instead of using conventional variables as instruments, the Lewbel (1997) procedure of using higher moments of the per capita spending variable as the instrument is applied in this model.[38]

The Results

The empirical results support the theory. To summarize, international economic forces are an important influence (amongst others) on the extent of democracy in LDCs. Democratization was sensitive to variations in trade and capital flows when interacted with the level of social welfare expenditures. Of the range of choices available to elites during globalization (Table 1), the results confirm that rulers will democratize only when the amount of

[37] This is plausible since economic and social developments take time to affect important political decisions and outcomes. Lagging also ensures that the direction of causality runs from the independent variables to the dependent variable and mitigates, to some degree, the problems of simultaneity bias. Note that results from two-year lags did not affect the results.

[38] As a solution to the insufficient instruments problem, Lewbel proposes using second and third moments of variables as instruments. For example, following Lewbel, the variable $q_i = (X_i - \text{mean}(X))^2$ is a legitimate instrument where q_i is a vector of instruments that are correlated with the endogenous variable and uncorrelated with error terms. Note that testing alternative instruments suggested by Lewbel produced similar results. The following variables also serve to construct the instrument: trade, capital flows, democracy, labor power, GDP per cap, growth, and dependents.

social spending is taken into account. Alternatively, the ruling coalition will favor repression, either after being forced to cut social spending or making no change at all to their social budgets. As this analysis predicts, the empirical evidence does not support the remaining options that were less cost effective and thus less rational under conditions of globalization. The findings suggest that social spending does help pacify the "losers" and encourage democratization during openness. It is noteworthy that the results for the aggregate measures of globalization were robust to alternative measures of capital flows, welfare spending, and democratization, and so international economic influences on democratization should be taken quite seriously.

Equation 1 was designed to test the Washington hypothesis which postulates that international economic variables will have a direct positive effect on democratic rights. Table 2 reports these results. Interestingly, trade and capital flows do *not* have the anticipated effect on democratization. The insignificant coefficient for both measures of capital flows challenges proponents of the Washington hypothesis that globalization will directly bring about democracy. But Equation 1 does not take into account what happens when the destabilizing aspects of globalization and the effects of greater government social spending are considered. The relevant point is that export and financial market integration demonstrate a null effect on democratization when the model is *not* fully specified. Results for country and year dummies are not shown in order to enhance clarity of presentation.

TABLE 2 The Effects of Globalization on Democracy

Variables	Democracy		Political and Civil Liberties	
Trade	**0.005**	**(0.005)**	**0.002**	**(0.005)**
K Flows	**0.003**	**(0.006)**		
Portfolio Flows			**0.106**	**(0.037)**
Urban	0.073**	(0.034)	0.056**	(0.026)
PLP	0.003	(0.030)	0.158	(0.298)
Gdpcap	0.896*	(0.535)	−0.298	(0.111)
Growth	$0.013^{\dagger}$	(0.008)	0.008	(0.514)
Inflation	1.00**	(0.386)	0.718**	(0.007)
Regional Democracy	3.40**	(1.35)	1.9191**	(0.944)
World Democracy	0.314	(2.51)	$-3.49^{\dagger}$	(2.32)
N	901		958	
R^2	0.588		0.835	

***$p < 0.01$; **$p < 0.05$; *$p < 0.10$; $^{\dagger}p < .15$ (two-tailed).
Fixed effects regression estimates. Figures in parentheses are standard errors.

TABLE 3 The Effects of Globalization on Democracy

Variables	Democracy	
Trade	−0.004	(0.018)
K Flows	−0.062**	(0.025)
Trade * Social Spending (% of Gov)	**0.078***	**(0.046)**
K Flows * Social Spending (% of Gov)	**0.112****	**(0.049)**
Social Spending (% of Gov)	51.86***	(13.50)
Urban	0.048	(0.036)
PLP	−0.137***	(0.042)
Gdpcap	−1.04*	(0.607)
Growth	0.019**	(0.009)
Inflation	0.782**	(0.379)
Regional Democracy	3.99***	(1.46)
World Democracy	−2.28	(2.74)
N	716	
R^2	0.725	

***$p < 0.01$; **$p < 0.05$; *$p < 0.10$; $^{\dagger}p < .15$ (two-tailed).
Fixed effects regression estimates. Figures in parentheses are standard errors.
Note that there are fewer observations than Table 2 because LDC social spending variables are missing for some years.

The following two tables report the results from Equations 2 and 3, respectively, which assess whether greater social spending during globalization makes a difference for democratization. Table 4 reports how *changes* in social spending instead of the *level* of social spending (see Table 3) affect the results. Table 5 reveals that the

TABLE 4 The Effects of Globalization and *Changes* in Social Spending on Democracy

Variables	Democracy	
Trade	−0.0008	(0.007)
K Flows	−0.092***	(0.017)
Trade * Δ Social Spending (% Gov)	**1.08****	(0.487)
K Flows * Δ Social Spending (% Gov)	**0.279*****	(0.082)
Δ Social Spending (% of Gov)	$51.45^{\dagger}$	(31.43)
Urban	0.133***	(0.042)
PLP*	0.357**	(0.201)
Gdpcap	−1.75**	(0.753)
Growth	0.044***	(0.013)
Inflation	1.54***	(0.561)
Regional Democracy	4.68***	(1.44)
World Democracy	−8.54**	(3.37)
N	553	
R^2	0.821	

***$p < 0.01$; **$p < 0.05$; *$p < 0.10$; $^{\dagger}p < .15$ (two-tailed).
Fixed effects regression estimates. Figures in parentheses are standard errors.

TABLE 5 The Effects of Trade, Portfolio Flows, and Social Spending on Democracy and Political and Civil Liberties

Variables	Democracy		Political and Civil Liberties	
Trade	−0.035†	(0.022)	−0.020	(0.217)
Portfolio Flows	−0.769**	(0.303)	−0.698***	(0.237)
Trade * Social Spending (% Gov)	**0.168****	**(0.709)**	**0.117***	**(0.071)**
Port. Flows * Social Spending (% Gov)	**2.74*****	**(0.929)**	**2.06*****	**(0.069)**
Social Spending (% of Gov)	52.34***	(13.63)	34.10***	(11.43)
Urban	0.082**	(0.042)	0.089*	(0.051)
PLP*	0.146	(0.190)	0.059	(0.218)
Gdpcap	−1.83**	(0.845)	−0.405	(0.709)
Growth	0.032***	(0.012)	0.011	(0.009)
Inflation	0.635	(0.594)	0.619†	(2.42)
Regional Democracy	4.30***	(1.45)	2.67**	(1.20)
World Democracy	−7.98**	(3.56)	−11.11***	(2.83)
N	575		583	
R^2	0.776		0.881	

***p < 0.01; **p < 0.05; *p < 0.10; †p < .15 (two-tailed).

findings do not differ when political and civil liberties is the main dependent variable. It also substitutes portfolio flows for capital flows to test the Maxfield (1998, 2000) and Armijo (1999) hypotheses that the *type* of capital flows matter more for democracy.

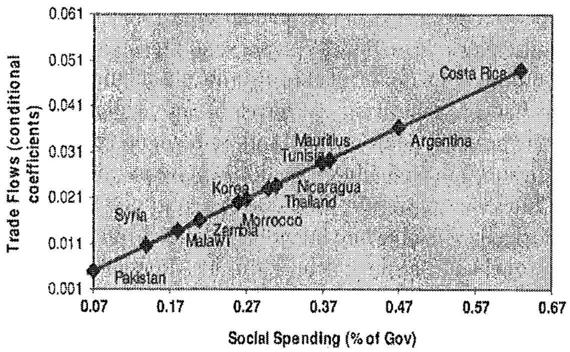
Compared with the estimates from Equation 1, Tables 3–5 reveal that results in Table 2 may be biased. The most striking finding is that interactive coefficients for *both* trade and capital flows become significant when the effects of welfare spending are taken into account. These results cast doubt on previous analyses of democratization that have focused on domestic variables and downplayed the importance of international economic variables. Tables 3–5 suggest that democratization in LDCs is indeed a function of increasing exposure to global market activity *and* spending on welfare. Interestingly, the conditional effects of capital flows (in Table 4) are significant and negative *when there is no change in social spending,* clearly disconfirming the simple globalization hypothesis (calculations not shown here). This supports the prediction that when ruling coalitions prefer maintaining the status quo in social spending under conditions of globalization, repression will occur. Overall, the results confirm the theory in this analysis and suggest that elites respond positively to the stability-enhancing effects of welfare spending by making them less fearful of democratization. The pattern of coefficients for the globalization-welfare interactive variables is consistent across the different specifications.

Table 5 assesses the effects of portfolio flows in order to distinguish between the contending hypotheses of Armijo (1999) and Maxfield (2000). Recall that Armijo (1999) claimed that portfolio investments that are volatile potentially lead to less democratization, while Maxfield (1998, 2000) argued that portfolio flows to the private sector are more likely to encourage democracy because they circumvent repressive governments and empower borrowers. Findings in Table 5 lend some support to Armijo's hypothesis since the uninteracted portfolio flows variable is negative and significant, suggesting that governments will engage in repression as portfolio flows increase and social spending is zero.[39] Interestingly, the results for portfolio flows and portfolio flows-spending interaction are no different than the results for gross capital flows.

Importantly, I employ five additional tests to examine the robustness of the empirical relationship between globalization, social spending, and democratization. The first two tests confirm the coefficients on the globalization-spending interaction variables remain stable under the following changes: (1) social spending as a percentage of total GDP is substituted for social spending as percentage of total government spending; and (2) *changes* in democracy is regressed on *changes* in all the independent

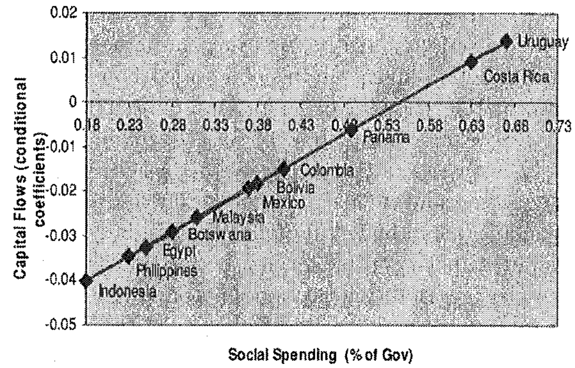
[39]Maxfield (2000) argues that portfolio flows enhance democracy if they finance private sector actors. To more directly test this hypothesis, I substituted the portfolio flows variable with portfolio equity flows. The results were almost identical to the findings in Table 5.

FIGURE 3 Conditional Effects of Increases in Trade on Democracy Given Differeent Levels of Social Spending, 1972–1997*



*Some LDCs were excluded to avoid clustering and enhance clarity of presentation.

FIGURE 4 Conditional Effects of Increases in Capital Flows on Democracy Given Differeent Levels of Social Spending, 1972–1997*



*Some LDCs were excluded to avoid clustering and enhance clarity of presentation.

variables (see Appendix E). Third, varying the lag structure did not affect the results. Fourth, Models 2 and 3 also estimate the effects of potential labor power (PLP*) using an instrumental variable since studies have shown that labor (e.g., employment) in LDCs can be directly affected by globalization (Rudra 2002). Finally, the results were identical when I substituted democracy with the combined polity score.[40] The primary findings thus consistently remain stable and confirm the robustness of the results.

Figures 3 and 4 provide a visual display of the interaction effects in Table 3. These figures show the conditional effects of the interaction terms given certain values of social spending.[41] Both figures indicate that globalization has the greatest effect on democratization when social spending is increasing. Significantly, the conditional effects of increases in social spending given different levels of trade and capital flows show a similar trend (not shown here).[42] These findings challenge the "political status quo" options in Table 1 and suggest that improving social spending under conditions of openness occurs for a broader political purpose.

According to the figures, increases in the level of globalization have a smaller but still significant impact on democracy in LDCs that maintain low levels of social spending.[43] For example, in Figure 3, Pakistan falls in the lowest (5^{th}) percentile for social spending in the sample. An increase in trade flows in Pakistan from its current (average) level of 34% to the level in Tunisia (78%) would lead to an improvement in democracy by only 0.22 points. If, however, Pakistan restructured its social budget to the "mean" country in the sample with social spending at 30%, the same increase in trade flows improves democracy by almost 1 point. If Pakistan raised its level of social spending to that of a country such as Costa Rica, increasing trade again by the same percentage points would improve democracy by 2.2 points. This suggests that improving government welfare expenditures during globalization in low social-spending countries such as Morocco, Zambia, and Malawi could have important effects on their democratic records.

Interestingly, Figure 4 indicates that rising capital flows must be accompanied by relatively higher levels

[40]Using a Polity scale ranging from 10 to -10 is another conventional approach to assessing democracy. By taking the difference between the democracy and autocracy indexes, the index ranges from -10 (least democratic) to 10 (most democratic). Results not shown here.

[41]The graphical illustrations of the conditional coefficients of the interaction terms have been inspired by Hallerberg and Marier (2004). Figures 3 and 4 plot the conditional coefficients of the interaction terms given certain levels of social spending. If $democ_{it} = a + b_1 trade + b_2 kflow + b_3 soc + b_4 trade * soc + b_5 kflow * soc$, then $\partial democ/\partial trade = b_1 + b_4 soc$ and $\partial democ/\partial kflow = b_1 + b_5 soc$.

[42]In Model 2, $\partial democ/\partial soc = 52 + 0.078\ trade + 0.11\ kflow$ indicates that the effects of social spending on democracy increases with increases in trade and in capital flows. Democracy is indeed sensitive to increases/decreases in the level of social spending in the presence of globalization.

[43]Note that the marginal effects and standard errors were calculated for each of the interactive variables in Tables 3–5 and Appendix E. On average, the effects of trade on democracy become positive and significant (at the 90% confidence level or above) when spending exceeds 10% of total government spending. Capital flows/portfolio flows, on average, begin to impact democracy positively and significantly when social spending rises above 40% of total government spending.

of social spending to encourage similar improvements in democracy. First, if we consider a country that generally spends little on welfare, an increase in capital flows from 1 to 5% of GDP in Indonesia, for example, will *not* lead to greater democratic rights (democracy falls by .2 points).[44] The impact on democracy appears even greater when these effects are calculated using one of the alternative regression results.[45] In this political-economic environment, repression is a better guarantor of stability and order since the requisite level of social spending would not be amenable to elites. However, if an LDC such as Uruguay continues to maintain its typically generous and expanding welfare budget as capital flows rise by the same amount, democracy could increase by .06 points.[46] These examples suggest that greater amounts of welfare spending are required to maintain stability and order in countries liberalizing their capital accounts. This is not surprising given that capital flows, particularly short-term flows, are associated with greater risks and volatility and would thus require greater levels of spending to ensure stability. These findings offer an explanation for why democracy and liberties ratings in relatively open and low-welfare-spending economies, such as Nicaragua, Malaysia, and Bangladesh tend to fluctuate.

In light of these findings, it is worthwhile to reemphasize that increasing social spending as openness occurs is a contentious elite decision. The positive conditional coefficients in Tables 3–5 likewise suggest that if elites opt to lower social spending during globalization, democracy will suffer. These results help explain why even some high-welfare spending (and simultaneously more democratic) LDCs (e.g., Uruguay, Argentina) experienced setbacks in democratic rights since globalization. Civil and political liberties in Uruguay, for example, suffered after trade and financial liberalization commenced in the mid-70s. At the same time, as this theory predicts, its social spending also declined. Argentina witnessed similar trends in democracy and spending after globalization took off in the mid to late eighties. These examples suggest that it may be rational for elites in countries that maintain relatively large welfare states at the onset of globalization to choose repression over greater democratization. Now faced with stronger threats of capital flight given what may be viewed as poor macroeconomic fundamentals, it is feasible that elites will decrease spending and subsequently suppress political rights in order to protect their assets while preserving social stability (although with less legitimacy).

To establish even greater confidence that the hypothetical relationships and the conclusions drawn from the empirical results in Tables 2–5 are valid, I estimate a parsimonious 2SLS model of elite disunity. Recall the conjecture that elite cohesiveness unravels because globalization affects private sector loyalties and, in turn, breeds opposition social movements.[47] Factions evolve as one side of the elites view repressive measures as a solution to the loss of societal control, while the other opts for some form of electoral legitimation. To check this, I estimate the effects of social instability on elite disunity under conditions of globalization. The following five proxies are used to get some sense of elite disunity: (1) government crisis (GC);[48] (2) government fragmentation (GF);[49] (3) Herfindahl opposition index (HI);[50] (4) number of years chief executive has been in office (Y); and (5) percent of votes received by the president (P).[51] Elite divisiveness is associated with higher government crises, greater fragmentation, higher Herfindahl opposition index, fewer years in office, and lower percentage of votes.

These five variables capture to some extent the concept of elite disunity as suggested by Przeworski (1986). According to Przeworski, conflict within the elite is evident when some members of the ruling bloc reach outside for support. It can thereby be expected that *in illiberal democracies*, the formation of new coalitions (GF, HI), seizure of power by adversaries (both real (GF, HI) and expected (GC)), and ultimately the uncertain tenure of the existing regime (Y) are by-products of elite disunity. Lower percent of votes received by the executive is a comparatively less reliable measure, but it is useful in that it approximates the loss of legitimacy associated with growing elite disunity.

[44]"High" and "low" categories are determined by values above and below the mean, respectively.

[45]In the model that includes portfolio flows (see Table 5), for example, Indonesia's democracy ratings would have fallen by 1.3 points.

[46]Again, if the coefficients from Table 5 are used to calculate the impact of these same changes, Uruguay's democracy ratings would improve by four points.

[47]Note that opposition social movements often include business groups.

[48]Government crisis represents "any rapidly developing situation that threatens to bring the downfall of the present regime." The Central Intelligence Agency, IMF and World Bank, and various investment firms such as ING commonly use this measure to assess risk. Appendix D has more details.

[49]This value represents the number of seats held by other opposition parties.

[50]The sum of the squared seats shares of all opposition parties in the government.

[51]A high number represents a stronger hold on power. It is not applicable in LDCs that have parliamentary systems, assembly-elected presidents, or unelected executives.

TABLE 6 The Effects of Globalization and Social Unrest on Elite Disunity

	Elite Disunity									
	Government Crisis		Gov Fragmentation		Herf. Opp. Index		Years in Office		Percent of Votes	
Trade	0.001	(0.001)	0.005	(0.026)	−0.0008	(0.0007)	0.024*	(0.015)	0.04	(0.048)
K flows	−0.005***	(0.001)	−0.006	(0.009)	−0.0005	(0.0009)	0.004	(0.010)	0.162*	(0.091)
*Trade * social instability*	0.003**	(0.002)	−0.037	(0.032)	0.001**	(0.0004)	−0.015**	(0.008)	−0.032	(0.039)
*K flows * social instability*	0.002**	(0.0009)	0.0019*	(0.007)	−0.0006	(0.0005)	0.002	(0.006)	−0.086*	(0.051)
N	940		978		623		979		304	
R^2	.18		.17		.68		.29		.97	

***$p < 0.01$; **$p < 0.05$; *$p < 0.10$.
Fixed effects regression estimates. Figures in parentheses are standard errors. Country and year dummies are included but not displayed. Regressions include GDPgrowth.

Overall, all five calculations of elite disunity are admittedly imprecise, but unfortunately, more sophisticated measures are not available. An accurate measure would require in-depth analyses of specific case studies. Nevertheless, these measures provide us some sense of variations between and within nations in terms of episodes of growing political isolation. Government crisis in India for example ranges between 0 and 2 during the years of intense political factionalism in the mid to late 70s. During this phase, the long-ruling Congress Party was routed for the first time since independence and replaced by a motley opposition group. Costa Rica on the other hand scores zero even through the turbulent years of the Carazo administration (1978–82), suggesting a broad elite consensus to adhere to the democratic rules of the game.

The 2SLS method is required since social instability is endogenous to globalization and elite disunity. As Haggard and Kaufman (1998, 108) argue, divisions within the elite reduce the risk of antiregime protest and thereby create opportunities for mass oppositions. The first stage thus involves creating instruments for social unrest.[52] This variable captures any peaceful gathering of at least 100 people *for the primary purpose of displaying or voicing their opposition to government policies or authority* (see Banks 1996).[53] Significantly, trade and capital flows show a strong and positive correlation with social unrest in the first stage (not shown here). If the predictions about elite disunity are true, the coefficient on the interaction terms for the government crisis, fragmentation, and Herfindahl models will be positive, and negative for percent of votes and years in office. The data are taken from the dataset associated with Przeworski et al. 2000 and Kurtz (2004) and Beck et al.'s (2001) Database of Political Indicators.[54] See Appendix D for more details.

The results in Table 6 suggest that the occurrence of elite disunity is indeed incident to globalization and rising instability. Coefficients on the interaction terms confirm that under conditions of globalization, elite disunity increases in response to greater social instability. Interestingly, if there is no social instability (equals zero) under such conditions, elite disunity will be less, i.e., less government crises as well as more years in office and greater percentage of votes. The significant coefficients on the interaction terms thus provide some empirical evidence that the social unrest that follows from increasing market integration raises questions amongst elites about how to best protect their assets. Based on these findings, it is more convincing why globalization might spark debates about democratization and whether elites could (or should) apply the necessary precautions (i.e., increasing social spending) before doing so.

Of course, the international economic variables are one amongst several variables that affect democratization. The controls used in the base model test the strength of alternative explanations. Findings with respect to the impact of the labor power and urbanization variables reveal the importance of domestic political variables independent of the international effects. Results on labor were

[52]Trade, capital flows, growth, and higher moments of the endogenous variable (Lewbel 1997) are used to construct the instrument.

[53]Substituting riots or demonstrations involving more than 100 individuals and resulting in the use of force produced almost identical results. The trade flows variable tended to be more robust than the capital flows variable.

[54]See Kurtz's cautionary notes on the reliability of this data.

relatively strong and had a positive effect on democratization in the robustness checks.[55] Significantly, this study lends some statistical support to the Rueschemeyer, Stephens, and Stephens (1992) hypothesis that a stronger working class encourages democratization.

The negative coefficient for the world democracy variable in the political and civil liberties model was surprising, particularly since the regional democracy variables tended to be positive and highly significant. But as Zakaria (1997) and Arat (1991) indicate, democracies do not necessarily bring about improvements in basic rights and liberties. Particularly, countries that experienced economic liberalization at the same time that they were swept up by the "third wave," repression became a means to maintain control and provide stability within countries labeled as "democracies." These results further support the argument in this article that it is imperative to move beyond minimalist definitions of democracy to consider a broader range of individual freedoms and rights.

Although both growth and inflation tends to have a positive impact on democracy, the results were not robust across the models. The mostly insignificant results for GDP did not confirm the well-known Lipset (1959) hypothesis regarding the importance of economic development. Instead, the findings on GDP corroborate with Pevehouse (2002), suggesting that it is very important to control for the effects of international variables.[56] This analysis shows that *both* international and domestic variables must be taken into account as factors affecting democratization in LDCs. It is also possible that differences arise from the fact that this model is specific to developing countries. According to Bellin (2000), understanding democracy in LDCs today is different than analyzing the development of democracy in the Western world.

To summarize, the LDC data adds a new twist to the Washington hypothesis. Welfare spending is an important agent in paving the way towards greater democracy. If welfare spending serves to ensure that elite interests will not be threatened by the newly enfranchised during globalization, democratization is likely to occur. It is thus the combined effects of globalization and social welfare spending in LDCs that encourages the expansion of democratic rights. The positive and significant coefficients of labor, urbanization, and growth support the existing literature that domestic variables are also important determinants of LDC welfare spending.

[55]The correlation between PLP and trade, as mentioned earlier in the text, may explain why the sign is negative for PLP in Table 3, but positive elsewhere.

[56]Interestingly, Lipset's hypothesis does hold when all international variables are dropped from the model.

Conclusion

The purpose of this analysis was to unveil the causal mechanisms that underlie the link between globalization and democratization. Indeed, this investigation of 59 developing countries supports claims that trade and capital flows will be associated with improved democratic rights *if* social groups receive sufficient compensation for their (potential and actual) losses. Democracy will be strengthened when welfare spending serves as concessions from the elite to circumvent challenges to their positions as market integration increases. On the other hand, political and individual freedoms will be suppressed if hardliners are convinced that increasing social spending puts too much pressure on elite assets. Significantly, the results in this analysis reinforce Gasiorowski and Power's (1998, 741) central position that a comprehensive understanding of democratization must take into account *both* political processes (elite decision making) and structural factors (globalization).

In essence, this study has proposed the conditions under which authorities will be in favor of expanding or contracting liberties in either weak democratic or despotic systems during the current era of globalization. It puts into perspective recent episodes of globalization, protests, demands for compensation, and human rights violations. In China, for example, the *New York Times* (1/07/03) recently reported signs of growing tension amongst Chinese leaders. Questions of whether to increase or decrease political control has divided supporters of President Hu Jintao and his predecessor Jiang Zemin. This occurs against a backdrop of worker unrest that has increased since China's entry into the World Trade Organization. In March 2003, tens of thousands of laid-off and retired workers protested nonpayment of back wages and pensions, unilateral rollbacks of severance agreements, and absence of a social security safety. Not surprisingly, as this theory predicts, China's leaders have been responding to the instability with increased repression. Yet soon after the March protests, the Ministry of Finance proposed increases in Social Security, and President Hu Jintao gave a speech promising more democracy to the Chinese people.[57] Are China's leaders at a crossroads? Are the hard-liners slowly giving in and elites are preparing (e.g., increasing social spending) for the use of some degree or some form of electoral legitimation?

[57]In March, China also enshrined guarantees of human rights and private property in its constitution. Although enforcement of these reforms remains in question, Chinese specialists have argued that the guarantees signal the direction that China's leaders intend to steer the country in the years ahead and provide a legal framework for sweeping changes.

The findings from this analysis corroborate Acemoglu and Robinson's (2000) conclusion that elites will favor political liberalization when inequality becomes manageable and democratization subsequently becomes less costly for the elite. These findings also confirm the claims of Bellin (2000) that private sector capital will be less fearful of democratization when there is "protect[ion of] property rights and securing [of] the long-term profitability of its investments through the guarantee of order." In other words, Bellin (2000) concludes, that democratization is more likely to occur when mass inclusion and empowerment does not threaten to flood politics with the "logic of distribution" rather than the "logic of accumulation."

Nonetheless, more research is needed to further understand the nexus between globalization, social spending, and greater democracy. What are the circumstances in which class-led democratization will occur and democratization will be consolidated? As Acemoglu and Robinson (2000, 2001) point out, democratization can also arise as a result of class conflict that occurs when greater inequality makes revolutions more attractive. Thus, it may be critical to observe situations where globalization leads to increased inequality, which in turn radicalizes the lower classes and creates a greater push for democratization from below, instead of from above. One recent example is (former) Bolivian President Gonzalo Sanchez de Lozada's failure to quell the swelling antiglobalization protests. Neither his promise for generous compensation packages nor heightened military force was ultimately effective. Instead, the protestors' demands for a "constitutional" solution prevailed and Mr. Sanchez de Lozada ceded power to the vice president. Such scenarios suggest a need to further investigate the relationship between globalization and democracy, and determine how the elite-centered and class-centered hypotheses coincide.

As globalization in developing countries is gathering momentum, and scholars are battling over whether domestic politics is still relevant, it is of fundamental importance to assess if and how democratization is being transformed in this environment. My results have challenged popular shibboleths that the advancement of the economic freedoms associated with globalization automatically guarantees greater political freedoms and have also shown that it is erroneous to assume that the expansion of democratic rights in LDCs necessarily preceded globalization. Consolidated democracies in LDCs are few and far between, and the extent of political liberties has been constantly changing during the current era of globalization. This study serves as an important reminder that understanding the factors affecting democratization in developing countries today is different from analyzing the evolution of liberal democracy in the advanced industrialized countries. The large numbers of poor in LDCs means mass empowerment can yield tremendous political power to an underprivileged group, and so taking their interests into account by addressing problems of instability and economic dislocations has important implications for the undertaking of democratization in a global era.

Appendix A: Country Details on Changes in Trade, Capital Flows, and the Strengthening/Weakening of Democracy

Country	Trade Doubled*	Democracy	Liberties	Private K Flows Doubled*	Democracy	Liberties
Bangladesh	1993	No change	Fluctuate (−1 in 1995; +1 in 1996)	1983	Fluctuate (+6 in 1991; −1 in 1995; +1 in 1996)	Fluctuate (+1 in 1984; +1 in 1985; +1 in 1989; −2 in 1990; +5 in 1991; −1 in 1993; −1 in 1995; +1 in 1996)
Chile	1975	Increased (+2 in 1988; +6 in 1989)	Increased (+1 in 1978; +2 in 1988; +2 in 1989, +3 in 1990)	1978	Increased (+2 in 1988; +6 in 1989)	Increased (+2 in 1988; +2 in 1989, +3 in 1990)
China	1979	No change	Decreased (−1 in 1980; −2 in 1989)	—	—	—
Egypt	1979	Increased (+1 in 1990)	Fluctuated (−1 in 1981; +1 in 1982; +2 in 1984; −1 in 1986; −1 in 1991; −1 in 1992; −1 in 1993)	1974	Increased (+1 in 1990)	Fluctuated (+1 in 1976; −1 in 1978; −1 in 1981; +1 in 1982; +2 in 1984; −1 in 1986; −1 in 1991; −1 in 1992; −1 in 1993)

(continued on next page)

Appendix A *(continued)*

Country	Trade Doubled*	Democracy	Liberties	Private K Flows Doubled*	Democracy	Liberties
India	1990	Increased (+1 in 1995)	Fluctuated (−2 in 1991; −1 in 1993; +2 in 1996)	1985	Increased (+1 in 1995)	Fluctuated (−2 in 1991; −1 in 1993; +2 in 1996)
Malaysia	1990	Decreased (−1 in 1995)	No change	1981	Decreased (−1 in 1995)	Decreased (−1 in 1984; −1 in 1988)
Mali	1985	Fluctuated (+7 in 1992; −1 in 1997)	Fluctuated (+1 in 1988; +1 in 1990; +1 in 1991; +5 in 1992; −1 in 1994; +1 in 1995; +1 in 1996; −2 in 1997)	1995	Decreased (−1 in 1997)	Fluctuated (+1 in 1996; −2 in 1997)
Mexico	1986	Increased (+1 in 1988; +2 in 1994; +2 in 1997)	Fluctuated (+1 in 1988; −1 in 1990; +1 in 1992; −1 in 1993; +1 in 1996)	1977	Increased (+1 in 1988; +2 in 1994; +2 in 1997)	Fluctuated (+2 in 1979; −1 in 1980; −1 in 1985; +1 in 1988; −1 in 1990; +1 in 1992; −1 in 1993; +1 in 1996)
Nepal	1981	Increased (+3 in 1990)	Fluctuated (−2 in 1989; +1 in 1990; +3 in 1991; −2 in 1993)	1987	Increased (+1 in 1990)	Fluctuated (−2 in 1989; +1 in 1990; +3 in 1991; −2 in 1993)
Nigeria	1989	No change	Fluctuated (+1 in 1990; +1 in 1991; −3 in 1993; −1 in 1994; −1 in 1995; +1 in 1996)	1978	Decreased (−8 in 1984)	Fluctuated (+3 in 1979; −7 in 1984; +1 in 1987; +1 in 1988; −1 in 1989; +1 in 1990; +1 in 1991; −3 in 1993; −1 in 1994; −1 in 1995; +1 in 1996)
Paraguay	1986	Increased (+3 in 1989; +4 1992)	Fluctuated (−1 in 1988; +5 in 1989; +1 in 1991; −1 in 1994)	1974	Increased (+3 in 1989; +4 in 1992)	Fluctuated (−1 in 1976; +1 in 1978; −1 in 1986; −1 in 1988; +5 in 1989; +1 in 1991; −1 in 1994)
Philippines	1996	No change	No change	1974	Increased (+8 in 1987)	Fluctuated (+1 in 1982; −1 in 1983; +2 in 1984; +1 in 1985; +1 in 1986; +2 in 1987; −1 in 1988; −1 in 1990; −1 in 1993; +1 in 1995; +1 in 1996)
Thailand	1991	Increased (+8 in 1992)	Fluctuated (+3 in 1992; −1 in 1993; +1 in 1995; +1 in 1996)	1979	Fluctuated (+1 in 1988; −3 in 1991; +8 in 1992)	Fluctuated (+1 in 1986; +1 in 1989; −5 in 1991; +3 in 1992; −1 in 1993; +1 in 1995; +1 in 1996)
Turkey	1984	Fluctuated (+2 in 1989; −1 in 1993)	Fluctuated (+1 in 1986; +1 in 1987; −2 in 1993; −2 in 1994; +1 in 1996)	1979	Fluctuated (−7 in 1980; +5 in 1983; +2 in 1989; −1 in 1993)	Fluctuated (−5 in 1980; +1 in 1982; +1 in 1984; +1 in 1986; +1 in 1987; −2 in 1993; −2 in 1994; +1 in 1996)
Uruguay	1990	No change	Fluctuated (−1 in 1993; +1 in 1995)	1974	Increased (+9 in 1985; +1 in 1989)	Fluctuated (−2 in 1977; +2 in 1980; +1 in 1982; +5 in 1986; +1 in 1989; −1 in 1993; +1 in 1996)

*Indicates the years that trade and capital flows doubled from levels attained in early 70s.

Appendix B: Summary Statistics for Democracy and Civil and Political Liberties

Country	Mean	Med	St. Dev	Min	Max	Year Max Value	Year Min Value	Demo Increase	Demo Decrease
Argentina	4.961538	7	3.423224	0	8	83–88	72/76–82	73, 83	76, 89
Bangladesh	2.307692	0	3.133933	0	6	72–73	75–90	91	74, 75
Bolivia	5.423077	8.5	4.38336	0	9	85–97	72–81	82, 85	
Botswana	9	9	0	9	9	72–97	72–97	constant	constant
Brazil	4.730769	4.5	3.156678	0	8	88–97	72–73	74, 85, 88	
Cameroon	0.230769	0	0.429669	0	1	92–97	72–91	92	
Chile	3.076923	0	3.846277	0	8	89–97	73–87	88, 89	73
China	0	0	0	0	0	72–97	72–97	constant	constant
Colombia	7.961538	8	0.598717	7	9	91–94	95–97	75, 91	95
Costa Rica	10	10	0	10	10	72–97	72–97	constant	constant
Cyprus	9.769231	10	0.815239	7	10	74–97	72–73	74	
Dominican Republic	4.923077	6	2.279001	1	8	96–97	72–77	78, 96	94
Ecuador	6.384615	9	3.970662	0	9	79–83, 88–96	72–78	79, 88	84, 97
Egypt, Arab Rep.	0.307692	0	0.470679	0	1	90–97	72–89	90	
El Salvador	4.809524	6	2.542028	0	7	91–97	77–78	84, 91	77
Fiji	7.038462	9	2.932313	0	9	72–86	87–89	90	87
Ghana	0.956522	0	1.821045	0	6	79–80	72–77, 82–90	79, 92, 96	82
Greece	8.32	8	2.688246	0	10	86–97	72–73	75, 86	
Guatemala	2.64	3	3	0	8	96–97	78–84	86, 96	74, 78
Guyana	2.538462	3	2.549208	0	6	92–97	80–91	92	78, 80
Honduras	4.166667	5.5	2.315668	1	6	82–84, 89–97	72–79	82, 89	85
India	8.153846	8	0.543493	7	9	72–74, 95–97	75–76	77, 95	75
Indonesia	0	0	0	0	0			constant	constant
Iran, Islamic Rep.	0.173913	0	0.834058	0	4	97	72–96	97	
Israel	9	9	0	9	9	72–97	72–97	constant	constant
Jordan	0.576923	5.5	0.856648	0	2	92–97	72–88	89, 92	
Kenya	0.076923	0	0	0	0	72–97	72–97	97	
Korea, Rep.	2.8	0	3.5	0	7	88–97	72–86	88	
Kuwait	0	0	0	0	0	72–97	72–97	constant	constant
Lesotho	1.538462	0	3.215348	0	8	93–97	72–92	93	
Liberia	0.157895	0	0.688247	0	3	1997	72–96	97	
Malawi	1.076923	0	2.575625	0	7	94–97	72–93	94	
Malaysia	4.884615	5	0.325813	4	5	72–94	95–97		95
Mali	1.64	0	2.984404	0	7	92–97	72–90	92	97
Mauritius	9.615385	10	0.496139	9	10	82–97	72–81	82	
Mexico	1.576923	1	1.474397	0	6	97	72–76	77, 88, 94, 97	
Morocco	0	0	0	0	0	72–97	72–97	constant	constant
Mozambique	1.043478	0	2.32532	0	6	94–97	72–93	94	
Nepal	2.230769	2	2.065095	0	5	90–97	72–80	81, 90	
Nicaragua	2.5	1	3.148499	0	8	95–97	72–83	84, 90, 95	
Nigeria	1.6	0	3.265986	0	8	79–83	72–77, 84–97	79	84
Pakistan	4.44	8	4.021608	0	8	73–76, 88–96	77–87	88	77, 97
Panama	2.923077	0	4.107779	0	9	94–97	72–88	89, 94	
Paraguay	1.961538	0	2.972955	0	7	92–97	72–88	89, 92	
Peru	4.291667	5	3.127427	0	8	90–91	72–77	80, 90, 93	92
Philippines	3.52	0	4.052982	0	8	87–97	72–85	87	
Singapore	2	2	0	2	2	72–97	72–97	constant	constant
South Africa	7.333333	7	0.761387	7	9	94–97	72–91	94	
Sri Lanka	6.461538	6	0.859338	6	8	72–77	78–97		78
Syrian Arab Republic	0	0	0	0	0	72–97	72–97	constant	constant
Tanzania	0.230769	0	0.651625	0	2	95–97	72–94	95	
Thailand	4.375	3	2.931278	0	9	92–97	72/76	74, 78, 88, 92	76, 91
Trinidad and Tobago	8.538462	9	0.508391	8	9	84–97	72–83	84	
Tunisia	0.192308	0	0.401918	1	0	93–97	72–92	93	
Turkey	7.269231	8	2.425823	2	9	73–79, 89–92	72, 80–82	73, 83, 89	80, 93
Uruguay	5.04	8	2.667201	0	10	89–97	73–84	85, 89	
Venezuela	8.769231	9	0.429669	8	9	72–91	92–97		92
Zambia	1.384615	0	2.434369	0	6	91–95	72–90	91	
Zimbabwe	3.16	3	3.144837	0	7	72–78	87–97		80, 83, 87

(continued on next page)

Appendix B ***(continued)***

Political and Civil Liberties–Summary Statistics

Country	Mean	Median	St. Dev.	Min	Max	Year Max Value	Year Min Value	Liberties Increase (from Previous Year)	Liberties Decree (from Previous Year)
Argentina	10	11	3.177081	4	13	86–89	77	73, 78, 83, 84, 86	74, 76, 77, 90, 92
Bangladesh	8	8	2.09615	4	11	91–92	75	76, 77, 78, 79, 85, 86, 89, 91, 97	73, 75, 81, 82, 83, 90, 93, 95
Bolivia	9	11	2.648657	4	12	97	80–81	76, 78, 79, 82, 96, 97	74, 80, 95
Botswana	11	11	0.891843	9	13	89–92	72	73, 89, 95	93
Brazil	9	10	1.79272	6	12	86–87, 89	72–73	74, 78, 79, 82, 86, 89, 94	72, 75, 85, 88, 90, 93
Cameroon	4	4	0.856648	3	6	72–75	84–85	77, 78, 86, 92,	76, 79, 84, 95
Chile	8	5	3.569314	4	13	72	73–77	78, 88, 89, 90	73
China	3	2	1.076319	2	5	79	72–76, 89–97	77, 79,	80, 89
Colombia	10	11	1.205755	8	12	72–74	95–97	91	75, 89, 94, 95
Costa Rica	14	14	0.401918	13	14	72–92	93–97		93,
Cyprus	12	13	2.171139	8	14	89–97	74–75	76, 80, 81, 89	74
Dominican Republic	11	11	1.148243	9	13	82–83	76, 94–95	77, 78, 82, 96	74, 76, 79, 84, 90, 94
Ecuador	10	11	2.963366	4	12	79–84, 88–90	73–75	76, 78, 79, 88	73, 85, 91, 96
Egypt, Arab Rep.	6	6	1.32723	4	8	76–77, 86–90	72–73, 93–97	74, 76, 82, 84	78, 81, 86, 91, 92, 93
El Salvador	9	10	1.504864	6	11	72–75, 97	80–81	82, 84, 85, 88, 92	76, 78, 80, 86, 89, 97
Fiji	10	12	2.428041	5	12	72–86	87	88, 92	87, 89
Ghana	6	5	2.497075	3	11	80–81	73, 84–87	74, 77, 78, 79, 80, 88, 89, 92, 93, 95, 97	73, 82, 84, 91
Greece	12	12	2.311177	4	13	81–84, 89–92	72–73	74, 81, 89	85, 93
Guatemala	8	9	2.207563	4	12	73	81–83	73,78,84,85,86,96	74, 77, 79, 80, 81, 90, 91, 92
Guyana	9	9	2.293804	6	12	72, 93–97	83–88	76, 89, 92, 93	73, 74, 78, 79, 81, 83
Honduras	9	10	1.814896	6	11	82, 84–92, 97	72	73, 80, 81, 82, 84, 97	83, 93
India	10	11	1.235376	8	12	77–79	93–95	77, 96	75, 80, 91, 93
Indonesia	5	6	1.031802	3	6	72–83, 88–89	93–95	88, 96	84, 90, 93
Iran, Islamic Rep.	4	5	0.856648	3	6	80	93–97	77, 80, 84	75, 81, 92, 93
Israel	12	12	0.429669	11	12	78–97	72–77	78	
Jordan	6	6	1.853479	4	10	92	72–83	84, 89, 91, 92	88, 93
Kenya	5	6	1.354764	3	7	72–74, 79–81, 92	95–96	79, 92, 97	75, 82, 84, 87, 93, 94, 95
Korea, Rep.	8	7	2.904903	5	12	93–97	72, 74, 76, 80–83	73, 75, 77, 79, 84, 85, 87, 88, 93	74, 76, 80
Kuwait	7	6	1.630479	2	9	73–75	90	73, 77, 78, 81, 89, 91, 92, 97	76, 79, 86, 90

(continued on next page)

Appendix B *(continued)*

Political and Civil Liberties–Summary Statistics

Country	Mean	Median	St. Dev.	Min	Max	Year Max Value	Year Min Value	Liberties Increase (from Previous Year)	Liberties Decree (from Previous Year)
Lesotho	6	6	1.207668	4	9	93	88	73, 89, 91, 93	74, 79, 87, 88, 94
Liberia	5	5	1.414757	2	7	74, 97	90	73, 74, 83, 85, 91, 93, 97	75, 79, 80, 84, 89, 90, 94
Malawi	4	3	2.924959	3	11	94–97	72–77, 79–92	78, 93, 94	79
Malaysia	8	8	1.289007	7	11	72–73	88–97	78	74, 75, 79, 84, 88
Mali	5	3	3.428388	2	12	96	75–78	79, 88, 90, 91, 92, 95, 96	75, 94, 97
Mauritius	12	12	0.92487	10	13	91, 93–97	78–80	75, 81, 82, 91, 93	78, 92
Morocco	7	7	1.070586	5	9	77–79	92	77, 89, 93	73, 80, 81, 91, 92
Mozambique	4	3	2.473576	2	9	95–97	76–82	83, 90, 91, 94, 95	76, 93
Nepal	8	9	1.966254	5	11	91–92	72–78	79, 80, 90, 91	89, 93
Nicaragua	7	7	1.67332	5	10	90–91, 96–97	81–83, 86	87, 88, 90, 95, 96	73, 76, 81, 92, 93
Nigeria	6	6	2.775719	2	11	79–83	95	77, 78, 79, 87, 88, 90, 91, 96	84, 89, 93, 95
Pakistan	7	7	1.809802	4	10	88–89	79–84	76, 85, 88, 93	75, 77, 78, 79, 90, 91, 96
Panama	7	7	2.8911	3	11	94–97	72–76, 89	77, 78, 80, 83, 84, 90, 93, 94	82, 85, 87, 88, 89, 92
Paraguay	7	6	1.874526	4	10	91–93	88	78, 89, 91	76, 86, 88, 94
Peru	8	8	2.56635	4	11	80–88	72–74	75, 78, 80, 93, 94, 96	89, 90, 91, 92, 97
Philippines	8	9	2.178214	6	12	87	72–81, 84	82, 84, 85, 86, 87, 95, 96	83, 88, 90, 93
Singapore	7	7	0.697247	6	8	89–91	72–80, 93–95, 97	81, 89, 96	92, 93, 97
South Africa	7	5	2.703085	5	13	95–97	77–89	90, 94, 95	77
Sri Lanka	9	9	1.710151	7	12	77	89–95	76, 77, 96, 97	75, 78, 83, 89
Syria Arab Republic	3	3	1.148243	2	5	77–81	72–73, 89–97	74, 76, 77	82, 83, 89
Tanzania	4	4	0.697247	4	6	95–97	72–89, 94	90, 95	94
Thailand	8	9	2.00461	4	11	75, 89–90	72, 76	73, 74, 75, 77, 78, 79, 86, 89, 92, 95, 96	76, 91, 93
Trinidad and Tobago	13	13	0.880559	11	14	87–93	72	73, 82, 87	94
Tunisia	5	5	0.760567	5	8	89	72–80, 86–87, 92–97	81, 88, 89, 90	86, 91, 92
Turkey	9	10	1.848076	6	11	74–79	80–81, 94–95	73, 74, 82, 84, 86, 87, 96	80, 93, 94
Uruguay	9	11	3.551814	4	13	89–92, 96–97	76–79	80, 82, 85, 89, 96	73, 76, 93
Venezuela	12	13	1.107318	10	13	76–88	92–95	76, 96	89, 92
Zambia	7	6	1.770267	5	11	91–92	80–83, 88–90	74, 84, 91	75, 80, 88, 93, 96
Zimbabwe	6	6	1.084152	5	9	80	72–77, 87–88	78, 79, 80, 89, 91	81, 83, 85, 87, 93

Appendix C: Measuring PLP

The most common method of assessing labor strength in the advanced industrialized countries is by union density or unionization rates. However, some LDC governments mandate compulsory membership in corporatist unions. As a result, unionization rates tend to exaggerate labor power in LDCs. Governments also impose constraints on labor's leadership, internal governance and capacity to make demands. China, for example, has the highest union density in the developing world, yet labor has very little bargaining power. No standardized cross-country time-series measures exist that adequately control for these problems.

The PLP index is motivated by the observation that the political power of labor is likely to be increasing in the ratio of skilled to unskilled workers, given the greater capacity of the former for collective action, and decreasing with the size of 'surplus' labor. Surplus labor is measured as the working age population minus the economically active population and students in secondary and tertiary schools. In order to create an index, each country's score was divided by the highest value in her larger data sample (i.e., Sweden = 87) and multiplied by 100. Assuming that there is always some surplus labor and some low-skilled laborers, the PLP measure is:

$$PLP = \left[\frac{\left(\dfrac{\text{Number of skilled workers}}{\text{Number of low} - \text{skilled workers}}\right) * \left(\dfrac{1}{\text{Surplus labor as \% of working age population}}\right)}{87} \right] * 100$$

PLP thus falls as the ratio of low-skilled workers to skilled workers increases, and as surplus labor rises. To the extent that surplus labor shrinks and labor markets become tighter, PLP increasingly depends on the ratio of skilled to low-skilled workers.

Appendix D: Data Information

Variables	Description	Sources
Dependent Variable(s):		
• Democracy	Using scale 0–10; 10 = strong democracy. This indicator is derived from the codings of the competitiveness of political participation, the openness and competitiveness of executive recruitment, and constraints on the chief executive.	Ted Robert Gurr and Keith Jaggar (1994) Polity IV Regime Type and Political Authority.
• Political and Civil Liberties	Using scale 2–14, 14 = highest degree of freedom	Freedom House, Freedom in the World Country Ratings, 1972–73 to 2000–01
Independent Variables:		
Globalization:		
• Trade	The amount of total trade (EX + IM/GDP)] as a percentage of GDP.	World Development Indicators
• Gross Capital Flows	Gross private capital flows (% of GDP, PPP)	World Development Indicators
• FDI	Foreign direct investment, net inflows (% of GDP)	World Development Indicators
• Portfolio flows	Portfolio investment, bonds (PPG + PNG) (NFL, current US$) + Portfolio investment, equity (DRS, current US$) as a % of GDP (current US$)	World Development Indicators
International Factors:		
• Regional Democracy Effects	Percentage of democratic regimes in the region to which the country belongs	
Political and Social Factors:		
• Social Spending (as % of tot. gov. spending)	Spending on social security and welfare, education and health as % of total gov. spending	International Monetary Fund. *Government Finance Statistics.* Various editions.

(continued on next page)

Appendix D: Data Information *(continued)*

Variables	Description	Sources
•Potential Labor Power (PLP)	([The ratio of the numbers employed in skill-intensive manufacturing industries relative to numbers employed in labor-intensive manufacturing industries] * The number of surplus laborers in the economy/87) * 100	World Bank (2000) World Development Indicators CD-rom. United Nations. UNIDO Database of Industrial Statistics CD-rom. Various editions
Socio-Economic Factors		
• GDP per capita	GDP per capita (constant 1995 US$)	World Bank (2000) World Development Indicators CD-rom.
• Growth	Annual percentage growth rate of GDP at market prices based on constant 1987 local currency	World Bank (2000) World Development Indicators CD-rom.
• Urbanization	Urban population (% of total)	World Bank (2000) World Development Indicators CD-rom.
• Inflation	Yearly growth of the GDP deflator, calculated s the ratio of nominal GDP(measured in current prices) to real GDP (measured in constant prices).	World Bank (2000) World Development Indicators CD-rom.
Social Instability		
• Unrest	Any peaceful public gathering of at least 100 people for the primary purpose of displaying or voicing their opposition to government policies or authority, excluding demonstrations of a distinctly anti-foreign nature.	Banks, Arthur. 1996. Cross National Time Series Data Archive. Binghamton, NY: Center for Social Analysis, State University of New York at Binghamton.
• Riots	Any violent demonstration or clash of more than 100 citizens involving the use of physical force.	Banks, Arthur (1996).
Elite Disunity		
• Government Crisis	Any rapidly developing situation that threatens to bring the downfall of the present regime—excluding situations of revolt aimed at such overthrow.	Banks, Arthur (1996)
• Government Fragmentation	The total number of seats held by other opposition parties.	Thorsten Beck, George Clarke, Alberto Groff, Philip Keefer, and Patrick Walsh, 2001. "New tools in comparative political economy: The Database of Political Institutions." *World Bank Economic Review* 15:165–76.
• Herfindahl Index Opposition	The sum of the squared seats shares of all opposition parties in the government. No parties in legislature results in NA (or blank).	Beck et al. (2001)
• Percent of Votes	President got what percent of votes in the 1st/only round? NA in systems with unelected executives or assembly-elected President. If there is a prime minister who is considered the chief executive, but there is a president with some power (e.g., France) then the president's vote % is still recorded.	Beck et al. (2001)
• Years in Office	Number of years chief executive has been in office. See Beck et al. for decision rules regarding partial years in office.	Beck et al. (2001)

Appendix E: Test for Robustness

Variables	Democracy	
The Effects of Globalization and Social Spending (as % of GDP) on Democracy		
Trade	−0.041***	(0.013)
K Flows	−0.059***	(0.022)
Trade ∗ Social Spending (% of GDP)	**0.486*** **	**(0.126)**
K Flows ∗ Social Spending (% of GDP)	**0.415*** **	**(0.143)**
Social Spending (% of GDP)	−33.61***	(11.20)
Urban	0.174***	(0.047)
PLP*	0.359†	(0.221)
Gdpcap	−1.09	(0.797)
Growth	0.021*	(0.011)
Inflation	1.23**	(0.576)
Regional Democracy	4.62***	(1.60)
World Democracy	6.05**	(3.22)
N	575	
R^2	0.621	
The Effects of Changes in Globalization and Social Spending (as % of GDP) on Changes in Democracy		
Δ Trade	−0.049***	(0.016)
Δ K Flows	−0.043***	(0.022)
Δ Trade ∗ Δ Social Spending (% of GDP)	**0.530*** **	**(0.151)**
Δ K Flows ∗ Δ Social Spending (% of GDP)	**0.324** **	**(0.139)**
Δ Social Spending (% of GDP)	−49.51***	(12.34)
Δ Urban	0.427***	(0.158)
Δ PLP*	.042*	(0.234)
Δ Gdpcap	−2.99***	(1.77)
Δ Growth	0.017	(0.014)
Δ Regional Democracy	−3.21*	(1.79)
Δ World Democracy	−3.51	(5.47)
N	488	
R^2	0.220	

***$p < 0.01$; **$p < 0.05$; *$p < 0.10$; †$p < .15$ (two-tailed).
Fixed effects regression estimates. Figures in parentheses are standard errors.

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