POLITICAL AND TECHNICAL CONDITIONALITY IN SLOVAKIA'S ACCESSION INTO THE OECD

FOR *SLOVAK FOREIGN POLICY AFFAIRS*

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INTRODUCTION

In June 1994, the Organisation for Economic Cooperation and Development (OECD) invited four former communist countries to begin negotiations on becoming its members. While three of these countries – Czech Republic, Hungary and Poland – entered the OECD in the following two years, the same process took Slovakia no less then six years. Similarly, in spite of similar starting conditions, Slovakia has noticeably lagged behind its Visegrad neighbors in the accession into North Atlantic Treaty Alliance (NATO) and the European Union (EU.) Most observers have attributed Slovakia's tarrying to one single factor: major reservations of the Western community concerning the political style of Slovakia's former government – especially its lack of commitment to democratic values. Thus, according to this argument, the accession of Slovakia into the EU, NATO, and the OECD was essentially blocked by Western governments for political reasons. Such an explanation indubitably captures the main cause of Slovakia's integration failures. Nevertheless, it not sufficiently comprehensive, in that it ignores other crucial elements that have significantly impeded at least Slovakia's previous progress toward membership in the OECD.

The present analysis attempts to identify and analyze all other important elements by using Slovakia's accession into the OECD as a case study.[1] The overall objective of the case study is to point out the main factors that generally influence the speed with which former communist countries can integrate into leading Western institutions. A focus on the OECD accession is best suited for this purpose because of two main reasons: First, like the pursuit of the EU membership, integration into the OECD requires that a candidate country fulfills a set of well delimited requirements. In the case of the EU membership, the explicit

[1] The present study draws extensively on interviews that the author conducted with a number of senior Slovak, US, and OECD officials who were directly involved in the accession of Slovakia into the OECD. The author also consulted numerous original documents that displayed the views of main actors, including the Slovak government, various bodies within the OECD, and key Member countries throughout the accession process. The author has attempted to reconstruct to the highest degree possible the thought processes and views of these actors, as they were developing throughout Slovakia's accession into the OECD. When using these historical witnesses, the author has made every effort to 'cleanse' them as much as possible from *post facto* hindsight and retrospective justifications. Similarly, he has paid attention to discount them for likely institutional biases and interests of the interviewed persons.
All views presented in this study represent solely those of the author and are endorsed neither by the government of Slovakia nor by the OECD or its Members.

requiremnts amount to the implementation of the *acquis communautaire*, whereas in OECD's case, they correspond with the Organisation's Decisions, Recommendations and other Instruments in force. The tangible guidelines make the accession process at least partly structured and provide an objective indicator for comparing the relative progress toward membership achieved by various candidate countries. They also permit a negative determination of the relative importance of other, mostly political, factors in the integration processes. Second, like NATO accession and unlike EU accession, the pursuit of OECD membership is not an excessively heterogeneous and complex process and it is therefore better suitable for analytical purposes.

The study begins by a general historic overview of the OECD accession process. It is immediately followed by a short description of Slovakia's political and economic situation at the time when it began negotiations on OECD membership. The second sections examines non-technical factors that significantly affected the progress of these negotiations. The following section focuses on technical issues and on how they influenced the speed of Slovakia's accession. The study concludes by briefly outlining the implications of the present findings for Slovakia's current accession into the EU. Slovakia's OECD accession demonstrates that the final invitation to join an international institution such as the OECD largely depends on non-technical factors. However, the analysis also suggests that technical factors can significantly expedite or hinder the accession process and can serve as an excellent pretext for justifying a political decision against admitting a given country into the institution in question.

I. CONTEXT OF SLOVAKIA'S ACCESSION

The collapse of the communist-led regimes in Central and Eastern Europe left the OECD facing a difficult challenge: to assist the countries on the other half of the European continent in their transformation from centrally-planed to market-based economies. A well carried out transformation should eventually allow these countries to pursue a sustainable, long-term economic growth and thus contribute to the long-term stability of the region. With this intention, the OECD established in 1991 a program entitled *Partners in Transition* (PIT) for three of the most developed post-communist countries:

Czechoslovakia, Hungary and Poland.[2] The program was specifically designed to provide these countries with individually tailored advice and guidance that would help them to meet the conditions for eventual membership in the OECD. Then in June 1994, the OECD Council recommended at its annual meeting that the OECD Secretariat launch concurrent accession negotiations with all of them. This decision took place only a month after a first-non-European emerging economy, Mexico, became a Member and about three years after the launch of accession negotiations with South Korea.

The Council established the accession procedures for each of these countries in July 1994.[3] In a first stage, the applicant country had to submit to the Secretariat of the OECD a working document assessing the compatibility of its legislation and policies with the legal or political obligations resulting from each of the instruments of the OECD. The document also had to explain in detail to what extent the applicant country accepts these obligations. The main part of the accession process then consisted of examinations by several selected OECD Committees. The objective of the examinations was to determine the *ability* and *willingness* of the applicant country to accept the obligations of the OECD membership in the specific areas of the Committee's competence. The examinations took form of multilateral working in the seat of the Organisation. During these meetings, senior officials and experts from a candidate-country presented their position in a given economic area to representatives of OECD Members and Secretariat. After the examination, the Committee made a recommendation to either admit or not admit the applicant country. With respect to the final decision on whether to invite a candidate country to become an OECD Member, the Council gave most serious weight to the outcome of the joint examination by the Committee on International Investment and Multinational Enterprises (CIME) and the Committee on Capital Movements and Invisible Transactions (CMIT).

Slovakia was invited to start the accession process at a very unique moment in its history. It became an independent country on January 1, 1993, following a peaceful separation of Czechoslovakia. Aside from the difficulties of transition to a market-oriented democracy, it was also facing an uneasy challenge of establishing all basic institutions related to running its own statehood. As it soon became apparent, this was going to be a

[2] When Czechoslovakia split into the Czech and Slovak Republics in 1993, the OECD decided to extend participation in PIT to both of them .
[3] The accession procedure for the Slovak Republic was laid out in the OECD document C(94)177

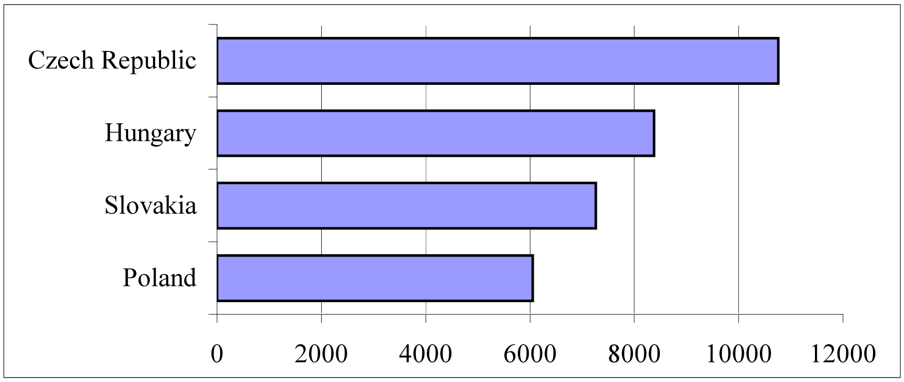
very bumpy ride, filled with many problems and internal contradictions. On the one hand, the Slovak government never hesitated to proclaim its desire to continue pursuing basic policy orientations of the former Czechoslovakia. Their cornerstone was a full integration into main transatlantic and pan-European institutions. The objective implied a commitment of the government to democratic reforms and to the transition to a market economy. All Slovak governments since 1993 declared their support for both tasks. However, concrete actions of the two governments led by prime minister Vladimir Meciar gave ground for serious doubts about the sincerity of these declarations.

The Slovak government that issued from the parliamentary elections in September 1994 immediately began to take steps that contradicted democratic principles. The newly elected governing coalition excluded the representative of the opposition parties from all key public posts, including the Slovak parliament, the privatisation agency, and the board of the public TV and radio. The new government immediately revoked the current officials holding these posts and installed its own representative in their place. Furthermore, under the lead of the prime minister Vladimir Meciar, the governing coalition launched virulent attacks against the president of Slovakia that peaked with the abduction of President's son in August 1995. The governing parties systematically verbally attack the Hungarian minority and implemented policies that fostered tensions between the ethnic Hungarian minority and the rest of the Slovak population.

From 1994 until 1996, the EU and the US responded to these developments by numerous warnings and admonishments addressed to the Slovak government. They included two official diplomatic notes from the Council of Ministers of the EU delivered in November 1994 and October 1995 and another one from the US government delivered in October 1995. All these admonishments emphasized that the current practices of the Slovak government were incompatible with those accepted in the transatlantic community and thus with the stated objective of the government to become its Member.[4]

Chart 1. GDP PPP of the Visegrad Countries, in US$, 1994

[4] Lesko, 1998, pp. 29-39



Source: Business Central Europe

Compared to those of other countries in the region, Slovakia's economy was performing quite well at the time when the country began the OECD accession process (see chart 1. and tables 1. and 2.). Following the initial transition shock, Slovakia's economy seemed to be rapidly recovering in 1994 – 1995. From the point of view of main macro-economic indicators, current economic studies describe the period as one of the most successful since the beginning of the transition.[5] Slovakia's economy was undergoing rapid export-led growth combined with declining inflation.

Table 1., 2. Selected Macroeconomic Indicators for the Visegrad Countries, 1993-1995

	Real GDP (% change)			Industrial Production (% change)		
	1993	1994	1995	1993	1994	1995
Czech Republic	-1.0	2.6	5.9	-5.0	2.4	-0.9
Hungary	-0.6	2.9	1.5	4.0	9.5	4.7
Poland	3.7	5.3	7.0	5.1	13.3	10.4
Slovakia	-3.7	4.9	6.7	-3.7	4.9	8.3

	Inflation (%)			Unemployment (%)		
	1993	1994	1995	1993	1994	1995
Czech Republic	20.8	10.0	9.1	4.3	4.4	4.1
Hungary	22.5	18.9	28.3	12.1	11.0	10.4
Poland	36.9	33.2	28.3	14.0	14.4	13.3
Slovakia	23.3	13.4	9.9	13.1	13.7	13.1

Source: OECD

[5] See for example Karol Morvay, "Celkový makroekonomický vývoj [Overall Macroeconomic Development]", in Marcincin (2000)

Yet, in spite of Slovakia's relatively good economic position, its OECD accession process turned out to be quite slow and arduous. Slovakia was the last among all Visegrad countries to begin the Committee examinations. In fact, the first Committee examination of Slovakia's position took place in June 1996 – one month after Hungary and more then six months after the Czech Republic officially became OECD members. In the following two years, the accession was continually loosing momentum until it came to an almost complete halt in early 1998. The accession process finally began to accelerate toward the end of 1999 and came to a *de facto* conclusion in September 2000, when Slovakia and the OECD signed the Agreement setting out the terms under which Slovakia will become the thirtieth member of the OECD.

In the next two sections I will attempt to elucidate first the main non-technical and then the main technical factors that explain the relatively slow OECD accession progress of Slovakia. By technical factors I mean specific economic, legal, and institutional conditions that the organization establishes at the beginning of the accession procedure as objective requirements for becoming a member. Technical factors also include all those institutional and legal elements that are required for the implementation of these conditions or directly affect the speed of their implementation. For the purposes of the present study, non-technical factors are defined negatively, as all factors other then the technical factors.

II. NON-TECHNICAL FACTORS AFFECTING ACCESSION

Parallel Interests Of Current Members

The Western countries would not have decided to enlarge their key institutions toward East if they had not been convinced that it was in their interest to do so. To understand the dynamics of the enlargement processes, one therefore first has to identify the Western interests that are involved in and influenced by the accession process. After the end of the Cold War, the two main "European" players – the EU countries and the US - shared similar main strategic interests in the Central and East European region: political and economic stability of the region; absence of regional conflict; establishment of functioning, open and transparent markets; and absence of spread of organized crime. Both the US and the EU were convinced that they could most effectively promote all these interest by ensuring the success of the post-communist countries' transition to liberal democracies and market economies.

All of the transition countries immediately defined their integration into key Western institutions as their top priority. Thus the EU and the US could determine by their attitudes with respect to the enlargement of these institutions whether the transition countries achieve their main strategic objectives. In fact, the EU and US governments immediately decided to utilize the enlargement of EU, NATO, and the OECD as the main leverage in their relations with the post-Communist countries. They effectively used it as a tool for exercising influence over the domestic political processes in these countries. With this objective they established criteria for accession that on the most general level corresponded with the adherence to democratic political practices and an establishment of a functioning market economy.

Without any doubt, for a long time Slovakia was being excluded from integration into key western institutions mainly because it did not fulfill the political criteria. Interestingly enough, there were never any explicit political criteria for the OECD membership.[6] Nevertheless, almost all OECD members belong to the Western political and economic culture. They therefore share the same basic political values that have common philosophical roots with the economic ideals promoted by the Organisation. They therefore cannot be completely dissociated from each other. Even more importantly, as the US and the EU countries are the most important members of the Organisation, they could ensure that a potential new member meets not only economic but also certain political conditions. In order to achieve this goal, they could simply block his accession.

As the US and the EU openly criticized the political style of the Slovak government since November 1994, they would have behaved inconsistently if they had strongly supported Slovakia's accession into the OECD at the same time. Thus they initially pursued a "carrot and sticks" strategy with regard to Slovakia. On the one hand, they repeatedly warned the Slovak government that it must change its policies if it wants to join the OECD and other key Western institutions. On the other hand, they provided it with encouragement whenever the government offered signs of willingness to change its

[6] This contrasts sharply with the EU accession. Any country that wishes to become EU member must fulfil explicit political criteria related to the respect for democracy and human rights.

practices. Consequently, although the US and the EU did not enthusiastically promote Slovakia's membership in the OECD, they initially did not completely oppose it either. Until early 1997, in their public statements and official OECD documents, the OECD members still declared their support for Slovakia's integration into OECD, as well as EU and NATO. They ostensibly changed their policy toward Slovakia only after the Slovak government obstructed a national referendum in May 1997. Since this event, the US and the EU have definitely decided to exclude Slovakia from integration into key Western institutions. As OECD was one of these institutions, Slovakia's membership in the Organisation was unthinkable before a radical change of the Slovak government. Indeed, this is what happened after the Slovak parliamentary elections in September 1998. The US and EU governments immediately declared their general political support for the new and pro-democratically oriented government that issued from the elections. By the time of an examination of Slovakia's current economic situation in the Economic Development Review Committee (EDRC) in December 1998, representatives of many OECD Members, including the EU countries, also expressed their support for a rapid accession of Slovakia into the Organisation.

Conflicting Interests Of Current Members

Important interests of various current Members sometimes collide. If the accession process involves conflicting interests of various Members, the accession negations can become quite arduous and even threaten to slow down the accession. Slovakia faced such a situation in the final stages of its accession process. As the country was at the same time negotiating with the EU on becoming a member of the Union, it was harmonizing its legislation with the legislation of the EU. In the context of the transposition of the *acquis communautaire*, the Slovak authorities were preparing a new Law on Radio and Television that would transpose into Slovak legislation the EU Council Directive that establishes a minimum broadcasting quota for European production in private TV networks.[7] In practice, the directive discriminates against US audio-visual production, which is the main

[7] EU Council directive 89/552/CEE as amended by Directive 97/35/CEE

competitor of the European audio-visual production in the EU. It thus protects European interests at a direct expense of the US economic interests.

The EU countries led by France insisted that as a potential EU member, Slovakia takes into account its future obligations toward the EU and file a reservation under the Code of Liberalistion of Current Invisible Operations whose wording would clearly express it.[8] The reservation would allow Slovakia not to fully liberalize TV broadcasting in Slovakia. However, in order to protect its own interests, the US claimed that the EU and OECD accession processes should be considered as separate and that Slovakia therefore should not file such a reservation.[9] The official technical conditions of the accession allowed Slovakia to become a member either with or without this reservation. However, the reservation became an object of a dispute between the EU countries on the one hand and the US on the other hand, blocking Slovakia's accession. The Slovak government did not have a strong preference for either of the two options. Instead, it essentially had to accept that the EU and the US must negotiate between themselves a mutually acceptable wording of the reservation. The negotiations were made more difficult by the fact that there were too many actors directly or indirectly involved in the process and none of them had completely similar interests. The actors ranged from the Ministry of Foreign Affairs to the Office of the Deputy Prime Ministers on the Slovak side, and from the US Treasury and Department of State to the European Commission and the French government on the side of Slovakia's partners. In the end, a common solution was found but only under significant pressure of other Members, international media[10] and with the help of third parties. Nevertheless, the dispute delayed Slovakia's OECD accession by approximately one month.

The Slovak accession also demonstrates that country-wide strategic interests of the current Members can be overridden by domestic institutional or other group interests. In the second half of 1999, most actors involved in Slovakia's accession into the OECD assumed that Slovakia could be invited to join the Organisation at the annual Ministerial Council meeting in June 2000. However, since November 1999 the US government began

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[8] See "A Snub Too Far", *Financial Times*, June 29, 2000; "OECD Plan on Slovakia Blocked", *Financial Times*, June 28, 2000

[9] Interview with a US diplomat, August 15, 2000

[10] See for example the aforementioned articles in *Financial Times* on June 28 and June 29, 2000.

to send signals that it might not fully approve such timing.[11] The State Department and the Permanent Mission of the US to the OECD was always convinced that in the strategic interests of the US to invite Slovakia in June 2000. They believed that such an act would strengthen the domestic position of the current pro-democratically and pro-market oriented Slovak government and thus help to stabilize the country.[12]

But the main opponent of such timing was the US Treasury who felt that its interests would be threatened by Slovakia's early accession. Since the US President Bill Clinton came to power in 1994, this institution has strongly promoted full capital account liberalisation in emerging markets. After the crisis in Asian and Russian financial crises in 1997 and 1998, the US Treasury together with the IMF became the main targets of widespread criticism.[13] The IMF's reputation has been particularly tarnished by the criticism for its actions in Russia and Ukraine. In this context, the US Treasury was convinced that the economic situation in Slovakia was not sufficiently stable and that the country could undergo economic crisis in the near future. It was therefore concerned that internal economic instability shortly after Slovakia became an OECD member could damage the reputation of yet another international institution. Such an outcome would contradict the interests of the US Treasury.[14] Indeed, the financial and economic crisis in Korea came less then a year after it joined the OECD. Similarly, Mexico and the Czech Republic faced serious economic difficulties shortly after they joined the Organisation. Economic instability in another new OECD Member could give rise to criticism that the OECD inflicts crises on emerging economies by forcing upon them liberalisation measures for which they are not ready. In spite of a different position held by the US Mission to the OECD, the US Treasury therefore surfaced its negative stance toward Slovakia's early accession directly in the Organisation in April 2000.[15]

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[11] Interview with a senior Slovak diplomat, September 6, 2000

[12] Interview with a senior Slovak diplomat on September 6, 2000 and with an OECD official on September 19, 2000.

[13] At the time, some of the most prominent criticism of the US Treasury policies and its impact on the emerging markets appeared in a series of extensive investigative reports published by the New York Times on February 15-17, 1999.

[14] See "Joining the club", *Financial Times*, May 17, 2000

[15] According to evidence provided by several senior Slovak officials, the US authorities forwarded a memorandum to all Members and the OECD Secretariat in May 2000 in which they proposed that the decision on Slovakia's invitation be postponed at least until December 2000. They argued, that this would create a pressure on the Slovak government to implement further measures that would stabilize the economy and to quickly proceed with the planned reform of the banking and non-financial services and regulation.

In order to minimize the prospect of future financial or economic crises in Slovakia, the US Treasury insisted that Slovakia implements strict stabilization measures. Based on the lessons learned from the financial crises in Asia, it also insisted that Slovakia implements a strong supervisory and regulatory framework for its financial markets at the same time as it opens up its capital account. In the past, several recent OECD members made major commitments regarding future policies, but did not fulfil them after they became Members.[16] Thus, the US insisted that Slovakia not only make commitments with regard to future measures and policies but actually implements them before the Council invites it to join the Organisation.

Since the new government came to power in 1998, the OECD insisted in its official interaction with Slovakia that it would apply unchanged admission criteria to its application.[17] However, learning from previous experiences, and in order to protect its own interests, the US argued on several occasions since the beginning of 1999 that the *de facto* accession criteria for Slovakia should be raised and its position prevailed for the most part. Nevertheless, the attempt of the US Treasury to protect its interests by blocking Slovakia's accession ultimately did not succeed. Facing the US opposition, the Slovak government launched an all-front diplomatic offensive that aimed to convince the United States to change its official position, which by this time was that of the US Treasury.[18] The US finally changed its position and declared its decision to support Slovakia's entry in June 2000. However, the episode clearly shows that institutional interests in current Member countries can sometime completely block the accession process even if the overall strategic interests of the Member country would be best served by a rapid accession .

<u>External Political Support</u>

[16] This was most notably the case of the Czech Republic and Korea.
[17] Interview with an OECD official, September, 14, 2000; confirmed by evidence in several relevant documents
[18] In May 2000, the Slovak President, Prime Minister, Minister of Finance, and Minister of Foreign Affairs send letters to their counterparts in OECD Member countries with a request for support of Slovakia's entry into the OECD. The President of the Czech Republic, Vaclav Havel, also sent a letter to US president Bill Clinton, requesting US support for Slovakia's membership. During a regular bilateral economic roundtable between Slovakia and United States in May 2000 in Washington, the Slovak delegation led by the Deputy Prime Minister in Charge of the Economy, Mr. Ivan Miklos, met with the US Treasury representatives. Aided by recently released encouraging macroeconomic data, the Slovak officials outlined the current

The findings about the impact of the interests of the current Members point to another factor that plays an important role in influencing the speed of the accession process. The previous section mostly emphasized the negative attitudes that Members can take toward a candidate and which can even result in the blocking of the entry. Yet, a current Member can also take an opposite attitude and act as a *sponsor* of the applicant country. A sponsor can play a positive role in promoting country's candidacy, especially at times when other Members and institutions within the OECD might raise questions about candidates abilities and capacities. A support from a strong sponsor can create pressure within the Organisation to quickly overcome any technical hurdles within the accession process. If the process begins to slack, the sponsor can also help to reinsert momentum into it.

All countries that joined the Organisation in 1990s have had such sponsors. Czech Republic, Hungary, and Poland, enjoyed an especially strong support of Germany. Unlike them, Slovakia did not have any such supporter, until the new government came to power in 1998. Germany and most other EU countries tried to distance itself from the previous Slovak government as they believed that it was insufficiently committed to democratic values. After the Slovak parliamentary elections in 1998, Germany and Austria became the major supporters of Slovakia's membership. They encouraged the other Members and the Secretariat to expedite the accession process and assisted Slovakia until the end of it. Other Slovakia's neighbors who recently joined the OECD also provided Slovakia with invaluable help. Czech Republic played an important role in the overcoming of the US veto in the spring of 2000. Poland helped to resolve the US – EU impasse on the question of audio-visual transmission.[19]

However, external political support does not necessarily have to come from governments. Only in the case of Slovakia's accession, the support of international media provided further pressure on Members who tried to block Slovakia's entry into the OECD. The French Ministry of Foreign Affairs was aware of the public relations loss that France was suffering by blocking the accession in June and July 2000. This realisation, along with

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results of their economic reforms and confirmed the government's determination to continue them. See also *Financial Times* articles on May 16, 17, and 27, 2000 that argued against the US position.

the danger that the dispute posed to Franco-Slovak relations, pressed France to find a rapid solution to the audio-visual dispute.[20]

Prevalent Perception Regarding Applicant's Readiness For Membership

Accession into the OECD is not an entirely objective process. This becomes apparent already from the documents establishing the accession procedures. The documents specifies a number of Acts that any candidate must necessarily accept. These Acts are limited to procedural and financial regulations of the Organisation. The candidate country can reject or accept with reservation the other Acts of the organisation. In fact, none of the countries which have joined the Organisation has accepted all the other Acts without reservation. Nevertheless, the Members of the Organisation generally expect that a successful candidate comply with most of the Acts and other instruments in force. The accession document specifies that the objective of the examinations is to determine the *readiness* of the candidate to accept them. Other documents by the Committees also mention that the objective of the examinations is to evaluate the *readiness* and *ability* to assume the obligations resulting from these Acts and instruments. The current practice and legislation in force in the applicant country provides a solid objective proxy of the *readiness* and *ability* to assume the obligations. However, representatives of a government who seem competent and determined to assume these obligations can be quite successful in convincing the Committees about their *readiness* and *ability* almost irregardless of current practices and legislation in their country. They can be even more successful in achieving this goal if the Committee's members are convinced that the current economic situation in the applicant country permits a rapid implementation of the required changes. The results of these evaluations thus can be influenced by subjective factors.

In this respect, Slovakia was in a disadvantageous position in the first eighteen months of its accession. At that time, Slovakia's economy was generally considered as least compatible with OECD economies and facing the biggest short term challenges from all the Visegrad countries. The OECD Economic Survey on the Czech and Slovak

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[19] Interview with Mr. Jan Jursa, the plenipotentiary of the Slovak government for the accession of Slovakia into the OECD, in *Sme* [Slovak daily] on July 31, 200; author's interview with a senior Slovak diplomat, September 6, 1999.

Republics published in 1994 can serve as good evidence that this was the image of Slovakia at the time. Its authors argue that the "results and prospects for the Czech Republic appear to be good." However, the "shocks arising from separation is quite different for the Slovak Republic where the situation is likely to remain difficult in the near future."[21] Three main factors gave grounds to these worries. First reason was the structure of the Slovak economy. The economy was highly concentrated into huge enterprises in heavy industry that were dependent on exports to collapsing CMEA markets. Second, the fact that Slovakia had to build its administration, formulate its policy and learn to implement it virtually from scratch gave ground to concerns about its short-term economic outlook. Finally, official announcements by the Slovak governments frequently appeared to favor a more interventionist approach, raising further uncertainties about the directions of economic policies.[22] With such negative perceptions, Slovakia was considered in the OECD as the least prepared candidate from all the Visegrad countries. The psychological impact of such an assumption on the Secretariat was to pay the highest attention to the most prepared candidates and thus to consider Slovakia as the lowest priority. The image of Slovakia only began to change at the end of 1995 and in early 1996 when macroeconomic data became available that indicated quite positive developments in Slovakia's economy.[23] However, at this point, the accession process of the other Visegrad countries was well under way which meant that the Organisation could not suddenly consider Slovakia as the main accession priority.

Slovakia's image as the candidate that was least ready for membership was further strengthened by the initial impressions of the OECD officials from interaction with the Slovak authorities. They confirmed that the Slovak administration lacked adequate institutions and qualified human resources and that it would probably take same time before they could fully build them (*see also the following section* <u>Institutional Capacities...</u>). Less then stellar performance of some top Slovak government officials

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[20] Interview with OECD officials, September 19 and 22, 2000
[21] OECD, 1994, pp. 7-8
[22] OECD, 1996, pp. 1-2
[23] The OECD Economic Survey on Slovakia which was published in 1996 offered a fairly positive evaluation of the current macroeconomic economic developments in the country.

during several of the initial Committee examinations strengthened the rather negative image of Slovakia even further.[24]

The image of the country's readiness for the OECD membership changed quite dramatically only after the 1998 Slovak elections. The institutional and human capacities of the Slovak administration had time to develop in the meantime. In addition, the new government brought forward well-qualified people into several senior administrative posts. The key Slovak governmental officials in charge of economic portfolios quickly established reputation in the OECD as both *willing* and *capable* to take all measures necessary to bring the country closer to the OECD membership. In this respect, the EDRC meeting in December 1998 served as a major positive turning point in the accession. The discussions confirmed that the new Slovak government possessed a qualitatively different understanding of the economic challenges facing their country and a much stronger resolve to address them effectively.[25]

III. TECHNICAL FACTORS

<u>Institutional Capacities of the Candidate Country and of the Welcoming Institution</u>

Although political factors negatively influenced Slovakia's accession into the OECD, its progress in the first two years was most significantly inhibited by technical factors. The first one were the administrative capacities of the OECD, which did not suffice for conducting concurrent and rapidly moving negotiations with as many as five candidates (four Visegrad countries and South Korea.) The OECD therefore decided to set up a procedure that would allow it to differentiate the candidates based on seemingly objective criteria. The Council established that "the Secretariat and Committees will examine the position of candidate countries in the order in which they receive the initial working document and depending on progress made by candidates with the necessary work and reforms."[26] According to the tentative schedule specified in the accession document, the first country to submit the *Memorandum* would begin committee examinations in

[24] Interview with a senior Slovak diplomat, January 5, 2000; see also Bruncko (2000)
[25] Interview with a Senior Slovak diplomat, January 5, 2000; confirmed by evidence in several relevant documents

September 1994 and finish them in April 1995. This would also be the date of the first committee examination for the country that would submit its *Memorandum* as last. The last examination of this country's position would take place in February or June 1996 (depending on whether two examinations would be required in the Committee on Fiscal Affairs.)

In order to effectively cope with the requirements of the accession process and obligations resulting from the membership, not only the welcoming organisation but also the candidate country needs to have adequate institutional and human resources. Slovakia did suffer from a lack of both after the division of Czechoslovakia. This lack became obvious already in the first stage of the accession process – during the preparation of the initial working document assessing the compatibility of Slovakia's legislation and policies with OECD's requirements and lying down Slovakia's initial negotiating position (henceforth referred to as *Memorandum.*) Slovak authorities were the last from all four candidates to submit their *Memorandum* to the Secretariat. By doing so, they positioned Slovakia as the last accession priority of the OECD, confirming the low expectations regarding the speed of Slovakia's accession. Moreover, the Slovak authorities did not submit a well prepared document. The OECD experts even noticed that some of its sections were directly copied from the Czech *Memorandum*. This raised doubts about the ability of the Slovak government to cope with the requirements of the accession process. It also put into question the veracity of the government's claim that as a small economy, Slovakia will mainly contribute to the OECD its significant intellectual capital.[27] In fact, the Committees decided not to consider the *Memorandum* as a serious accession document because they judged that its quality was not appropriate.[28] In this situation, the Slovak authorities proposed to submit another document, confirming the prospect of a relatively slow accession.

The following experiences confirmed the lack of administrative capacities on the Slovak side. Throughout 1995, OECD officials faced serious difficulties in finding skilled Slovak partners with whom they could communicate on an adequate expert level. The practical experiences of the OECD representative during their first accession related

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[26] OECD Document C(94)177, p. 5
[27] Interview with a senior Slovak diplomat, January 5, 2000
[28] Interviews with OECD officials, September 22 and 25, 2000

mission to Slovakia confirmed that the country still had to build efficient governmental institutions staffed with qualified personnel. At the time, a great number of the top Slovak officials did not demonstrate adequate knowledge in their areas of responsibility.[29] It thus became obvious that the first committee examination would not take place in April 1995. In fact, because of the limited administrative capacities of Slovakia it was difficult to imagine that the examinations would take place before the end of 1995. In an address to the OECD Council in Paris on November 16, 1995, the Prime Minister of Slovakia, Vladimir Meciar, confirmed that the launch of the examinations should be postponed until May or June 1996. The Prime Minister justified this delays by the desire of the Slovak authorities to acquire a "reasonably sufficient space for a thorough preparation of negotiations", which would also include implementation of further liberalization measures. He also accused the OECD of discriminatory treatment, suggesting that the Western partners had not been evaluating Slovakia according to the same criteria that they applied to other Central European countries.[30] The Prime Minister was referring to the current criticism by the US and EU governments of the anti-democratic political developments in Slovakia. Although Slovakia's administrative capacities at the time did not allow a very rapid accession, one can surmise that they were still used as a cover-up for the real reason of the proposed further delay in the examination process: political unwillingness of several Members to proceed with Slovakia's OECD accession.[31]

Track Record and Implementation of Membership Requirements

[29] Interviews with OECD officials, September 14, 22, and 25, 2000

[30] OECD transcript of the address

[31] In August 1995, the son of Slovakia's president was abducted and dumped in Austria. Shortly after the event, evidence surfaced suggesting that the Slovak intelligence agency and high raking government officials were involved in organizing it. In the next month, governing parties escalated their defamatory campaign against the President and accused him of treason. Moreover, in June 1995, the government shelved a project for a construction of a part of a nuclear power plant that was supposed to be carried out by a group of Western companies and funded by the European Bank for Reconstruction and Development (EBRD). The project, which was going to be the biggest venture in EBRD's history, was canceled just before it was supposed to be signed. Almost immediately after that, the Slovak government gave the contract to Russian investors. Then in August 1995, the Slovak government sold a 39% stake in Slovnaft, Slovakia's largest oil refinery, to a group of Slovnaft's current managers. The effective price per share was approximately 15 % of what the government charged to the EBRD who bought a 10% stake in Slovnaft only two weeks before. Needless to say, both incidents enraged Western governments who were EBRD's main shareholders.

The most important technical factor in the examination process is the actual legislation in force in the candidate country. It serves as an objective criterion for evaluating the current readiness of the country to assume membership obligations. When evaluating the willingness to assume membership obligations, the Committees also pay close attention to the policy track record of the candidate country. Past economic policies pursued by its current government can either bolster or undermine its credibility that it will implement its membership obligations. They also suggest whether at least the current government is likely to pursue a liberal economic policies as a Member of the Organisation.

The Slovak government had a relatively acceptable macroeconomic track record since 1994. In terms of external trade, Slovakia has been the most open economy from all the Visegrad countries.[32] However, several Members criticized the import surcharge that it maintained. Moreover, in response to widening trade deficit with Russia, the government proposed a free trade agreement with this country. Such a proposal contradicted not only Slovakia's declared pro-Western orientation, but also several international legal obligations of Slovakia, including obligations resulting from its associated membership in the EU and its membership in the WTO.

Overall, CIME/CMIT criticized the economic policies of the 1994-1998 Slovak government most vocally. During the examination that took place in July 1996 in OECD's Paris headquarters, the members of the Committees expressed serious concern about an evident lack of transparency, consistency and predictability in the implementation of investment-related laws and regulations and in the process of privatisation. They also criticized the lack of effective market access for foreign investment, including restrictive rules for foreign entities. Indeed, the Slovak government openly proclaimed its desire to use the privation process for creating a domestic business elite. With this intention, it *de facto* excluded foreign investors from participating in the privatisation of major Slovak companies. In addition, the government implemented a so-called Act on Strategic

[32] In 1995, which was a good reference year in the initial Committee examinations, the ratio of Slovakia's exports to Slovakia's GDP represented 49,2% and the ratio of Slovakia's exports plus imports to Slovakia's GDP 99.6%. Source: Statistical Office of the Slovak Republic

Enterprises that excluded from privatisation 32 largest state-owned enterprises.[33] The CIME/CMIT experts expressed their concerns about the Act, arguing that it prevented rapid restructuring of these enterprises. Finally, the Committees judged that Slovakia's capital account has not been sufficiently liberalized. After the meeting, the Committees submitted its Chairman's conclusions to the Slovak authorities. On the basis of these conclusions, the Slovak authorities were required to improve its position, undertake necessary reforms, and to notify the Secretariat about their progress.

This was the point where the accession process came to a virtual halt. The government of the Prime Minister Vladimir Meciar was unwilling to implement the necessary measures. Such measures would require a significant shift in government's economic policies, which would contradict the economic interests of the Slovak governing elite. Whatever its reasons, the 1994-1998 government never submitted an official response to Chairman's conclusions. However, as the official accession procedure envisaged this response as one of the constitutive steps in the process,[34] the accession could not continue without it. And as most Member governments for political reasons did not wish to proceed with the accession after 1996, they never encouraged the Slovak authorities to submit a response. Instead they effectively used the missing response as an official reason for a halt in the accession process. The Slovak government thus provided the Organization with an excellent pretense that allowed it to avoid justifying a halt in Slovakia's accession on political grounds.

A pro-democratic change in the Slovak government in 1998 removed the political obstacle to Slovakia's membership in the OECD. However, the Organisation insisted that Slovakia still meets all outstanding technical criteria required by the accession process. By late 1998, the country was facing serious macro-economic imbalances. The Members had therefore decided that they would use Slovakia's OECD accession also as a tool for exercising pressure on the new government to implement necessary stabilisation, liberalisation, and restructuring measures. They informed their Slovak interlocutors that the Slovak government must undertake all necessary measures to establish a soundly-based macroeconomic framework and link them with structural reforms. The government did

[33] Act No. 192/1995 Coll. of Laws on Guaranteeing Interests of the State at the Privatisation of Strategically Important State-owned Enterprises and Joint-stock Companies
[34] OECD Document C(94)177, p. 5

pass a fiscal austerity package in May 1999 and maintained this tighter fiscal stance throughout the next twelve months, in line with OECD's recommendations.

The OECD also insisted that the Slovak government effectively address four closely interrelated issues pointed out by CIME/CMIT in 1996:[35] privatisation, foreign investment climate, supervisory and regulatory framework for the financial system, and further liberalisation. The limited progress that the new government made in many of these areas impeded the progress of the accession in 1999. The Slovak authorities decided that they would not submit an official response to CIME/CMIT before they could support it with concrete results. However, Parliament passed required legislation related to privatisation, foreign investment conditions, banking, securities and insurance regulations and supervision only in the fall of 1999. Bank restructuring did not begin until toward the end of the year. Thus, the Slovak authorities were not in a position to send a credible response to CIME/CMIT until December 1999. Once the Committees received the official response, the accession process regained momentum. By the end of April 2000, Slovakia successfully passed examinations or revisions of its updated position in all required OECD Committees and working groups. The government's track record was seriously questioned only by a representative of US Treasury during the examination in the Committee on Financial Markets which took place on April 4, 2000.[36] He voiced serious concerns about slow implementation of the financial sector restructuring and supervision of non-financial services. The criticism was a part of the US Treasury strategy to justify the delay of Slovakia's entry into the Organisation.

CONCLUSION

The present analysis suggests a close inter-linkage between the technical and non-technical factors that play an important role in the speed of the accession into a key Western institution such as the OECD. The objective initial inability of the Slovak authorities to adequately cope with the technical requirements of the accession strengthened the subjective general impression of Slovakia's limited readiness for

[35] Relevant OECD Document
[36] Interview with a senior Slovak diplomat, September 6, 2000

membership. This significantly slowed the accession process in its first eighteen months. The macroeconomic developments in Slovakia during this period disproved the initial negative economic expectations by most Members. Thus they also improved the prevailing perceptions regarding Slovakia's readiness for membership. However, they became perceptible too late to influence the speed of the accession in its first stages.

The analysis of Slovakia's OECD accession suggest that the Slovak authorities should do everything they can in order to ensure that their country joins the EU in the first wave of enlargement. Negative post-accession experiences with previous enlargements and major historical development such as the Asian financial crisis induced the OECD to reconsider its accession criteria for Slovakia. Although it never officially admitted it, after 1998 the OECD *de facto* required that Slovakia meet stricter accession criteria then any other candidate in the past. The current EU enlargement is much more challenging than any other previous EU enlargement – both in terms of the number of current candidates and the large disparity between the level of economic development of the applicants and the current EU Members. Integration of the first group of post-communist countries into the EU might therefore prove very difficult and bring many unexpected complications. Should that happen and should Slovakia not be one of those first post-communist countries to have joined the Union, the EU might significantly postpone Slovakia's entry and subject the country to much stricter accession conditions then the current ones.

Finally, probably the most important lessons of the current case study stems from the fact that the US and the EU always used technical requirements to block Slovakia's accession, even though the main reasons of their negative stance were most often political. The EU is likely to use the same strategy in the enlargement of the Union. The Slovak authorities should therefore make every effort to fulfill to the largest extent possible all technical accession requirements specified by the EU. By doing so, they will significantly limit the ability of the EU to provide an acceptable justification for excluding Slovakia from the first wave of EU enlargement. Not offering such an excuse would be particularly important if political interests of the EU member countries will be the main motivation for blocking Slovakia's early accession. As the OECD accession demonstrates, the Slovak government will need to have adequate administrative capacities in order to fulfill the technical accession requirements quickly and efficiently. The Slovak government should therefore continue paying major attention to improving the quality of its human resources and to ensure an effective cooperation and coordination of all its institutions involved in the EU accession process.

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