

The Political Economy of Regionalism

Edward D. Mansfield and Helen V. Milner, editors

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*Edited by Edward D. Mansfield
and Helen V. Milner*



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The Political Economy of Regionalism: An Overview

*Edward D. Mansfield
and Helen V. Milner*

During the past decade, a resurgence of interest in regionalism has occurred on the part of policy makers, business executives, and scholars. The advent of the North American Free Trade Agreement (NAFTA), the ongoing process of economic integration in Europe, the formation of Mercosur, and the possibility of an Asia-Pacific economic bloc have led to lively and widespread debates concerning the causes and effects of regionalism. Many of these debates center on the economic implications of regionalism, a topic on which a large and rich literature exists. Others revolve around the effects of political factors on regional blocs and the influence of these blocs on the tenor of international and domestic politics. Yet very little recent research has been conducted on the political economy of regionalism. The purpose of this volume is to address this important topic. The following chapters address a wide variety of issues pertaining to the political economy of regionalism, but two are dealt with at length.

First, how can we explain the contemporary proliferation of regional arrangements?

The late 1950s and early 1960s were characterized by the formation of various regional arrangements, which sparked much theoretical work on their causes and effects. But many of these arrangements were stillborn; and most failed to accomplish their stated purposes. These developments contributed to the pattern of global, multilateral economic organization that prevailed throughout much of the post-World War II era. Of late,

however, the pace of multilateralism has slowed, and a resurgence of regional organizations has occurred. It is important to analyze the sources of this resurgence.

Second, why are regional organizations characterized by such diversity of institutional forms?

Why, for instance, does the European Union (EU) have such a different institutional structure than NAFTA, which in turn differs so much from the organization for Asia-Pacific Economic Cooperation (APEC)? Why are groups of states choosing particular institutional forms to organize their regional interactions? Moreover, do the particular institutional forms chosen influence the durability of these arrangements and their effects on relations among members?

The chapters in this book therefore take up issues concerning why regional arrangements are formed, the conditions under which these arrangements “deepen,” and why various regional arrangements take on different institutional forms. Moreover, whereas existing studies of regionalism typically focus on a single issue-area, the contributors to this volume explore trade, financial, and security relations. This broad focus brings into clearer relief the differences, similarities, and interrelations among these issue-areas. But common to all of these chapters is the view that the interaction between political and economic factors is crucial to explaining regionalism.

Not only does this book contribute to a fuller understanding of regionalism, it also bears on a number of recent theoretical debates in the fields of international relations and political economy. For example, various chapters address current controversies about the merits of neorealist and institutional explanations of international relations. Others use new trade theories to understand the sources of regionalism and its expansion. Still others rely on propositions from the “new institutionalism” to explore the current wave of regional arrangements. Finally, some attempt is made to apply constructivist approaches to the study of regionalism. In addition, the chapters in this volume also bear on longstanding debates in the field of international relations concerning the relative importance of domestic and international factors in explaining international outcomes.

In the remainder of this chapter, we discuss the themes that frame this book and the debates to which they contribute. At the outset, however, we seek to clarify what is meant by a region and, hence, by regionalism.

DEFINING REGIONS AND REGIONALISM

Despite the interest that regionalism has attracted, the definition of a region remains in dispute. This issue is hardly new. In his seminal study of customs unions, written almost half a century ago, Jacob Viner (1950:123) observed that "Economists have claimed to find use in the concept of an 'economic region,' but it cannot be said that they have succeeded in finding a definition of it which would be of much aid . . . in deciding whether two or more territories were in the same economic region."

Rather than attempt to resolve this dispute, the authors in this volume use different definitions of a region—and hence regionalism.¹ One central difference among these definitions hinges on whether a region connotes geographic proximity. A number of authors consider a region to be a geographically specified area. Based on this definition, regionalism refers to the disproportionate concentration of economic flows or the coordination of foreign economic policies among a group of countries in close geographic proximity to one another. It also refers to the concentration of political-military relations among geographically proximate states.

But existing studies differ over the sources of the geographic concentration of economic and political-military relations. For example, some studies argue that regionalism emanates from the "natural forces of proximity, income and policy convergence, and greater intra-firm trade; in this view, regionalism may owe little to policy-induced discrimination" (Fishlow and Haggard 1992:12). Other studies consider regionalism to be the product of policy choices by national decision makers. Based on this definition, regionalism is an outgrowth of government policies (like the formation of the European Community [EC] and the EU) intended to increase the flow of economic or political activity among a group of states in close geographic proximity.

Following the existing literature on this topic, most of the chapters in this volume define a region in terms of geographic proximity. But they differ as to whether "natural forces" or government policies are the central source of regionalism.

In contrast, other authors define regionalism in nongeographic terms. For example, Benjamin Cohen posits that a group of countries collectively relying on one member's currency constitutes a currency region, although these countries need not be located in close proximity. Further, countries that share common cultures, languages, religions, or ethnic backgrounds—

but not geographic proximity—could be considered regional partners. This notion of regionalism flows from the idea that various nongovernmental factors can induce increased levels of economic and political activity among countries, whether they are located nearby or not. In a similar vein, Charles Kupchan adopts a social constructivist perspective and argues that a region is comprised of states with a shared sense of communal identity.² The sources of this communal identity vary among different regions. But in his view, it is a precondition for identifying a group of states as sharing a region, regardless of their geographic locations.

Further, many extant analyses of regionalism focus on the wide variety of preferential economic arrangements negotiated by states, which may or may not (e.g., the U.S.–Israeli Free Trade Area) involve geographically proximate partners. Edward Mansfield and Rachel Bronson adopt such a focus in their analysis of the effects of preferential trading arrangements (PTAs) on trade flows. These nongeographic definitions of regionalism contrast with the more typical definitions, which emphasize geographical proximity. However, both of these definitions have guided research on regionalism and both are used by the authors of the following chapters.

SOURCES OF REGIONALISM

One central purpose of this book is to examine the sources of regionalism. Existing studies often point to potential improvements in the welfare of members to explain why regional groupings form. For example, the seminal work of Viner (1950), James Meade (1955), and Richard Lipsey (1960) suggests that PTAs can enhance members' welfare if these arrangements create more trade among members than they divert from efficient producers outside PTAs. Further, Murray Kemp and Henry Wan (1976) have demonstrated that any group of states can form a PTA that neither degrades the welfare of any member nor adversely affects states outside the union. They also argued that incentives exist for such a PTA to expand until it includes all states (i.e., until free trade exists on a global basis). Still others have argued that regional economic arrangements can improve the welfare of members because these unions are likely to be vested with considerably more market power than their constituent members, thereby enhancing the ability of members to use an optimal tariff to improve their terms of trade vis-à-vis third parties (Krugman 1991, 1993a).

Analyses of regionalism's welfare implications have been extremely

influential and are addressed in some of the following chapters, including Cohen's study of currency regions and Pier Carlo Padoan's study of the EC and EU. However, this book's primary focus is on the *political* factors that influence regional arrangements.

A wide variety of research was conducted on this issue during the 1960s and early 1970s, on the heels of the formation of various regional arrangements (e.g., Haas 1958; Nye 1971; Russett 1967). Some of the arguments made in the following chapters are similar to those made in this earlier literature. Since this earlier wave of research on regionalism, however, new theoretical developments have occurred in both international economics and international politics. This book makes extensive use of these developments to explain the recent resurgence of regionalism. For example, important contributions made to realist theory since the late 1970s (Gowa 1994; Grieco 1988; Waltz 1979) are reflected in Joseph Grieco's and Mansfield and Bronson's chapters. Propositions from the "new institutionalism" inform the chapters of Padoan and Beth Yarbrough and Robert Yarbrough. In addition, strategic trade theory, developed in the 1980s, provides the basis for some of Helen Milner's and Padoan's respective arguments.

INTERNATIONAL EXPLANATIONS OF REGIONALISM

Certain chapters in this book locate the source of regionalism at the level of the international system. These chapters, however, reflect longstanding cleavages among scholars of international relations regarding which systemic factors account for patterns of global outcomes. One primary cleavage is between those scholars who emphasize power relations and those who highlight international institutions (Baldwin 1993). By comparing these approaches, this book provides additional empirical evidence with which to evaluate the competing claims made by advocates of each. In the remainder of this section, we summarize the controversy between institutional and power-oriented explanations and discuss how the following chapters contribute to debates over their merits.

Institutional Explanations of Regionalism

Much of the early work conducted by political scientists on regionalism focused on economic and political integration. Among the most influential approaches to the study of integration were functionalism and neo-

functionalism. Exponents of these approaches posit that governments tend to forge international institutions in order to meet various functional needs. They often argue that the expansion of economic activity creates incentives for states to further liberalize and standardize economic exchange because doing so enhances the economic welfare of participants (e.g., Deutsch et al. 1957; Haas 1958, 1964; Mitrany 1943). Nonstate actors can play a central role in this process. For example, Ernst Haas (1958) focuses in part on interest groups and political parties to explain the EC's origins. By fostering economic growth and managing international economic problems, regional institutions generate the support of groups within states and demands by these groups for further integration.³ This "spillover" process leads to ongoing integration, which promotes the development of regional institutions. In the opinion of functionalists and neo-functionalists, this process also promotes political cooperation among participating countries.

Recently, these older functionalist perspectives on regionalism have been combined with developments from "new institutionalist" studies (Moe 1984; Shepsle 1982; Williamson 1985). Contemporary work in this area often highlights the ability of international institutions to help ameliorate international market failures (e.g., Axelrod and Keohane 1986; Keohane 1984; Lipson 1984; Oye 1986; Stein 1984). International institutions create incentives for states to cooperate by reducing collective action problems; by lengthening the "shadow of the future," thereby enhancing the prospects for states to engage in strategies of reciprocity; and by increasing the ability to link various issues, thereby increasing the costs for states of failing to comply with established rules and norms. Functional and institutional perspectives are analyzed in the chapters by Yarbrough and Yarbrough, Kupchan, Grieco, Padoan, and Stephan Haggard.

Central to the performance of international institutions is the selection of mechanisms for adjudicating disputes among members. Yarbrough and Yarbrough address this issue. They point out that the selection of effective mechanisms for resolving commercial disputes is fundamental to generating compliance with these mechanisms by parties to PTAs. Yarbrough and Yarbrough analyze four prototypical dispute-settlement mechanisms, which vary depending on the ability of a third-party adjudicator to enforce judgments against a state violating institutional rules. Consistent with the functional and institutional explanations discussed above, they argue that the incentives for agreement on dispute-settlement mechanisms are considerable among states that engage in large amounts of trade, as well as

states that conduct trade in politically sensitive sectors and states for which trade creates the need to adjust frequently to unforeseen contingencies.

In many cases, however, states have divergent preferences regarding the dispute-settlement mechanism that should be used. Much of Yarbrough and Yarbrough's chapter centers on identifying the factors that will influence the mechanism that is selected. They argue that this choice will depend on the degree to which preferences converge among members and the costs to states of failing to successfully coordinate the selection of a mechanism. Yarbrough and Yarbrough conclude that the likelihood of selecting mechanisms that involve greater third-party authority increases as the preferences of states become more harmonious and the costs of failing to coordinate on the selection of a mechanism rise.

Kupchan also examines the functional role played by regional institutions in his analysis of European security affairs. Many analysts have argued that, in the wake of the cold war, European security can be best guaranteed by expanding the North Atlantic Treaty Organization (NATO). Kupchan maintains that this argument is flawed. Instead, he advocates an innovative solution to this problem, which is predicated on the creation of three new regional subgroupings that will provide collective security guarantees to members. Security cooperation would occur on a pan-European basis; however, three distinct defense organizations would be established, covering East Europe, Central Europe, and West Europe. These subregional organizations would be woven together by creating two "pivot" states, Germany and Ukraine, that each would be a member of two of these organizations. Kupchan argues that, unlike NATO expansion, which defies the logic of power balancing, the creation of regional security bodies is likely to consolidate a stable balance of power on the European continent since it relies on institutional commitments consistent with the more proximate strategic interests of Europe's major powers.

This aspect of Kupchan's argument is at odds with functional approaches. He sees little functional need for the states that would be included in his proposed Central European organization to develop a new regional institution. Instead, Kupchan offers a constructivist view of regionalism, in which regions are the ideational products of states sharing a sense of communal identity. For Kupchan, ideational changes precede changes in behavior, including the formation of cooperative regional security groupings.

Grieco analyzes whether functional approaches can help to explain the degree to which a formal regional institution has been established in

Western Europe, East Asia, and the Americas. He maintains that functional arguments imply that institutions within a given region are more likely to form when economic interactions within the region increase. Grieco finds limited support for this position. He concludes that the usefulness of functional explanations of regionalism varies considerably depending on the region being studied. The increased institutionalization of the EU during the past twenty years and the formation of NAFTA can be explained with reference to functional arguments, whereas developments in East Asia and Latin America cannot.

Does the Number of Actors Influence Regionalism?

As noted above, scholars of international institutions often argue that institutions help resolve collective action problems. It is widely recognized that such problems tend to become more severe as the number of actors attempting to coordinate a given activity increases (Olson 1965). Thus, one rationale for the establishment of regional institutions is that they help overcome collective action problems among large numbers of states located in a given region. This, in turn, suggests that the ability of regional institutions to meet their objectives might depend on the number of members.

This issue is taken up by both Haggard and Padoan. However, they address different aspects of the relationship between the number of parties to regional institutions and the ability of these institutions to meet their objectives. They also arrive at different conclusions.

Haggard analyzes why new regional agreements have recently arisen in the Asia-Pacific region and the Western Hemisphere and the source of variations in the strength of these institutions. He argues that the number of parties to a regional agreement does not explain why these agreements have been concluded. From a theoretical standpoint, Haggard maintains that a group's size need not be related to its ability to provide collective goods and that the magnitude of the transaction costs faced by members need not depend on their number (while acknowledging that enforcement and distributional problems will be heightened as the number of members increases). Rather, the number of parties to a regional agreement is likely to influence its success because as this number increases, so too does the likelihood that the preferences of members diverge. Haggard views the extent to which the preferences of members converge or diverge as central to determining a regional agreement's effectiveness. He argues that the convergence of preferences among the United States, Canada, and Mexico