

Regionalism and Economic Crisis:
The Cases of ASEAN and Mercosur, 2008-2010

by

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DEDICATION

This thesis is dedicated to my friends, family, and mentors — in Halifax, Toronto, Edinburgh, Wingham, and around the world. You know who you are.

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ABSTRACT

The Global Financial Crisis of 2008 disrupted a decade of strong growth across emerging market economies. Regional institutions composed of such states exhibited variable behaviour in response to the crisis. The ten members of ASEAN cooperated on several important projects, while the four members of Mercosur failed to cooperate, and descended into bitter diplomatic conflict. Using this divergence as a point of departure, this thesis examines why regional institutions and their members behave differently during economic crises. In a qualitative study founded on comparisons and process tracing, three independent variables — each derived from a competing explanation of regional cooperation — are tested in order to gain greater leverage over the research question. Institutional flexibility shows how regional institutions mitigate the costs cooperation imposes on their members. Asymmetric interdependence shows how cooperation is affected by the distribution of economic capacity. Regional coherence tests the influence of socially constructed identities on international cooperation.

LIST OF ABBREVIATIONS USED

ASEAN	Association of Southeast Asian Nations
AEC	ASEAN Economic Community
AFTA	ASEAN Free Trade Area
CLMV	Cambodia, Laos, Myanmar, and Vietnam
CMC	Common Market Council
CMG	Common Market Group
CMI	Chiang Mai Initiative
FDI	Foreign direct investment
GDP	Gross domestic product
PRC	People's Republic of China
US	United States

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CHAPTER 1 INTRODUCTION

How do *groups* of states respond to economic instability? Some states use regional trading organizations to manage complex interdependence. Others act alone. Consider the examples of ASEAN (Association of Southeast Asian Nations) and the Common Market of the South, or Mercosur: through the 1990s and 2000s, these two regional economic blocs behaved similarly. Both helped to deepen interdependence amongst their members, and both promoted deeper integration. ASEAN and Mercosur were affected by the economic slowdown in 2008 in similar ways and to similar degrees. In spite of this, the two blocs behaved very differently under conditions of financial instability. ASEAN members proceeded to cooperate and converge, while Mercosur members moved to a new norm of unilateralism. Why do some regional institutions further cooperation in times of crisis, when others cannot save their members from the temptations of protectionism?

En route to answering these questions, I test three explanations of regional cooperation. A different variable is associated with each theory. Concerned with finding the merits of each theory rather than with supporting overarching expectations, this thesis moves forward on the assumption that any one of these explanations — or all three, to varying degrees — may provide the most convincing answer to my core research questions. Each theory was examined with reference to Mercosur, where cooperation stagnated under stress, and to ASEAN, where the opposite occurred.

The first theory tested held that an institution's effectiveness was determined by the flexibility mechanisms accessible to its members. My tests found that ASEAN,

where there was more cooperation, had generous flexibility mechanisms. However, I also found that Mercosur, where there was less cooperation, made little flexibility available to its members. Institutional flexibility has bearing on the behaviour of regional institutions during economic crises.

The second theory held that asymmetric interdependence shaped regional politics, with less symmetric groups experiencing lower levels of cooperation. I found that ASEAN was defined by more symmetric commercial relationships than Mercosur, where one partner accounts for almost 80% of the regional gross domestic product. Thus, unequal relationships between the members of an institution affect its ability to act during a systemic crisis.

The third theory argues that group identity is the key to explaining regional behaviour, and that states socialized to see themselves as having something significant in common are more likely to cooperate. When group identity subordinates individual identity, cooperation will be more likely to succeed. Again, I found that ASEAN members exhibited a somewhat higher degree of regionness than was found in Mercosur. This suggests that the constructivist approach also provides a satisfying answer to the research question.

My tests neither undermine nor give conclusive support to any of the three theories. However, the strongest support is found in favour of the theory that highly asymmetric interdependence can undermine cooperation. The following pages and chapters build toward this conclusion.

1.1 CASES

The members of ASEAN and Mercosur behaved very differently during and after the Global Financial Crisis of 2008. ASEAN members jointly developed and implemented many new regional projects, many of which were associated with the ongoing implementation of the ASEAN Economic Community Blueprint. Confronted the same bundle of economic problems, Mercosur members realized less plentiful and less ambitious regional cooperation.

It is this divergence — abundant cooperation in ASEAN, meagre cooperation in Mercosur — which is explained herein. The level of cooperation is the dependent variable. Through analysis and comparison of three independent variables in each region, I determine why regional responses to the crisis were not uniform. Understanding variations in regional responses can help us to better theorize the behaviour of states and regional institutions in situations of uncertainty and systemic instability.

1.1.1 ASEAN

ASEAN was founded in 1967. Developed to enhance regional security during the Vietnam War, the organization shifted its focus to economic integration after the end of the Cold War (Plummer 2009a: 17). Steps toward the creation of an ASEAN Free Trade Area (AFTA) were first taken in 1992 (Kaplan 1996: 148). Integration accelerated in the mid-1990s, becoming deeper and more inclusive. Four new members joined the bloc between 1997 and 1999, and moves were taken to institutionalize dispute settlement and to liberalize trade in services (Cockerham 2010: 174).

The 1997 financial crisis in East Asia presented a formidable challenge to ASEAN's newly liberalizing members. A large number of banks and other firms suddenly became insolvent, and governments across the region were forced to carry the costs of recovery (Haggard 2000: 139-140).

ASEAN members responded to the Asian crisis by accelerating the creation of AFTA, and by implementing the ASEAN Investment Area (AIA) in order to entice back foreign capital (Cockerham 2010: 175). The Hanoi Summit in 1998 saw ASEAN take a first step away from its founding principle of non-interference. Member states agreed that it was acceptable to hold discussions on solving domestic problems with potential regional consequences (the 1997 crisis began in Thailand, but rapidly spread across East and Southeast Asia) (Ibid.). The institutional momentum ASEAN enjoyed after 1997 was sustained throughout the 2000s. Free trade agreements were negotiated with extra-regional partners (Ravenhill 2010: 190). The dispute settlement mechanism originally adopted in 1996 was refined, and abstract framework agreements were adopted to manage cross-border issues relating to intellectual property and financial services (Toohey 2011: 150 and 154).

ASEAN is composed of four relatively wealthy "tiger" economies (Indonesia, Malaysia, Thailand, and the Philippines; see Fink and Kraphol 2010: 15), four poorer but rapidly emerging members (Cambodia, Laos, Myanmar, and Vietnam; see Ibid.), and two very small but extremely wealthy free traders (Brunei and Singapore; see Plummer 2009: 9). The ASEAN countries are *generally* characterized by their openness, their reliance on exports, and their vulnerability to fluctuations in global markets (Nambiar 2009: 220). Foreign direct investment is extensive, and policymakers and lobby groups share a strong

interest in maintaining a predictable trading environment through a combination of low inflation rates, stable interest rates, and a conservative fiscal policy (Plummer 2009: 6). Upgrading is also occurring across the region, resulting in a changing mix of imports and exports for many countries (Ibid: 7).

A further integral piece of ASEAN's economic machinery since the 1980s is fragmented trade (also called component trade; Mattli 1999: 175). Fragmented trade sees unfinished goods cross multiple borders, often multiple times, before they are assembled into a final product marketed to consumers (Athukorala and Yamashita 2006: 233). Most fragmented trade in Southeast Asia is in the form of "automotive knock-down packs¹, automotive components, electronics, and food processing"; final assembly is often carried out in China, although some regional initiatives have sought to concentrate more of the production process in Southeast Asia (Plummer 2009: 38).

The ASEAN countries are highly trade dependent. In five of ten ASEAN states, trade exceeded GDP in the three years leading up to the global financial crisis (World Bank — Merchandise trade 2015). Even when the relative sizes of these economies are taken into account (for example, Indonesia is at once both the region's largest market and its least internationalized), we still find that the ASEAN countries as a group traded an average of 152% of their GDP in 2006, 2007, and 2008 (Ibid.).

ASEAN is similarly dependent on foreign investment. Between 2006 and 2008, foreign direct investment accounted for an average of just under 5% of regional GDP (World Bank — Foreign direct investment net inflows, % of GDP 2015). FDI is not distributed evenly across Southeast Asia. Approximately half of the regional total was invested in Singapore, where FDI is equal to around 20% of national GDP (Ibid.). In

1 Typically used to convert vehicles designed for LHD markets to RHD.

contrast, FDI in Indonesia and the Philippines equalled an average of less than 2% of GDP in the years leading up to the crisis (Ibid.). Net portfolio equity investment inflows represented around 0.07% of regional GDP; inflows relative to GDP were greatest in Vietnam (World Bank — Portfolio equity investment net inflows 2015).

Finally, ASEAN is defined by relatively dense regional interdependence: “if one controls for the size of the ASEAN economies in global trade, intra-ASEAN trade is actually four times higher than would be the case if these were randomly distributed countries” (Plummer and Yue 2009: 5). This is particularly true of the bloc’s less developed newer members (Cambodia, Laos, Myanmar, and Vietnam), for whom ASEAN is a critical point of access to the global economy.

In 2007, as financial storm clouds began to gather, ASEAN members agreed to further deepen regional linkages through the gradual establishment of the ASEAN Economic Community (AEC). When these clouds burst the following year, the ensuing global crisis “revealed ASEAN’s stark vulnerability to shocks it did little to create” (Plummer and Yue 2009: 1). The importance of regional integration was underlined.

1.1.2 Mercosur

Unlike ASEAN, Mercosur was *formally* an economic project from its earliest days. Argentine and Brazilian leaders in the early 1990s saw regional integration as a means of both growing trade and supporting South America’s nascent democracies (Dabène 2009: 62). However, it also has always had a political component. Inspired by the early years of European regionalism, Mercosur’s framers saw liberal democracy and liberal economic policy as two sides of the same coin (Ibid: 64; Gardini 2010: 148).

In its formative years (until about 1995), Mercosur was focused on reducing tariffs and other barriers to trade (Grieco 1997: 168). Like ASEAN, Mercosur was committed to the principle of open regionalism: “opening up to world trade would be more advantageous if combined with creating a deeper regional market, to reap economies of scale” (*Economist* 2013).

A series of shocks in the late 1990s and early 2000s stalled progress toward the creation of a common market. The three smaller Mercosur members are highly dependent on Brazilian trade. Sudden changes in markets or policy can disturb the balance of competitiveness (Phillips 2004: 111), sparking economic instability and political unrest. Devaluations in Argentina and Brazil imposed new costs, rapidly undermining the political case for further integration (Ibid: 114; Gomez Mera 2004: 68; Klein 2004: 44; Cason 2011: 99).

Mercosur survived the Argentine and Brazilian crises, and was “relaunched” in the early 2000s. Laura Gomez Mera argues that Mercosur’s renewed vigor from 2002 on stemmed from political factors. These included a desire to be able to bargain as a bloc in negotiations with Europe and the United States, and a desire to manage what was perceived as shared vulnerability to global economic shocks (Gomez Mera 2004: 65).

This speaks to a struggle between Mercosur’s formal economic objectives and its off-the-books political objectives. Brazil sees Mercosur as a continental balance to Washington (Phillips 2004: 118). For successive governments in Brasilia, Mercosur was a template for further integration across Latin America: in time, the four-member

organization was hoped to become a continental counter-hegemonic project (Phillips 2004: 124).

Brasilia thus sees Mercosur's utility as primarily political, while the three smaller partners are focused on gaining access to the larger Brazilian market (Gomez Mera 2004: 67). Changing international circumstances help influence these preferences. An extroverted American foreign policy sharpens Brazil's interest in Mercosur as a strategic tool. When Brazil is strong, Argentina, Paraguay, and Uruguay will want preferential access to its market. These same states will want to insulate themselves from instability during a slowdown in Brazil, and Mercosur will be less important to Brazil when American eyes are focused inward or on other parts of the world.

Mercosur countries are less dependent on international ties — e.g., they are less open — than ASEAN. Argentina and Brazil are ranked 65th and 68th, respectively, on the International Chamber of Commerce Open Market Index, while Uruguay is 55th (Paraguay is not ranked) (International Chamber of Commerce 2011). In comparison, the least “open” ASEAN economy (Indonesia) is ranked 54th, while Singapore (an outlier) is ranked 2nd and Malaysia, Thailand, the Philippines, and Vietnam all sit between 31st and 50th place (Ibid.).

Argentina's international trade for the 2006-2008 period accounted for 24.5% of its GDP; Brazil (the most domestically-oriented Mercosur economy) conducted trade worth 21.3% of its GDP (World Bank — Merchandise trade 2015). The smaller partners are more open (trade as 96.4% of GDP in Paraguay and 46.8% of GDP in Uruguay), but are too small to be of much consequence when calculating regional values. During the 2006-2008 period, Mercosur's members conducted international trade worth 22.8% of

their GDP; this number closely reflects the inward-looking nature of the Brazilian and Argentine economies (Ibid.).

Between 2006 and 2008, foreign direct investment accounted for an average of 2.6% of regional GDP (World Bank — Foreign direct investment net inflows, % of GDP 2015). Most likely as a result of its very liberal foreign investment policies (Banco Santander 2015), Uruguay is by far the most FDI-intensive economy in the region (Ibid.)

1.2 THE GLOBAL FINANCIAL CRISIS

The pre-2008 histories of each region were similar. Both had recent memories of economic crisis, and both enjoyed unprecedented prosperity in the 2000s. Driven by improving terms of trade, component trade, high commodity prices, and increasing global demand for exports, both regions witnessed significant growth during the first decade of the new millennium (Gallén 2011: 196). Latin American countries enjoyed a half-decade of strong growth leading up to the events of 2008 (Carranza 2010: 1). In the first three quarters of 2008, Uruguay's economy grew by 8.9%, Argentina's by 6.8%, and Brazil's by 5.1% (Inter-American Development Bank 2009: 13). ASEAN also enjoyed a decade of extraordinary growth (World Bank — GDP at market prices 2015). This was largely due to export demand from developed markets.

The financial crisis which emerged in the United States in 2007 and went global in 2008 was one of the worst in recent memory. It had an “overwhelming negative impact on equities, real estate, foreign exchange and capital markets” (Thao and Daly 2012: 299). Deep interdependence of financial markets and in the real economy presented policymakers with significant challenges.

Dervi (2012: 13) identifies three main channels through which market movements are transmitted around the world. Contagion in the *financial channel* occurs when stresses in financial variables in one market cause stresses in financial variables elsewhere (Ibid.). Instability is transmitted through the *trade channel* when declining demand for goods in one part of the drives down demand for exports (Ibid.). Instability is also transmitted across borders by changes in foreign investment positions. During the Global Financial Crisis, investors fled to the safety of United States Treasury Bills, forcing emerging markets to confront a rapid reversal of capital flows (Milesi-Ferretti and Tille 2010: 14). Dervi does not name this third channel. Here, it is called the *foreign investment channel*.

ASEAN members were largely insulated from the crisis' direct effects. Financial institutions had minimal exposure to toxic American assets, and were further protected by reforms implemented in the wake of the 1997 financial crisis in East Asia (Park 2011: 135). Unconventional political economies also protected some states. For example, Vietnam's exposure to global capital markets was limited by the fact that in 2008 50% of its banking sector was state-owned (Van 2009: 63).

Mercosur members also avoided the crisis' direct effects (Inter-American Development Bank 2009: 21). As in Southeast Asia, South American banks were underexposed to troubled assets, and the regional financial system remained stable (Sobreira and de Paula 2012: 77). Brazil, for example, was insulated by strict banking and prudential regulations (a legacy of reforms undertaken in the early 1990s), and by the declining presence of foreign financial firms (Ibid: 93).

“Capital flows can have a debilitating impact on markets, distorting exchange rate values and complicating monetary policy, particularly in small and open economies” (Leung 2014: 6). Across Asia, a massive reversal of capital flows throughout 2007 and 2008 triggered a dollar liquidity crisis. This put significant downward pressure on regional currencies and equity markets (Ibid: 4). In Mercosur, the same flight of capital back to high-quality assets precipitated devaluations and wild stock market fluctuations followed (Carranza 2010: 10; Thao and Daly 2012: 299). Where it presages a sharp drop in bank lending activity, capital flight is severely detrimental to real economic activity (Rajan 2007: 97).

The global slowdown in trade and foreign investment activity marked the spread of the crisis to the real economy. A 2010 study conducted by the International Monetary Fund found that every 1% decline in American and European growth drove GDP growth across Asia by 0.3% (Park 2011: 125). Falling export demand and international capital outflows suppressed economic growth; such were the crisis’ “second round” effects (Kawai 2008: 6). These phenomena illustrate the impact of market volatility on ordinary commercial activity.

As European and American consumers tightened their belts, demand for emerging market exports collapsed. Dependence on American and European markets ensured that the crisis spread through the trade channel to Asian producer countries (Katada 2011: 281). Asia’s reliance on trade in unfinished goods meant that falling export demand would result in declines of both total and intra-regional trade (Ibid.). Commodity exports in 2009 fell by 32% in Vietnam, 25% in Indonesia, 18% in Thailand, and 13% in Malaysia (Athukorala and Chongvilaivan 2010: 2).

As a consequence of the collapse in demand for Southeast Asian exports, over 7 million people suddenly found themselves unemployed (Ibid.). And while capital's flight to quality squeezed credit markets across Latin America, it was the trade channel that would prove financial contagion's best access to the region. Extra-regional export revenues fell by more than 20% in the first quarter of 2009 (year-over-year), and intra-zone trade fell by nearly 30% (Inter-American Development Bank 2009: 29). Latin America was hit harder by the crisis than any other region in the developing world, and the decline in exports and resource rents in 2008 heralded "another lost half decade of development" (Ocampo 2009: 706).

Resource-rich also had to contend with harsh new realities in their terms of trade (Ocampo 2009: 718). This put further pressure on states and societies already struggling to mitigate the effects of declining export demand and capital flow reversals.

The Inter-American Development Bank's 14th report on Mercosur sums up the crisis' impact on regional economies (and is also relevant in the case of ASEAN):

[...] the liquidity problems associated with the crisis directly affected the financing of exports anchored in the international market. In turn, the flight-to-quality and the abandoning of portfolio and securities investment positions in emerging countries put pressure on the depreciation of local currencies. This phenomenon was particularly marked in Brazil, where the depreciation of the *real* pushed up imports, while demand for exports contracted sharply. The rapid depreciation of the *real* also caused complications for some companies and banks

with high exposure in the futures market, based on a supposed trend toward appreciation of the currency (Inter-American Development Bank 2009: 6).

Faced with problems such as these, how did states respond?

1.3 PROBLEM SOLVING

The more closely national policy environments align, the lower and more predictable the costs of commerce will be. Policy harmonization across borders can promote specialization and improve efficiency; common standards allow producers to better exploit economies of scale, improve a state's bargaining position in international negotiations, and assuage investor fears of currency risk through the coordination of monetary policies (El-Agraa 1999: 35). Accordingly, most economists view regionalism as welfare enhancing (Yadav and Khatri 2010: 2).

Continued success in international markets demands that states prioritize macroeconomic stability, correct microeconomic signals, the building of sound and thorough infrastructure, and the development of a well-prepared and competitive private sector (Plummer and Yue 2009: 8). Such policies signal that a state is a suitable destination for foreign investment. In 2008 and 2009, ASEAN members were eager to send such signals to the world — or at least to avoid a markedly protectionist response to the downturn (Johnston 2009). Mercosur members pursued a more differentiated state-based strategy, and shied away from regional cooperation and sustained liberalization as a means of mitigating the crisis.

Not all cooperation is equal. Some cooperation fine-tunes existing agreements. Mutual recognition agreements or newly harmonized standards are examples of this. I

call this *technical cooperation*. Its counterpart, *strategic cooperation*, refers to larger-scale framing agreements, implementation plans, and directives that drive forward new modes of cooperation. This distinction is important: strategic cooperation is part of the dependent variable; technical cooperation is not.

In late 2007, as the American market began to show signs of instability, ASEAN members took steps to create the ASEAN Economic Community (AEC). The objective of the AEC was the creation of a European-style common market (Plummer 2009: 1). This would allow for “a reduction in the costs of doing business in the region, diffusion of best practices, and more extensive integration with global production chains” (Ibid.). The deep level of integration required to meet this goal demanded sustained cooperation in a variety of sectors.

Institutional responses to the crisis varied widely. ASEAN members signed off on numerous agreements and strategies in the late 2000s. Between 2008 and 2011, ASEAN members agreed to new twenty-six instances of new *strategic* cooperation. These included the creation of a regional infrastructure fund, commitments to pool resources and sovereignty in order to enhance food security, the ASEAN Exchanges Initiative, and a marketplace designed to connect foreign investors with Southeast Asian government debt (ASEAN 2012: 7-9). The ASEAN Comprehensive Investment Agreement granted national treatment to foreign investors in certain industries, and has been credited with dramatically increasing FDI inflows to ASEAN (Deutsche Bank 2013).

In conjunction with four hemispheric partners², ASEAN members adopted the Chiang Mai Initiative Multilateralization Agreement in December 2009. Rapid capital outflows in 2008 pushed both Indonesia and Vietnam into a liquidity squeeze (Kawai

² China, Hong Kong, Japan, and the Republic of Korea.

2009). A “currency swap agreement designed to minimize short-term liquidity problems and regional balance of payment issues”, the Chiang Mai Initiative promised to prevent such a situation from reoccurring (Toohey 2013: 155).

Protectionist sentiment was not absent in ASEAN. It was prominent in Laos, Indonesia, and Malaysia (Johnston 2008). However, it was suppressed, and the bloc remained focused on promoting regional trade, foreign investment, and a healthy liberal economic order.

For example, Vietnam moved to manage severe macroeconomic instability with an expansionary monetary policy and by broadening its exchange rate band (Van 2009). Hanoi explicitly avoided anything that could be perceived as a protectionist response, instead doubling down on “trade promotion activities and [expanding] export markets to regions which are less affected by the financial crisis” (Government of Vietnam 2008). Hanoi used stimulus packages and loan rescheduling to support maintain a trade surplus by supporting the agriculture sector and import substituting industries (Ibid.).

New strategic cooperation was scarce in Mercosur. The Common Market Group (CMG) passed seventy-one resolutions in 2008, forty-one in 2009, and fifty-eight in 2010. Almost all fine-tuned earlier policies designed to lower barriers to the movement of people, goods, and money (Organization of American States 2015). They did not lay down avenues for new cooperation. At the same time, the Common Market Council (hereafter the CMC, a more senior body than the CMG) passed a similar number of primarily technical resolutions. The CMC issued fifty-nine decisions in 2008, thirty-three in 2009, and sixty-seven in 2010 (Ibid.) Both bodies were far less active at the peak of the crisis in 2009 than in the preceding or following years.

Strategic cooperation occurred only at the sub-regional level: in October 2008, a local currency payment system was established between Argentina and Brazil. However, this was a bilateral deal which did not originate with Mercosur and was not accessible to Uruguayan or Paraguayan exporters (Inter-American Development Bank 2009).

This technical, unambitious regional cooperation took place against a backdrop of animosity and trade conflict. In Argentina, a serious drought presented new challenges to the agricultural sector (Carranza 2010: 10). This compounded existing problems of capital withdrawal, fluctuations in stock markets, and declining export demand. In an attempt to combat growing trade deficits, Argentina and Brazil both implemented protective licensing systems in 2009. This helped to create what Carranza characterizes as a “full-fledged trade war” (Ibid: 12). Historically, Mercosur members have resorted to protectionism when confronted by economic instability (Fabbri 2005: 11), and the 2008 crisis does not prove an exception to the rule.

1.4 OBJECTIVES

Academic writing about regionalism and cooperation is not new; scholarship on the behaviour of regional institutions in times of instability is. Borrás and Kluth’s 2003 article “Integration in Times of Instability” examines how formal cooperation adapts and struggles to cope with changing economic and political conditions (Borrás and Kluth 2003: 207), but most international relations work instead focuses on how institutions regroup during a recovery (e.g., ASEAN’s post-mortem on the causes of the 1997 East Asian crisis, or Mercosur’s early 2000s re-launch).

In chapter two, many schools of thought about regionalism are gathered together. Their expectations and merits are discussed, and those suitable for further testing are

identified. My research method is outlined and defended in chapter three. This chapter also defines important terms, and describes the comparison and process tests used to gain leverage over each of the three core hypotheses.

Chapters four through six present results. Chapter four examines flexibility as an independent variable. It tests the theory that institutional flexibility determines the extent to which states are able and willing to cooperate. Chapter five looks at the effects of asymmetric vs. symmetric interdependence. It tests the theory asymmetric interdependence shapes regional politics, with more asymmetric groups experiencing lower levels of cooperation. Chapter six reviews the regional identity and the social construction of the region. It tests the theory that group identity holds the key to explaining regional behaviour, and that states which have been socialized to think of themselves as having something significant in common will be more likely to act as one. The conclusions of the thesis are presented in chapter seven. Chapter seven summarizes the findings of each results chapter, and explores the consequences of these findings for theory and policy.

CHAPTER 2 LITERATURE REVIEW

Why do some groups of states use regional institutions as platforms for cooperation in times of crisis, while others act unilaterally? The chapter reviews theories of international relations, international political economy, and economics. All explain different aspects of international cooperation, regionalism, and regionalization. Some of these theories grew out of political science and are primarily concerned with explaining state behaviour. Those grounded in economics identify the incentives states have to manage, grow, or safeguard commercial interdependence. Political science explains regionalism's emergence. Understanding how regions develop and how they are designed can help explain why they act differently under pressure.

This chapter identifies theories suitable for further development and testing. These theories must meet two core criteria: they must explain how regional cooperation emerges, and why variation exists between regional institutions.

2.1 ECONOMIC THEORIES

Classical economic theory posits that “each country will focus on goods that it can produce at relatively less cost than other countries, and exchange the surplus against the surplus goods other countries produce relatively more cheaply” (Chacholiades 1978: 14). This creates a worldwide division of labor, in which efficiency drives specialization and supply and demand determines the terms of trade (*Ibid.*). Factors such as regulatory barriers and geography will also define patterns of cross-border exchange.

Trade theory remains underpinned by the basic expectations of comparative advantage. These also underpin the political doctrine of free trade, the ultimate goal of

trade liberalization.. Free traders hold that the “adoption of the principle of comparative advantage or comparative cost would ensure that a country would achieve greater economic welfare through participation in foreign trade than through trade protection” (Gilpin 2001: 198). So understood, “the primary purpose of exports is to pay for imports rather than to enhance the power of the state” (*Ibid.*).

Policy changes can influence factor prices. The removal of tariff protections helps to redirect international trade (Balassa 1965: 103). Conversely, new regulations or political risks in one country can create harmful externalities for trading partners.

2.2 GEOGRAPHY

Geography directs flows of goods, people, and money. Frankel (1997) argues that “distance between a pair of countries is an important natural determinant of the volume of trade between them [...] any bilateral model of trade must take distance into account” (1997: 40 and 48). Fishlow and Haggard (1992) hold that lower shipping costs and larger flows of information make states are more likely to trade with their neighbors than with partners on the other side of the globe (1992: 12). This argument draws on the work of Linneman (1966), who argued that distance influenced trading patterns through shipping costs, shipping time, and unfamiliarity with foreign business practices. Neighboring states enjoy a natural system of commerce, and have a stronger incentive to manage and grow interdependence.

2.3 PREFERENTIAL TRADING POLICY

States negotiate trade agreements in order to secure larger markets, access foreign technologies and investment, create bargaining blocs, stabilize neighbors in order to limit spillovers, and enhance competitiveness of increasing returns to scale industries in global markets (Schiff and Winters 2003: 6). Regional trade agreements reduce costs for businesses. When endowed with centralized enforcement power, they can ensure that protectionist states do not introduce new costs to the system. This does not explain why differences emerge in the design of regional agreements, or why institutional responses to economic crises diverge. Political science theories are well suited to this task.

2.4 FUNCTIONALISM

Functionalism contends that international political institutions follow from frequent economic interactions between states. As linkages grow, so too do incentives to eliminate the costs created by national policy differences. New regional institutions lower the cost of doing business, and give members of the pact an advantage when doing business with each other. This drives further interdependence. Regionalism is a response to a need: increasing interdependence means that national interests become intertwined, and that sovereignty pooling maximizes welfare (Mitrany 1968: 60; Mattli 1999: 19).

Functionalism explains why regionalism emerges, but it says little about why different regions will respond to crises with cooperation or unilateralism. It will not be tested in this thesis.

2.5 NEOFUNCTIONALISM

Neofunctionalism emerged in the 1960s to meet the growing demands of European integration studies. It is a dedicated theory of regional integration. Neofunctionalism sees pre-existing cross-border transactions as central to the process of integration. Neofunctionalist theory expects that cooperation in a few areas will rapidly "spill over", causing integration to steadily grow in scope (Haas 1968: 152; Stone Sweet 2012: 3).

As a region moved toward a full common market, state power would be increasingly constrained by the creation of a "large space for economic exchange beyond the direct reach of state control" (*Ibid*: 4). Very specific processes of cooperation would create a loop of positive feedback (Moravcsik 1998: 13). In time, the state would become subordinate to the supranational agency.

Growing from common assumptions about the organic nature of regionalism, functionalist and neofunctionalist explanations share the same weaknesses: neither accounts for differences in the behaviour of regional institutions. Moravcsik's work on intergovernmentalism, discussed at length later in this chapter, builds on functionalist premises but also considers the roles played by domestic politics, the balance of power, and interstate negotiations. This helps to account for differences between regions. Thus, functionalism and neofunctionalism will be included in the research design only as components of intergovernmentalism, and not as stand-alone theories.

2.6 LIBERAL INSTITUTIONALISM

Liberal theories of international political economy share some assumptions with the functionalist and liberal economic perspectives outlined above, but focus on how international institutions can solve cooperation problems. These institutions can be formal or informal; some have doors and headquarters and legions of staffers, while others are “recognized patterns of practice around which expectations converge” (Keohane 2005: 8).

Liberal institutionalists hold that the specific sets of organized rules, codes of conduct, and administrative structures underpinning a regional arrangement bear on the institution’s functionality (as discussed variously in Nye 1968; Keohane and Nye 1977; Yarbrough and Yarbrough 1997; Keohane 2005; Murray and Orcalli 2012). Liberal institutionalist studies focus on factors such as institutional design (see Abbott and Snidal 2000; Jupille and Snidal 2005; Koremenos, Lipson, and Snidal 2001), dispute resolution mechanisms (Yarbrough and Yarbrough 1997), or policy harmonization between members (Nye 1968; Schiff and Winters 2003).

2.7 RATIONAL DESIGN

A more specific evolution of liberal institutionalism is found in work on rational design. Design differences between international institutions are not random (Koremenos, Lipson, and Snidal 2001: 763). Regional organizations differ in scope, restrictions on membership, the degree to which power is centralized, voting procedures, and in how they address uncertainty (Ibid: 770). These “dimensions” are in turn influenced by three independent variables: distribution problems, enforcement problems, and the number of

actors in an organization (and the power relations amongst them). Koremenos, Lipson, and Snidal present a collection of hypotheses which capture the relationship between each dimension and each dependent variable. For example, they argue states will try to retain more control over national policy when they are uncertain about the state of the world (Ibid: 791), or that institutional membership will be more inclusive if distribution problems are more severe (Ibid: 784).

The rational design literature explains why international institutions look the way they do. It does not immediately explain why they respond in different ways to sudden changes in the global political or economic environment. Can the variables used in rational design studies be employed as variables in this thesis? A thorough study utilizing all of the rational design variables and exploring the relationships between them could help answer the research question, but due to space constraints only a single variable will be studied further. Flexibility — an institution’s capacity to cope with uncertainty — is the one rational design dimension which specifically addresses the responses of international organizations to instability and change. Understanding the causes and effects of institutional flexibility may account for differences in group behaviour when confronted with instability.

Koremenos, Lipson, and Snidal make three predictions about flexibility:

1. “Flexibility increases with uncertainty about the state of the world.”
2. “Flexibility increases with the severity of the distribution problem.”
3. “Flexibility decreases with number.” (Ibid: 794).

Uncertainty is a barrier to international cooperation (Koremenos, Lipson, and Snidal 2001: 765). Treaty negotiators seek flexibility clauses to insure against uncertainty. This uncertainty takes many forms, including political shocks, swings in the price and supply of traded goods, and liquidity crises (Milner and Rosendorff 2001: 833). A large literature examines the effects of flexibility mechanisms on international negotiations and institutional cohesion. Cooperation is more easily reached when flexibility provisions are present (Ibid: 835). The rational design literature and the broader writing on flexibility clauses (see Koremenos, Lipson, and Snidal 2001; Milner and Rosendorff 2001; Jupille and Snidal 2005; Koremenos 2005; Johns 2014) give a logical and process-oriented explanation of how one element of institutional design influences state behaviour.

2.8 REGIONAL IDENTITY

Constructivist scholarship is interested in how social life is constructed. It is interested in the role of ideas in relations between people — and between states (Fearon and Wendt 2002: 57). Alexander Wendt holds that “structures of human association are determined primarily by shared ideas rather than material forces” (Wendt 1999, in Pace 2003: 167). This rejection of material explanations for political behaviour means that constructivist accounts of regionalism focus on how political spaces are created and collective identities forged.

Michelle Pace argues that the region is the product of discursive practice: it is always in the making and as a concept is neither fixed nor unified (Pace 2003: 161). How has the region been socially constructed, and how strong is regional (versus national)

identity? These questions hold the key to explaining the behaviour of regional institutions and their members in times of instability. It is also important to consider whether the members of a given institution share a common ideational framework, or whether an identifiable regional “core” (often an idea or collection of ideas) provides better opportunities for regional problem solving (Higgott 1998: 54). Versions of this approach find some currency across disciplines.

2.8.1 Regionness

Andrew Hurrell (1995) and Björn Hettne and Fredrik Söderbaum (2000) explain regionalism using some elements of social constructivist arguments. "Instead of focusing solely on material incentives, constructivists emphasize the importance of shared knowledge, learning, ideational forces, and normative and institutional structures" (Hettne and Söderbaum 2000: 460). Thus, Hettne and Söderbaum are concerned with the means by which regions are socially constructed. They break down the process of regionalization into levels of "regionness". This measures both the internal coherence of a given region and the extent to which it is distinct from the rest of the international system (Ibid: 461).

Organizations whose members exhibit greater regionness, and who are inclined to act as a whole rather than as a collection of disparate units, are more likely to succeed. Cooperation succeeds when the *de jure* region matches the *de facto* region delineated by history, culture, and ideas. The highest level of regionness, regional society, is characterized by interdependence and by the erosion of state-centric decision-making. It

is analogous to a localized variant of the "international society" of the English School (Ibid: 465).

Constructivist approaches and the related *new regionalism* of Hurrell, Hettne, and Söderbaum suggest that ideational factors and state/regional identities play an important role in determining the fortunes of international cooperation. These approaches offer thorough accounts of why regional institutions react differently to instability. Variations in ideational factors influence how states come together and whether or not cooperation persists amidst systemic uncertainty. As a result, constructivist and new regionalist positions are used in tandem to inform my study of regional cohesiveness as an independent variable.

2.9 REGIONAL LEADERSHIP

Hegemonic stability theory is grounded in realism. It holds that order in world politics is elusive, and that cooperation requires the oversight of a single dominant power (Keohane 2005). This implies that "cooperation, which [Keohane defines] as the mutual adjustment of state policies to one another, also requires the perpetuation of hegemony" (Ibid.) Hegemony need not be expressed solely in strategic, political terms; it can also be a product of economic preponderance (Keohane 1980: 38).

Often associated with politics at the global level, hegemonic stability theory can also be applied to the regional arena, where it is known as regional leader theory. As Mattli (1999) argues, "chances for successful integration improve considerably if there is a regional leader capable of serving as an institutional focal point and willing to act as a regional paymaster" (Mattli 1999: 160). Such a state guides the integration process and

alleviates distributional tensions. In their study of the global trading order, Fishlow and Haggard (1992) note that even if hegemony is not a necessary prerequisite for regional cooperation and integration, it can and will shape regional institutions.

Advocates of the regional leadership thesis must address the fact that there exist very successful institutions without regional leaders, and failed (or failing) institutions with hegemonic leaders. Mercosur has such a state – Brazil. However, Mattli notes that Brazil has been reluctant to use its weight to assume active regional leadership. Presciently, he also notes that “in the absence of active Brazilian leadership, Mercosur is unlikely to develop much beyond today’s imperfect customs union” (Mattli 1999: 162). Given this glaring empirical problem with realist explanations of regionalism, regional leadership theory is not tested in this thesis.

2.10 DOMESTIC LOBBIES

Some authors have argued that regionalism is rooted in domestic politics. Discussed in detail by Milner (1997 and 1998) and supported by the cross-disciplinary work of Shibata (1967), Helpman (1999), Perales (2003), and Baccini and Dür (2012), this theory holds that regionalism is the product of "the calculations of political leaders, whose first priority is getting re-elected, and is constrained by the need for domestic ratification of any agreement negotiated" (Milner 1998: 20). If there is sufficient domestic demand for liberalization, policymakers will respond accordingly. This theory is indebted to both the rationalist (by seeing outcomes as the products of utility-maximizing decisions by policymakers) and functionalist (by seeing policy shifts as following from widespread demand) traditions.

The success of regionalism in this theory is contingent upon the presence of major firms and their ability to take advantage of increasing returns to scale (Milner 1997: 80). The industrial structure of a regional organization's membership impacts the extent to which policymakers will be willing to surrender sovereignty.

A domestically-oriented theory of regionalism explains how the region emerges, why differences between regions develop, and how/why regions respond to systemic crises in certain ways. However, it also presents levels of analysis problems. The research question posed in the previous chapter focuses on the cooperation in the context of regional institutions. This thesis examines regional institutions, not the domestic politics of their members. Given space and time constraints, it is impractical to examine the complexities of cooperation's domestic determinants.

2.11 INTERGOVERNMENTALISM

Intergovernmentalism combines theories of national preference formation, interstate bargaining, and institutional choice to explain substantive outcomes (Laursen 2003: 4). Intergovernmentalism sees international institutions as guarantors of "credible commitments" to cooperation and policy harmonization (Ibid). Like functionalism, intergovernmentalism views cooperation as a tool for managing growing international interdependence (Moravcsik 1998: 35).

Intergovernmentalism grew out of Andrew Moravcsik's writings on European integration. Moravcsik argued that shared economic interests had created a demand for integration, that national preferences were determined largely by domestic factors (such as lobby groups and political structures), and that relative power positions and intense inter-state bargaining determined the outcomes of transnational negotiations (Ibid: 5).

Integral to the intergovernmentalist approach is an understanding of (a) how national preferences are formed, and (b) how states rank and defend these preferences when coordinating policy, delegating sovereignty, or pooling resources to build international institutions. At its core, Moravcsik's intergovernmentalism is an argument that integration develops as the rational response to constraints and opportunities presented by shared economic interests, the distribution of power, and the exigencies of local politics (Ibid: 18). Integration does not come from above, but rather is reflective of state-level realities and power (im)balances.

Intergovernmentalism explains a process through which regionalism emerges, and offers up an account of why not all regional institutions look the same. It synthesizes elements of several other traditions — neofunctionalism, realism, and domestically-oriented theories —to present a unified, comprehensive, and generalizable story about regional integration. This thesis tests one specific component of intergovernmentalism, asymmetric interdependence. States derive varying utility from international agreements, which determines their willingness to make concessions in negotiations (Moravcsik 1998: 60:).

Rather than testing each component of the intergovernmentalist account, I focus on one piece of the puzzle not served by the other theories discussed in this thesis. National preferences were discussed in brief in the introduction and are revisited throughout this thesis. Asymmetric interdependence is the filter through which preferences must pass before they are reflected in a treaty. Varying levels of dependence between states may also account for differences in regional behaviour during crises. As a

result, intergovernmentalism is used as a basis for my study of asymmetric interdependence as an independent variable.

2.12 CONCLUSION

What theories will be carried forward into the research design, and why? Good theories offer coherent, testable, and logically consistent explanations of state behaviour. For the purposes of this thesis, they must be able to perform two tasks: they must be able to explain how regions come about, and they must be able to explain why regional institutions manage instability in different ways. A good theory also lends itself to answering the question of why regional responses to systemic crises are not uniform. Theories which carry out only one of these tasks are by no means useless, but are not suited to thorough testing in this thesis. My objective is to test those theories which are parsimonious, generalizable, easily testable, and relevant to the criteria outlined above.

Economic theories do not deal sufficiently with process. They are useful insofar as they tell us *why* states trade with each other and in part why trade concentrations vary between regions, but cannot account for how regionalisms come into being or why they achieve widely varying levels of success.

Functionalism and neofunctionalism present sound explanations of process, but insufficiently address regional variations. They tell us how regions come into being, but this helps little in the core matter of addressing why regions respond to crises differently (or why regional institutions in different places are endowed with such different capacities).

The other political science theories reviewed do deal with process and regional variations. Liberal institutionalism and the rational design literature say something about both process and variation; the latter, in particular, can account for why regional institutions behave differently. Thus, liberal institutionalist writing on rational design will be further tested, as outlined in the forthcoming research design. Policy harmonization literature, however, does not explain why cooperation emerges or how regional institutions come into being (although it can say something about variations). The typologies found in the work of Nye (1968) and others are used primarily as a means of measuring regional institutionalization, rather than as the basis for a theory of regionalism and institutional behaviour.

The various theories associated with constructivism (including those of the “new regionalism” and the English School) explain how regionalism develops and why differences emerge. Realism, present here as the hegemonic stability/regional leadership theory, also explains how cooperation is able to occur and how regionalism may come into being; it can also explain variations between regions, and why responses to systemic crises will not be uniform. The previously discussed empirical failure of traditional regional leader theory means that it will not be carried through to the research design.

Second-image theories explain how regionalism emerges, how variation occurs, and why regional institutions behave differently in response to systemic crises. However, as my research question focuses on regional institutions rather than their component states, this approach will not be examined further.

Three theories are outlined for testing in the research design. One variable is associated with each approach. These theories are based on rational design,

intergovernmentalism, and constructivism. While other theories explain aspects of the research question — why states trade, for example, or why variations occur in how regional institutions respond to systemic crises — each of the theories listed above is able to tell a coherent, testable story about cooperation, region-building process, and institutional variation. They will be examined at length in chapter three.

CHAPTER 3 RESEARCH DESIGN

Why do some groups of states use regional institutions as platforms for cooperation in times of crisis, while others choose to act unilaterally? This thesis tests three accounts of cooperation in an attempt to explain why regional organizations are not uniformly used to manage economic instability. Each approach is tested by means of comparison between the outcomes observed in Mercosur (decreasing interdependence) and ASEAN (increasing interdependence), and through process tracing for each region.

This research design outlines the means of measuring the dependent variable and three independent variables. As my objective is to identify why some regions (but not all) cooperate under stress, the dependent variable measures the quantity and intensity of formal, region-level cooperation which occurred over the a two year period roughly beginning in September 2008.

The independent variables examined are institutional flexibility, asymmetry of regional interdependence, and regional “cohesion”. Each of these variables is a hallmark of a competing explanation of regional cooperation.

3.1 HYPOTHESIS

Why do some groups of states use regional institutions as platforms for cooperation in times of crisis? I test three core hypotheses in order to answer this question.

The first hypothesis holds that the design of the regional institution (specifically the inclusion of flexibility provisions) determines whether or not states will cooperate. Members of less flexible institutions are less likely to cooperate.

The second hypothesis contends that asymmetries of interdependence within regional groups establish the conditions for cooperation. Cooperation is more likely in organizations whose members exist on a level playing field. Blocs within which there are large asymmetries of interdependence have a harder time coalescing in times of instability.

The third and final hypothesis approaches the region as a social construct. States with a cohesive identity and normative foundation will have an easier time cooperating in crisis than those without.

The literature review collected and sorted through numerous competing schools of thought about international cooperation. The following chapters will test each hypothesis, one by one, in order to determine which offers the most compelling explanation of regional cooperation (or lack thereof) amidst instability.

3.2 METHOD

This thesis employs a qualitative approach involving process tracing and comparisons. Large-n statistical tests are ill-suited to the nature of this study. If we are trying to understand which factors determine the success of regionalism in middle-income/emerging areas, and if our research asks why responses to crisis vary across regionalisms, then the choices for study are limited: ASEAN and Mercosur are the only RTAs at this income level which exhibit both substantial institutionalization and widespread policy integration. There are too few cases to provide the data necessary for satisfying statistical tests.

The choice to follow a qualitative approach was not dictated merely by lack of appropriate data. This thesis rests upon a two step research design, which employs both comparisons and theory-guided process tracing. Process tracing maps the appropriateness to the cases of each of the three competing theories of integration, while comparisons act as additional checks on the hypotheses.

This design allows for greater understanding of the processes and patterns which underpin regional institutions. The initial comparison test checks a basic “correlation”: is the region with more x also the one with more regionalism? The process tests are a further check on each theory. They allow us to test each theory’s causal sequence. In order for any other theory to clearly "win" the challenges put forth in this thesis, it will need to demonstrate that it is well suited to explaining the cases of both ASEAN and Mercosur.

Process tracing is the act of using diverse primary and secondary sources to better understand the unfolding of events over a period of a time and, in turn, to evaluate hypotheses based on these findings (Collier 2011). It allows the researcher to assess the degree to which the causal mechanisms posited by competing theories are supported empirically. Rather than looking simply for correlations in data sets, process tracing "can help a researcher establish that: (1) a specific event or process took place, (2) a different event or process occurred *after* the initial event or process, and (3) the former was a cause of the latter" (Mahoney 2012: 571).

As Bennett (2010) notes, process tracing is valuable in that it yields "inferential leverage on two problems that are difficult to address through statistical analysis alone";

the first such problem is the matter of establishing causal direction (which came first: X, or Y?), while the second is that of potential spuriousness (Bennett 2010: 209).

Four empirical tests can be employed in process tracing as means of establishing causal inference: the hoop test, the smoking gun test, doubly decisive tests, and straw-in-the-wind tests. The hoop test searches for necessary but insufficient evidence (Mahoney 2012: 580). A single straw-in-the-wind test provides neither necessary nor sufficient evidence to support a theory, but several together provide “important affirmative evidence” of a causal process (Collier 2011: 826). Smoking gun tests provide sufficient but not necessary evidence for causal inference (Ibid: 827). The analysis presented in the following chapters relies primarily on multiple (unnamed) straw-in-the-wind tests.

3.3 WHY THESE COMPARISONS?

Southeast Asia and Latin America share long histories of regionalism. The most successful institutions in each region are ASEAN, going back to 1967, and Mercosur, founded in 1991 (Dabène 2009: 62). Both were preceded or complemented by other agreements, and both have evolved extensively throughout their respective histories. ASEAN and Mercosur are both very large blocs in terms of population, gross regional product, and geography (respectively, the third and fourth largest regional trading arrangements globally in 2013; as per Garcia, Pabsdorf, and Gomez Herrera). Each is defined by significant intra-bloc disparities, given the common existence of a relatively wealthy, semi-developed core versus a less industrialized and less politically stable periphery.

3.4 POLITICAL AND HISTORICAL CONTEXTS?

Outwardly, both blocs have similar economic goals: they are “open” regionalisms designed to interface with the multilateral capitalist system. They purport to be what Jagdish Bhagwati called “stepping stones” to a global free trading order. Both experienced very rapid growth during the first decade of the 2000s. They were also affected by common trends afflicting many emerging markets in the 1990s and 2000s: openness and economic liberalization brought about high growth rates and record capital inflows. Additionally, economic instability continued to present challenges in each region, with crises occurring in Mexico in 1994, across East and Southeast Asia in 1997, in Brazil in 1999, and in Argentina in 2001-2 (as per Glick, Moreno, and Spiegel 2001; Gomez Mera 2004: 64).

The domestic politics of the major partners in each bloc are characterized by fragile democratization. In ASEAN, this means that in states such as Indonesia and Malaysia, the traditional consensus on authoritarian power has been by a new focus on participatory governance (Nair 2011: 249). The re-emergence of democracy in Argentina and Brazil was likewise a major impetus for Latin American integration in the 1980s and 1990s. As Olivier Dabène writes, “regional integration was supposed to bring prosperity, and in turn economic growth would help consolidate democracy” (Dabène 2009: 62). While there remains significant variation in the political structures of ASEAN members, in each bloc the largest and most influential partners act within the constraints of democracy.

The choices of both blocs are made in the shadows of larger extra-regional political-economic powers. ASEAN seeks to balance and hesitantly cooperate with

China, while the rhetoric of Mercosur governments oscillates between suspicion of Washington and a desire to gain preferential access to the American domestic market (Carranza 2010: 15). These fraught international relations have significant effects on the politics of each region.

3.5 EFFECTS OF SYSTEMIC CRISES?

Examining the way regional groupings behave during an economic crisis further limits the number of relevant cases. The 2008 global crisis is a convenient point of departure. It inhabits the recent memory of scholars and policymakers. It was felt around the world. More importantly, it did not originate in either region studied in this thesis: the crisis began elsewhere, and was not the result of market or regulatory failures or political factors in any member state of ASEAN or Mercosur. I will briefly summarize the effects of the crisis, which were previously outlined in the introductory chapter.

The “collapse” stage of the global financial crisis, which followed the implosion of Lehman Brothers in September 2008³, saw economic growth slow across both regions discussed in this study.

The economic crisis impacted ASEAN and Mercosur in similar ways. Insecurity was transmitted in both cases through the trade and investment (e.g., indirect) channels, rather than through the “direct” financial channel. Largely due to sound banking regulations, the ASEAN countries were insulated from the crisis' direct effects (Kawai 2008; Kawai 2009: 6; Leung 2014: 4). Financial contagion is accorded little space in

3 Milesi-Ferretti and Till (2010) divide the crisis into four stages: “The pre-crisis period runs from early 2006 to the second quarter of 2007. The initial stage of the crisis starts with the outbreak of stress in financial markets in the summer of 2007 and runs until the collapse of Lehman Brothers in 2008. The collapse stage of the crisis runs for two quarters following the fall of Lehman Brothers, while the final recovery stage of the crisis covers the last three quarters of 2009” (2010: 9).

literature on the crisis and Mercosur, while significant attention is given to the effects of capital flow contraction and falling export demand.

The crisis saw capital flows dry up across Southeast Asia and Latin America. Global capital flows swelled in the early and mid 2000s; some of the most popular destinations for investment were “high-yielding emerging [markets]” (Julia Leung identifies Indonesia as being a perfect example (Leung 2014: 4)). The intensification of the financial crisis in late 2008 “was characterized by a broad reversal of capital flows, with investors across the globe liquidating holdings abroad” (Milesi-Ferretti and Tille 2010: 1) and moving their money to safer assets (Leung 2014: 5).

This large-scale divestment from international markets threatened to destabilize the economies of many countries in Asia and South America. Vietnam and Indonesia were faced with significant liquidity problems (Kawai 2009: 6), and withdrawal of capital exacerbated existing economic difficulties in Argentina and Brazil (Carranza 2010: 10)⁴. Arturo Gallén, in his writings on the impact of the crisis in Latin America (particularly in Brazil), notes that “resources draining out of the money and capital markets toward safer investments like United States treasury bills not only affected financial variables, but also caused sharp currency devaluations in the last months of 2008 and the beginning of 2009.” (Gallén 2011: 196).

Export demand was sharply reduced following the crisis. The Asian Development Bank noted that “[East Asia] must take steps to rebalance growth away from its high dependence on exports to the advanced economies” (Kawai 2009: 3) Export dependence exposed the fragility of the dominant growth models of countries across both blocs (Ibid.;

4 Particularly in Argentina, where industry is more reliant on foreign financing (Ocampo 2010: 10).

Mercosur Report 2010: 6). The situation in Mercosur was also compounded by sharp declines in commodity prices (Mercosur Report 2010: 6).

These factors — the external origin of the collapse, and its real-channel spread to international markets — make the 2008 crisis a unique political moment deserving of scholarly attention.

3.6 SPECIFYING TERMS AND CONCEPTS

Interdependence and cooperation in the context of formal regionalism is at the heart of the dependent variable. The extent to which markets are becoming integrated across national borders can help to illustrate the success (or failure) of regionalism.

Regionalism refers to groupings of states, formal or informal, which seek to create optimal conditions for economic exchange, the maintenance of peace, or who may seek to optimize their position in the face of a common threat (Mansfield and Milner 1997: 590; Borzel 2011). Andrew Moravcsik explains regionalism — indeed, all international cooperation — as “an effort to arrange mutually beneficial policy coordination among countries whose domestic policies have an impact on each other” (Moravcsik 1998: 35).

It is important to differentiate regionalism from regionalization.⁵ In order to distinguish between the two, I draw upon the work of Fishlow and Haggard (1992) (who categorize *regionalization* as being a process associated with the concentration of economic activity within a region⁶, and *regionalism* as a political process defined by economic policy coordination amongst countries, which in turn furnishes states with

⁵ Many authors use *regionalism* and *regionalization* interchangeably. For example, Mansfield and Milner (1997) view regionalism as being about increased levels of economic and political exchange amongst a group of countries, which may or may not share geography.

⁶ Or, more precisely, “an economic process in which trade and investment within a given region [...] grow more rapidly than the region’s trade and investment with the rest of the world” (1992: 12).

preferential access to each other's markets), and also of Lorenz (1991). Lorenz directly addresses the matter of regionalism versus regionalization: one they see as the tendency to trade more with a given bundle of countries (regionalization), while the other (regionalism) deals with the political imperative of forming protective blocs (although the author is using the terminology in reference to events in the 1930s and 1940s, so the protectionist angle will be less important here).

A similar definition is employed by Kacowicz (1998: 9):

Regionalism refers to the proneness of the governments and peoples of two or more states to establish voluntary associations and to pool together resources in order to create common functional and institutional arrangements [...] *regionalization* is the growth of societal integration within a region, including the undirected processes of social and economic interaction among the units.

In such a view, regionalism is the *de jure* integration outlined by Kerremans and Switky (2000) and Aminian, Ng, and Fung (2009) (as opposed to the *de facto* integration of regionalization).

This thesis focuses on regionalism, not regionalization. Regionalization is primarily an economic process. Regionalism allows us to study more substantial *political* questions. Regionalism divides into two types — closed and open — partially on the basis of divergent views on national economic policy (Milner and Mansfield 1997). Schiff and Winters (2003: 2) note, “many of the trade blocs formed between developing countries in the 1960s and 1970s were based on a model of import-substituting development, and regional agreements with high external trade barriers were used as a way of implementing this model.” This is *closed* regionalism in action. Likewise, *open*

regionalism is more outward looking and more committed to boosting rather than controlling international commerce” (*Ibid.*) Open regionalism has been identified elsewhere as the "progressive liberalization of trade" amongst members of a regional bloc (Higgott 1998: 53).

Both blocs under review in this thesis are generally considered examples of *open* regionalism.⁷ They are designed to better integrate their members into the multilateral trading system (and to build regional competitiveness) (Plummer 2009, and others).

Similar to regionalism, regional *integration* is “a state of affairs or a process which involves the amalgamation of separate economies into larger free trading regions” – or simply, an increase in economic interdependence, when employed less technically (El-Agraa 1999).

Interdependence occurs when patterns of commercial exchange create overlapping interests between disparate national markets (see Mastanduno 1991; Mansfield and Milner 1997; Kawai 2005; Ravenhill 2010). Some authors (ex., Maha, Frunza, and Mursa 2008) associate interdependence principally with globalization (itself a contested term, and one not used widely in this thesis): “[processes] of expansion of social, economic and political activities across [...] borders [...] come to have an impact and influence the lives of people in the other corner of the world” (Maha, Frunza, and Mursa 2008: 1). This definition of globalization aligns closely with traditional identifications of interdependence.

7 E.g., Aminian, Ng, and Fung (2009) note that ASEAN has been committed to facilitating the expansion of extra-regional trade. To this end, the bloc has pursued trade agreements with Australia, China, India, Japan, and others. On paper, ASEAN countries seem to be pursuing a broader regionalism, not limited to deepening trade in their own bloc per se, but rather in doing so continentally. Similarly, Garcia, Pabsdorf, and Gomez Herrera (2013) write that “Mercosur radically departs from protectionist views [and] follows a general trend to economic reform and more open regimes’ (339).

3.7 MEASURING REGIONALISM

The intensity of cooperation is easy to quantify: the development of new (or the implementation of existing) regional initiatives to address financial contagion, trade contraction, and liquidity shortages indicates a pooling of resources and a decision to solve problems at the regional, rather than national level.

In order to gauge whether or not the initiatives pursued were genuine working commitments to region-building and integration, or whether they were merely hollow (if politically expedient) gestures, I differentiate between *strategic* and *technical* cooperation. This distinction was outlined in the introductory chapter.

Some cooperation fine-tunes existing agreements. Mutual recognition agreements or newly harmonized standards are examples of this. I call this *technical cooperation*. Its counterpart, *strategic cooperation*, refers to larger-scale framing agreements, implementation plans, and others directives that drive forward new modes of cooperation. This distinction is important: strategic cooperation is part of the dependent variable, whereas technical cooperation is not.

3.8 APPROACHES

From the approaches discussed in the literature review, three theories about regional cooperation have been derived. Each theory presents a different argument about why states might turn to cooperation and existing international institutions in order to manage the effects of an economic crisis. These theories will be tested in chapters four through six of this thesis.

3.8.1 Rational design

Design variations between institutions are not random. States pool their resources in different ways according to the nature of the cooperation problems they face (Koremenos, Lipson, and Snidal 2001: 726). Complex interdependence renders cooperation feasible, but international institutions are more effective when states' needs are met and costs are most equitably distributed (*Ibid.* 767). Different cooperation problems, and different actors, demand different institutions.

In concert, a collection of variables (membership, scope, degree of centralization, control, and flexibility, as per Koremenos, Lipson, and Snidal 2000: 770-771) guide institutional design by raising or lowering transaction costs. Flexible institutions are a in response to severe distribution problems and systemic uncertainties. Institutions which are more flexible (with weaker lock-in mechanisms and which are better able to adjust their core rules and procedures to accommodate new circumstances) are better able to respond to crises and keep consensus amongst their members.

This research focuses on the role played by institutional flexibility. Helfer argues that flexibility mechanisms are a “hedge against uncertainty if the anticipated benefits of treaty-based cooperation turn out to be overblown” (Helfer 2012: 175). By giving states an easy exit strategy, such clauses enable more meaningful multilateral commitments. Escape clauses render states more likely to use an international institution as a forum for dialogue and cooperation.

Flexibility gives states insurance against unforeseen future events. This makes them more likely to sign on in the first place, and that gives the institution more

momentum. Flexibility lowers the costs of cooperation, rendering states more likely to seek out joint solutions to common problems. More flexible regional regimes will enjoy the routine participation of more states, and will be able to realize deeper levels of integration.

The first test of this theory compares the institutional flexibility of ASEAN and Mercosur. I compare the escape and exit clauses and safeguards to which ASEAN and Mercosur members have access, or which they have had access in the past. The theory suggests that there will be more cooperation where regional institutions are more flexible. Given that ASEAN produced more cooperation than Mercosur, I expect to find that ASEAN members had access to more extensive flexibility mechanisms.

Two process tests follow the initial comparison. The first explores the development of flexibility provisions in ASEAN and Mercosur, and asks if cooperation became more intense after new safeguards were made accessible to states. This test analyzes changes in the quantity or quality of formal flexibility mechanisms. I expect that the creation of new flexibility mechanisms will be followed by an increase in cooperation. Academic writing on cooperation and regional flexibility, as well as publications from ASEAN, Mercosur, and individual will provide empirical support for this test.

A second process test examines the recent history of trade disputes and regional politics in both ASEAN and Mercosur. How often have rules been broken? Have flexibility clauses been invoked, or are disputes routinely settled through *ad hoc* political (versus legal, institutionalized) channels? I expect to find that disputes are more common where flexibility mechanisms are less plentiful. Academic writing on trade disputes, as

well as publications from ASEAN, Mercosur, and the World Trade Organization will provide empirical support for this test.

3.8.2 Asymmetric interdependence

Bargaining outcomes reflect asymmetric interdependence and the balance of power. The states least affected by an agreement have the strongest bargaining position: “the intergovernmental explanation focuses not on the availability of information and the intervention of supranational entrepreneurs but on the issue-specific distribution of bargaining power, which in turn reflects the nature and intensity of state preferences” (Moravcsik 1998: 60:). This determines the relative value a state places on a given agreement, which determines how willing it is to make concessions.

Regional preponderance arguments hold that the go-it-alone power of regional hegemons can alienate other states and undermine regional cooperation (Gomez Mera 2009: 752). Small states will have very limited negotiating power, uncertainty about the state of the region will abound, and the costs of cooperation will rise. This makes new cooperation will be very difficult to realize.

Asymmetric interdependence is a core component of intergovernmentalism. Intergovernmentalism is a dedicated theory of regionalism. It harmonizes expectations from functionalism, realism, and second image theory. In this view, regionalism begins with (typically economic) linkages between states.

Rather than testing each component of the intergovernmentalist account, I focus on one piece of the puzzle not covered by the other theories discussed in this thesis. Intergovernmentalism here illuminates the effects of patterns of asymmetric

interdependence, their impact on bargaining, and the roles they play in the development of international institutions.

While regionalism preceded by already high (or growing) levels of intra-regional economic activity will be focused on creating optimal conditions for commercial activity, its specific character will be determined by a combination of national preferences and the regional balance of power. Convergence of interests in one of a variety of sectors will be managed through the creation of international institutions.

Some states are more readily willing to cooperate than others. States with very large home markets (the best examples in my cases are Brazil and Indonesia) are less dependent on trade and have less to gain from regionalism than other partners; they will be likely to act unilaterally. As a result, they are less willing to make concessions in negotiations. Such states have significant power over regional cooperation, as their non-participation would compromise any agreement. Smaller partners are more likely to make sacrifices than to let negotiations collapse entirely.

The comparison test allows us to tie asymmetry into a larger story about chances for regional cooperation. Regions in which there are wide asymmetries of interdependence will find integration difficult and cooperation elusive and fragile. Smaller asymmetries in interdependence amongst bloc members are conducive to cooperation. The comparison examines market size and trade patterns in ASEAN and Mercosur in an attempt to identify differences in the distribution of interdependence within the two blocs.

The theory holds that the bloc with more symmetry will see more cooperation. If the theory is correct, ASEAN members will enjoy largely equal relations, while Mercosur

will be marked by patterns of asymmetric interdependence. The comparison test relies on quantitative data. This data shows the size of national economies relative to the regional total, each nation's primary trading partners, and each state's primary (national) sources of export revenue.

The process test of this theory examines the behaviour of the region's large and small states. Who is most enthusiastic about regionalism, and why? Are large states obstructive, because their gains are relatively smaller? Are small states less motivated to cooperate, because they feel they will become perpetual rule-takers? It is expected that small state discontent will be more pronounced in regions with large asymmetries of interdependence. This process test measures small state discontent by examining the statements of political leaders. By determining if leaders of more dependent states appear dissatisfied with some aspects of the integration process, I can gain a better understanding of prevailing attitudes toward regional cooperation. Determining how more and less dependent states view trading organizations allows us to understand why variations in regional cooperation occur.

3.8.3 Constructivism

Where conventional material explanations of regional cooperation fail, the constructivist approach gains traction. Stephan Haggard notes that the material case for East Asian regional integration in the 1990s was thin: substantive interests were divergent, and protected economies resisted widespread, coordinated liberalization (Haggard 1999: 46). In such situations, the constructivist account may be able to better account for regional cooperation. Constructivism suggests that regions with a clearly

understood "core", or with common and easily agreed upon identities, are more likely to form interdependencies and to institutionalize these interdependencies. Where states think of themselves as a cohesive whole, rather than as merely individual components, all cooperation is more likely to begin and more likely to succeed.

I begin by comparing levels of regional coherence to each other and against the dependent variable. States which identify with each other — with a collective, a regional whole — are more likely to cooperate in challenging times. The theory predicts that a strong regional and institutional identity will be positively correlated with of regional cooperation. This will be measured by examining cultural and commercial ties in history, the extent to which common regional norms are recognized, and the extent to which the region is understood as having a substantive and unchallenged political meaning. The data used in the comparison will come primarily from existing academic writing.

The strongest indicators of region identity will come in the form of persuasive evidence of prevalent and clear thinking, particularly amongst political and economic elites, of the region as a unit, rather than as a collection of disparate parts. As such, I am also looking for writings and public statements from members of such groups which suggest a regional rather than national orientation in thought. The writings of academics and journalists will also be used. Likewise, evidence of discourse, publicly or (better yet) in transcripts of meetings, in which regional "coherence" is used as a justification for pursuing a specific integrative path would be further suggestive of the political importance of regional identity.

3.9 CONCLUSION

“Good theory makes sense of ongoing events.” (Hettne and Söderbaum 2000: 459). *En route* to supporting its core hypotheses, this thesis tests three theories about international cooperation. The degree to which each theory is able to explain the responses of ASEAN and Mercosur to the Global Financial Crisis serves as a broader commentary on its ability to predict the behaviour of states and international institutions in challenging times. A rigorous, qualitative research design calls for process tracing tests for each variable and in the case of each region. The results of a theory's performance are then compared between the two regions.

One variable will be examined in each of the following three chapters. Chapter four explores the rational design of institutions. Chapter five assesses asymmetric interdependence. Chapter six examines constructivist accounts of regional cooperation. Finally, a chapter on conclusions explores the theoretical and practical implications of the tests performed throughout the thesis.

CHAPTER 4 INSTITUTIONAL DESIGN & INSTITUTIONAL FLEXIBILITY

Examining institutional design allows us to ask "researchable questions about how [institutions] operate and how they relate to the problems states face" (Koremenos, Lipson, and Snidal 2001: 761). The literature on rational design is used here as a means of examining the role of institutional flexibility in regional politics.

Flexibility mechanisms are insurance for states. They alter an agreement's costs and benefits, shifting the calculus in favour of cooperation and more ambitious multilateral commitments (Koremenos 2005: 549). What escape, exit, duration, or re-negotiation clauses are built into ASEAN and Mercosur?

Baccini, Dür, and Elsig note that "[states] seek an optimal degree of flexibility that allows for temporal breach and adaptation if necessary, but can be restricted through a set of rigidity tools. They face a classical time-inconsistency problem in designing escape clauses. They know they will be tempted to use such clauses in the future [...] But governments also assume that unlimited recourse to these opt-outs endangers the overall benefits of the agreement [...]" (Baccini, Dür, and Elsig 2013: 7). Negotiators must develop treaties from which it is neither too easy, nor too difficult, to escape (Rosendorff and Milner 2001: 835).

In addition to lowering the costs of cooperation for states, flexibility provisions can also lead to more durable international agreements. Johns (2014: 469) argues that making it harder to legally step away from treaty obligations *decreases* stability. In this situation, states are more likely to respond to domestic pressure with unilateral defection, rather than with temporary and predictable use of a safeguard or escape clause. This

undermines future cooperation by reducing the credibility of both individual actors and the agreement as a whole (Paiva 2004: 16). Flexibility clauses leave room for states to maneuver as circumstances demand, while preserving the predictability demanded by dialogue partners and foreign investors (Ibid.; Arnold and Rittberger 2013: 99).

Rigid agreements deliver compliance in the short-term at the cost of long-term institutional stability (Johns and Rosendorff 2010: 13). Stability is defined here as consistent, uniform compliance with treaty obligations: when a state unilaterally defects, the agreement permanently becomes weaker and less stable (Johns 2014: 471). By presenting managed, predictable alternatives to unilateral defection, escape clauses contribute to institutional stability (Rosendorff and Milner 2001; Rosendorff 2005; Johns and Rosendorff 2010; Johns 2014).

Existing work on institutional design suggests that dynamic organizations make safeguards accessible to their members under very specific circumstances. Was this the case in ASEAN and Mercosur in the late 2000s? Finding that ASEAN treaties contain more extensive or easily accessible safeguards would support the theory outlined above.

A second test measures the relationship between regional cooperation (pre-crisis) and the evolution of institutional safeguards. Did cooperation intensify as more flexibility measures became available to states?

A final test quantifies commercial disputes and unilateral defections. If an institution is historically unstable — if its members behave unpredictably — will states seek cooperative responses to new problems, or will they act unilaterally? Trends in state behaviour can indicate whether members view a regional trading agreement as a credible

vehicle (one important to the economic and political development of the region in the long term) or whether they see it as a disposable marriage of convenience whose true benefits are either confined to the short term, or are unrecognized or misunderstood.

This chapter makes an important contribution to the study of safeguards: they are examined here as they relate to regional and preferential trade agreements. While a large body of literature deals with the roles played by flexibility provisions in institutions, most work to date has examined the WTO and the GATT. Writing on flexibility provisions in regional trade agreements is scarce, possibly non-existent (Baccini, Dür, and Elsig 2013: 2). I begin to redress the lack of attention paid to flexibility mechanisms in regional treaties.

4.1 FLEXIBILITY MEASURES IN ASEAN AND MERCOSUR

What flexibility measures are available to ASEAN and Mercosur members, and how do they differ in substance?

Flexibility measures are institutional rules, procedures, and accepted practices that allow states react to new circumstances (Koremenos, Lipson, and Snidal 2001: 773). “[An] escape clause is any provision of an international agreement that allows a country to suspend the concessions it previously negotiated without violating or abrogating the terms of the agreement” (Rosendorff and Milner 2001: 830).

4.2 ASEAN

Flexibility mechanisms are found throughout ASEAN's core texts. The ASEAN Charter (2007), for example, enshrined a flexibility provision called "ASEAN minus X":⁸

"In the implementation of economic commitments, a formula for flexible participation, including the ASEAN minus X formula, may be applied where there is a consensus to do so." (ASEAN Charter, Article 21, Section 2).

This authorized states to implement economic commitments as they were able. It codified the existing "10 minus X" principle (Batra 2008: 136). These formulas enable a "two speed" approach to integration: the norm (or clause) allows states to delay liberalization if necessary, even as others tear down barriers (Inama and Sim 2015: 82). This allows states to sign treaties they are unprepared to implement. Using the typology set out by Baccini, Dür, and Elsig (2013), ASEAN-x is a form of short-term flexibility.⁹

Under the logic of ASEAN-x, the ASEAN-6 countries¹⁰ would have to implement the negotiated cuts by 2007, while the CLMV¹¹ states would have until 2012 (Hew 2006). The CLMV countries also enjoyed different timelines along which to adopt the ASEAN Free Trade Area (Aekaputra 2010: 375). As with all ASEAN decisions, ASEAN-x must be implemented by consensus; in the case outlined above, negotiators accepted variable rates based on the capacity of member states to implement and absorb changes (Ibid.).

⁸ ASEAN minus X goes by many different names. For stylistic reasons, I will call it "ASEAN-x" when not directly quoting another source.

⁹ Baccini, Dür, and Elsig divide flexibility mechanisms into two categories: short-term provisions are concerned with the process of bringing supranational policies into place (ex., tariff transition periods), while long-term flexibility gives participants an opportunity to insure against future domestic and systemic upheaval (ex., escape and exit clauses) (Baccini, Dür, and Elsig 2013: 6).

¹⁰ The original ASEAN members: Brunei, Malaysia, Indonesia, the Philippines, Singapore, and Thailand.

¹¹ Cambodia, Laos, Myanmar (Burma), and Vietnam.

The presence of measures such as ASEAN-x allows ASEAN to pursue an ambitious integration program, even though bloc members exist at many levels of economic development (Lissel 2011: 17). ASEAN-x lowers the costs of agreement for member states. It allows economically less developed countries to protect themselves a while longer. ASEAN-x is reminiscent of the "variable geometry" employed in some aspects of European regionalism, and has been viewed as making a positive contribution to the cohesiveness of the bloc (Murray 2009; ASEAN EPG 2006).

ASEAN-x is not the sole flexibility provision to which ASEAN member states have access. The 1992 Common Effective Preferential Tariff agreement (the foundation for the ASEAN Free Trade Area, or AFTA) codified many safeguards. It gave states the ability to suspend tariff preferences "provisionally and without discrimination", and to impose quantitative restrictions in order to protect domestic industries from large influxes of inexpensive foreign goods¹². Article nine presents an extensive list of general exceptions to the treaty.¹³

Helen Nesadurai characterizes contemporary ASEAN as being an organization built on "negotiated flexibility" (Nesadurai 1998: 28). ASEAN treaties are designed to realize deep regional integration, while preserving sovereignty and the ability of the state to address its own most pressing political and economic concerns (Ibid.).

The widespread presence of generous flexibility mechanisms points to ASEAN's institutional culture of non-interference (Haggard 1997). ASEAN espouses a permissive form of regionalism in which supranational agreements have limited legal bearing on the

¹² For example, in the face of rapid changes in foreign exchange rates.

¹³ These are consistent with the general exceptions allowed by the WTO, as per Siong 2011: 108.

abilities of individual states to conduct their affairs. In theory, this also means that treaties are essentially non-binding, and that opportunities for cheating abound.¹⁴

Since its infancy, ASEAN has been shaped by norm of non-interference. This is a manifestation of a strong institutional commitment to the “sanctity of national sovereignty” (Jones 2008: 272). Rüländ notes, "the ASEAN Way, the established repository of ASEAN cooperation norms, elevates non-interference into the internal affairs of other members and consensual decision making into crucial norms" (Rüländ 2011: 98). Majority-based decisions have long been rejected. Consensus systems are inefficient, but they can help to preserve the fabric of institutions whose membership is diverse (Nesadurai 2013: 442). The ASEAN-x principle preserves momentum within a system of consensus decision-making (Ba 2009: 134).

Incorporating easily invoked escape clauses allows ASEAN treaties to be both ambitious in scope and consistent with the norm of non-interference. In a 2007 article for the *Japan Times*, journalist Ralph Cossa identified the then-new ASEAN Charter as being imbued with continued commitment to the principle of non-interference: its weak enforcement mechanisms, the codification of ASEAN-x, and continued reliance on decision-making consensus ensured that states would never be compelled to adopt unpalatable policies (Cossa 2007).

¹⁴ There are some risks associated with overly permissive flexibility clauses. Mechanisms which are too easy to invoke make it too easy for states to back out of commitments, which subsequently reduces the likely benefits associated with cooperation and disincentivizes participation in further negotiations (Helfer 2012: 176). In designing treaties or international institutions, states want to preserve their ability to exit an agreement while minimizing chances of opportunistic defection (Ibid, 181). In other words, negotiators want to prevent the breakdown of cooperation, but want to avoid precluding cooperation *ex ante*.

4.3 MERCOSUR

The 1994 Protocol of Ouro Preto established consensus-based decision-making in Mercosur (Protocol of Ouro Preto, Article 37). The Protocol contained no explicit escape clauses, and no provisions were made for an ASEAN-x-style principle: agreements were to be simultaneously, universally implemented (Ibid, Article 40). Decisions were binding, and states were required to incorporate regional directives into their legal systems (Ibid, Article 42).

The document signed at Ouro Preto, a former mining town in the Brazilian state of Minas Gerais, built on Mercosur's founding text — the 1991 Treaty of Asunción. This older treaty promised some clear safeguards. It entrenched the right of a member to withdraw entirely from the treaty on sixty days notice (an exit clause), established a process for doing so, and outlined the penalties associated with such a move (Treaty of Asunción, Article 21). It also enabled states to restrict certain imports until the end of 1994, pending approval of the Common Market Group (effectively, an escape clause) (Treaty of Asunción, Annex IV).

The safeguards promised in the Treaty of Asunción lowered the costs of agreement for member states. However, they did not roll over into 1995, and at the end of the 2000s, Mercosur still contained no universal escape clauses. In 2004, "the convenience of establishing some kind of escape clause in Mercosur was discussed, to deal with disruptive situations in intra-Mercosur trade" (Inter-American Development Bank 2006: 39). This proposal was backed by the government of Néstor Kirchner, but bore no fruit.

As is discussed in greater detail in later chapters, the highly asymmetric structure of intra-regional trade makes some members extremely vulnerable to exchange rate fluctuations (Paiva and Gazel 2004: 19). This vulnerability was to be the focus of the 2004 proposal, and around it was constructed the principal safeguard promised in the Treaty of Asunción:

“If imports of a given product damage or threaten serious damage to its market as a result of a significant increase in imports of that product from the other States Parties over a short period of time, the importing country shall request the Common Market Group to hold consultations with a view to ending such a situation.”

(Treaty of Asunción, Annex IV, Article 2).

The risk of huge trade imbalances persists, but the safeguards developed to guide Mercosur in its infancy have no modern equivalents. Accordingly, the absence of common escape mechanisms poses particular problems for Mercosur members, who are left without a means of alleviating short-term pressures stemming from currency mismatches and import surges (Paiva and Gazel 2004: 18).

In the absence of built-in flexibility measures, the Bilateral Commission for Monitoring Intra-Zone Trade (established in 2003; hereafter the Bilateral Commission) emerged as vehicle for monitoring, measuring, and correcting imbalances in trade between Argentina and Brazil (Rozemberg and Bozzala 2013: 94). This extra-institutional body effectively facilitates the implementation of otherwise illegal trade restrictions (Inter-American Development Bank 2006: 47).

The Bilateral Commission was created in October 2003 in response to intense demand from the Argentine private sector (Ibid: 70). Argentina's economy had been slow to recover from a serious recession, and it was widely felt that this was partially due to the rapid growth of cheap imports from Brazil (Ibid.). Once operational, the objective of the Bilateral Commission was to identify, isolate and manage "sudden import disturbances", with a specific focus on the sensitive sectors of textiles, televisions, footwear, white goods (Ibid.). The protective measures permitted by the Bilateral Commission typically amount to voluntary export restrictions taken by Brazilian producers selling to the Argentine market (Ibid: 47). These measures are effectively escape clauses or safeguards, but Mercosur as a whole does not enjoy access to them.

Mercosur's members have also shown a willingness to break institutional rules. This tendency first emerged following Brazil's emergency devaluation of the real in 1999, and became more pronounced during the Argentine financial and political crises of 2001-2002 (Gomez Mera 2004: 64). This is detrimental to future cooperation, as "frequent setbacks in the liberalization scheme bring a loss of credibility to the entire integration process" (Paiva and Gazel 2004: 19), and may shift states' calculations against cooperation or against cooperation in a specific institutional context.

Argentina's actions in 2001 and 2002 suggested that Mercosur's envelope could be pushed without consequence. The government in Buenos Aires broke Mercosur's common external tariff rule in March 2001; that same month, three Mercosur members commenced trade negotiations with extra-regional partners — an action forbidden by Council of the Common Market Decision 32/2000, article 2 (Gomez Mera 2004: 64; Mercosur 2000).

Mercosur is a much less flexible institution than ASEAN. Exit clauses exist, but formal escape clauses are absent, or exist in practice, but only for certain members. ASEAN's culture of non-interference and respect for sovereignty is replaced by a culture of rule-breaking. While this could have the same effect on states as an escape clause — they would be more willing to enter into an agreement knowing a precedent for agreement-breaking existed — it also increases uncertainty about the behaviour of one's neighbors. This unpredictability is also a negative signal to foreign investors, who will become justifiably sceptical about the credibility of state or region's commitment to liberalization. If defection is so commonplace, regional politics will be less predictable, and leaders will be unwilling to bear the costs of cooperation.

4.4 FLEXIBILITY AND COOPERATION

If escape and exit clauses improve the prospects of cooperation, then presumably an increase in institutional flexibility would be followed by an intensification of regional cooperation. When were the major institutional safeguards present in ASEAN and Mercosur implemented or significantly refined, and was there an uptick in regional cooperation and integration soon afterward?

As is evident from the information presented above, institutional flexibility in Mercosur has gone largely unchanged since the bloc's inception in the early 1990s. Mercosur has become somewhat less flexible, as states lost access to the Treaty of Asunción's temporary safeguards after the end of 1994. However, the lack of actual change in the flexibility mechanisms available to Mercosur members means that the

results of this test will, for this particular case, be absent or not particularly helpful. If no changes to the flexibility structure were made, then it is impossible to map the effects they may have had on regional cooperation.

The case of ASEAN is more clear-cut. The nature of the bloc's politics precluded flexibility provisions from proliferating over time. Southeast Asian regionalism has been permissive since its inception; such is the ASEAN Way. However, I posit that the *codification* — a first — of the ASEAN-x principle in the ASEAN Charter can be linked to the flurry of new cooperative activity seen in the bloc since the end of the 2000s (see discussion in the introductory chapter, and throughout).

By *guaranteeing* states access to variable-speed integration, the codified ASEAN-x lowered the costs of commitment associated with the ASEAN Economic Community's plethora of liberalizing initiatives. The kind of cooperation seen in ASEAN demanded states bear some costs and surrender some autonomy in order to help unlock new gains. The ASEAN Exchanges Initiative, for example, imposed on individual states' ability to regulate capital markets: it mandated "further liberalization of capital controls and exchange restrictions [...] further strengthening [of] prudential safeguards and risk management capabilities to help manage volatility and compete effectively" (ASEAN Capital Markets Forum 2009: ii). Here, sovereignty took a backseat to the ability of the region as a whole to send positive signals to foreign capital.

The emergence of such projects after the codifying of ASEAN-x suggests that clear flexibility mechanisms are linked to greater regional cooperation. This suggests that

the theory tested in this chapter is sound, and that giving states a legitimate escape route leads to more instances of cooperation, involving more actors and more issue areas.

4.5 Disputes and Defections

Given the complex nature of treaty negotiations and regional politics, it is difficult to establish a clear causal link between the presence of flexibility mechanisms and real-world regional crisis responses. In the absence of such a “smoking gun”, I have looked for "straws in the wind." These help to build a case for the theory, without proving it definitively or significantly undercutting rival theories (Collier 2011: 826). How did ASEAN-x, the various general exceptions clauses, and the lack of escape clauses in Mercosur shape decisions to tackle the effects of the global crisis at the national versus supranational level?

4.6 ASEAN

Does the flexible character of Southeast Asian regionalism promote more stable cooperation, or does it open doors for cheating and other opportunistic behaviour? In order to answer this question, I analyze patterns of conflict, settlement, defection, and renegotiation amongst members of the ASEAN bloc since the mid-1990s.

Modern commercial relations in ASEAN are outwardly less conflictual than those of Mercosur. A number of bilateral disputes have occurred, but none have been resolved through formal arbitration or unilateral defection (Toohey 2011: 164). ASEAN members have preferred to sort out their differences through quiet diplomacy. David Soon Siong, a former Singaporean trade official, argues that informal methods of dispute resolution better suit ASEAN members. This means that “trade disputes are often resolved quietly,

and out of the limelight, by officials working in a cooperative manner” (Siong 2011: 113).

As a result, Singapore’s opposition to Philippine restrictions on the import of certain petrochemical products was settled via the diplomatic channel, rather than with recourse to ASEAN’s more formal dispute settlement mechanisms (Toohey 2011: 165). Similar disagreements formed over in 2000 over Malaysian tariffs on automotive parts from Thailand, and in 2006 (between the same pair of countries) over import permit requirements and retaliatory import duties (Ibid: 166).

Rule-breaking between ASEAN members has been dealt with judicially in only two cases, neither of which involved the use of ASEAN’s own dispute settlement mechanisms. These mechanisms rest upon the deliberations of a series of panels; consensus is required at each level. Inama and Sim (2015) argue that this is a serious drawback to ASEAN’s dispute settlement process, and that states who cannot sort out their differences through negotiation are thus most likely to appeal to the World Trade Organization (Inama and Sim 2015: 34). In 1995, a dispute between Singapore and Malaysia over the latter’s import restrictions on plastic resins was taken to the World Trade Organization; in 2008, a dispute between Thailand and the Philippines over import duties on cigarettes was submitted for settlement at the WTO (World Trade Organization 1995; World Trade Organization 2011).

The escape clauses and short-term flexibility measures found in ASEAN allow states to adapt cooperation to suit their own circumstances without abrogating their treaty obligations. Unaddressed unilateral defections from treaty obligations are absent from the

organization's recent history. Members have tended to play by the rules, and the few disagreements that have occurred have been solved through discreet diplomatic maneuvers. The presence of generous flexibility mechanisms means that treaties are *broken* less often. Negative signals about liberalization and regionalism are thus relatively uncommon and, by virtue of having been challenged on fewer occasions, the institution retains greater legitimacy. As a result, states are more likely to turn to the institution in times of crisis. They know cooperation is (a) likely to be honoured, and (b) that where disagreements occur or needs diverge, accommodations will be negotiated.

4.7 MERCOSUR

Does the rigidity of Mercosur provide more stable cooperation, or does it open doors for cheating and other opportunistic behaviour? I have analyzed patterns of dispute, dispute settlement, defection, and renegotiation amongst members of the Mercosur bloc since the signing of the Protocol of Ouro Preto.

Rule-breaking is commonplace in Mercosur's history. In March 1999, Argentina raised import tariffs, in violation of existing agreements; Brazil granted a temporary "waiver" of treaty obligations, and the dispute was resolved bilaterally (Gomez Mera 2004: 69; Gomez Mera 2009: 768). This was not unusual. Twenty-six trade disputes between Argentina and Brazil occurred between 1995 and 2006, each the result of a unilateral defection from Mercosur treaty obligations (Gomez Mera 2009 750). Argentina addressed its own financial crisis in 2001 by devaluing the peso; this triggered a temporary region-wide suspension of free trade (Phillips 2004: 113). Brazilian politicians

feared the spillover of the Argentine crisis, and accommodated their neighbor's demands for more national control over tariff barriers (Gomez Mera 2004: 69).

In late 2008, Argentina raised tariffs on more than 800 different imported goods (Stratfor Global Intelligence 2009). Brazil and Argentina (which together account for around 88% of the bloc's GDP, as per International Monetary Fund 2012) do not hesitate to respond to crises unilaterally, and in violation of their pre-existing treaty obligations (Cason 2011: 98). They are not constrained by reputation, supranational institutions, or (particularly in the case of Brazil), powerful neighbors. As a result, Mercosur's viability is questioned each time a new government takes the reins in Brasília or Buenos Aires (Ibid: 75). Mercosur's ad hoc dispute settlement panels have heard a long list of cases, including:

- A complaint by Argentina re. Brazilian licensing requirements on dairy products (1999)
- A complaint by Argentina re. Brazilian pork subsidies (1999)
- A complaint by Brazil re. Argentine quotas on cotton textiles (2000)
- A Brazilian challenge to Argentine anti-dumping laws concerning poultry (2001)
- A Uruguayan complaint re. Argentine limitations on bicycle imports (2001)
- A Uruguayan complaint re. Brazilian licensing of retreaded tires (2002)
- A challenge, by Paraguay, on Uruguay's tax on imported cigarettes (2002)
- A complaint by Argentina re. Uruguay's wool subsidies (2003)

(Barral 2007: 22-24).

Were escape clauses present, Argentina could have temporarily raised barriers in 1999 or 2008 without breaking its treaty obligations. In the absence of such flexibility

measures (or even of concrete dispute resolution procedures; Gomez Mera 2004: 105) each violation chips away a little piece of the structures of cooperation, predictability, and trust integral to the smooth operation of a common market.

As the cost of credit rose and businesses began to feel the pressure of declining external demand, Brazil in 2008 did not seek to strengthen its relationship with its immediate regional market. Relying on free trade with Argentina was a risky proposition: "the fact of the matter is that Argentina has proven itself repeatedly to be an unreliable trading partner" (Stratfor Global Intelligence 2009). Faced with new challenges and unreliable partners, Argentina and Brazil both responded to the crisis by raising barriers to trade. The long list of exceptions and defections tied to Mercosur over time compromised "predictability in the future of the rules of the game, which undermined the prospects for both trade and investments in the bloc" (Azevedo 2004: 593)

It is unsurprising that Mercosur was unable to design and implement a multilateral response to the global financial crisis. The absence of clear safeguards did not mean that states always upheld their treaty obligations. States in crisis had no real alternative to unilateral defection. They became accustomed to pursuing protectionist policies prohibited by regional treaties. A culture of rule-breaking, renegotiation, and creeping protectionism emerged, as states dealt with domestic shocks by imposing illiberal trade policies. Without a predictable and accessible dispute settlement mechanism, the organization was unable to impose regular costs on cheating. Mercosur's silence during the Global Financial Crisis was merely business as usual: states avoided pursuing a joint crisis response, their preference being protectionism — an end that, given the toothless nature of regionalism, could be met unilaterally.

4.8 CONCLUSION

Institutional design tells us much about why and how an international organization works. The rational design literature focuses on why institutions assume certain characteristics, but it also makes predictions about the effects variations in these characteristics will have on international cooperation. One such characteristic is institutional flexibility, which is predicted to increase the likelihood of cooperation between states. The tests discussed in this chapter strongly support this theory.

Some ambiguity remains. None of my tests proves that institutional flexibility is directly responsible for higher levels of cooperation. There is no “smoking gun.” Other theories have not been eliminated. The combination of the straw and comparison tests builds a convincing case for the explanatory power of institutional flexibility, but it is possible that other theories will provide a more unified and thorough account of why, at the end of the 2000s, ASEAN witnessed a surge in strategic cooperation while Mercosur did not.

CHAPTER 5 ASYMMETRIC INTERDEPENDENCE

Not all states are equal. Some are larger, wealthier, and more powerful than others. Unequal states have unequal relationships. These relationships are shaped by how, and where, market power is concentrated. What effect does the concentration of economic power have on regional cooperation? Do relationships mean more to some states than others? This chapter evaluates patterns of asymmetric interdependence and their effects on regional cooperation.

5.1 ASYMMETRIC INTERDEPENDENCE IN INTERGOVERNMENTALIST EXPLANATIONS

Intergovernmentalist theorists argue that integration stems from the rational choices of political leaders. Constituents demand interdependence be managed, and leaders answer these demands by using international institutions or multilateral agreements to solve cooperation problems (Moravcsik 1998: 18). States then take their national preferences to the negotiating table, and make concessions and linkages in order to ensure talks bear fruit (Caporaso 1998: 10). Each “grand bargain” which drives forward integration (and further deepens interdependence) is the result of this process of give, take, and association.

This thesis is peppered with intergovernmentalist logic. As an approach which synthesizes components of many other theories, intergovernmentalism is bound to flavor any work on regional integration. The determinants of national preferences were discussed briefly in the introductory chapter. This chapter evaluates the role of economic asymmetries in determining prospects for cooperation.

Understanding asymmetric interdependence is central to the intergovernmentalist approach. Like early functionalists, intergovernmentalists contend that demand for integration emerges when commerce is internationalized. Influence over the policies of trading partners becomes mutually desirable (Mitrany 1968: 62). Both intergovernmentalist and functionalist perspectives emphasize the importance of “growing and more complex interdependence between states within a region as the trigger for deepening regionalism” (Doctor 2013: 516). However, this interdependence is not always evenly spread, and asymmetry occurs when partners are not comparable in power or size.

States share markets to benefit domestic industries; for states with very large home markets, this will be less of a priority. Andrew Moravcsik, intergovernmentalism’s leading proponent (as per Laursen 2003), predicts that the “countries that most intensely favour a given agreement will make disproportionate concessions on the margin in order to achieve it [...]” (Moravcsik 1999: 62).

In order for regionalism to develop, there must be potential for significant material gains, typically involving both complementarity and scale economies (Mattli 1999: 42). The same goes for new cooperation: existing institutions will have more luck brokering new agreements when states stand to benefit from signing. Those with more to lose from the failure of negotiations will make more concessions in order to ensure an agreement is reached. This facilitates the emergence of a uneven power dynamic, in which less dependent actors will be able to exercise greater influence in negotiations than their less dependent neighbors (Keohane and Nye 1986: 734).

Can economic asymmetries explain the divergent attitudes to cooperation in ASEAN and Mercosur? At a minimum, we need to find that large asymmetries exist in each bloc. Then we can test to see if the largest partners dominate regional negotiations. We know that, in situations of deep interdependence, uncoordinated actions by states yield suboptimal outcomes for their partners. If X is more dependent on Y than Y is on X, then X will likely want to buy a more secure position by reducing the possible number of uncoordinated actions to which it is exposed. X thus has a strong incentive to preserve negotiations, which means that it will make many concessions to Y.

Regional preponderance arguments hold that “the existence or rise of a regional hegemon may lead to unconstrained, self-interested unilateral action by the latter, therefore eroding prospects for cooperation” (Gomez Mera 2009: 752). Small states will have very limited negotiating power, uncertainty about the state of the region will abound, and the costs of cooperation will rise. New cooperation will be very difficult to realize. Do my cases support or challenge this theory?

5.2 MARKET SIZES AND ASYMMETRIC INTERDEPENDENCE IN ASEAN AND MERCOSUR

Brazil is by a wide margin Mercosur’s largest economy. It accounts for 79% of regional GDP (World Bank — GDP in current US\$; Cason 2011: 98). Argentina represents 18% of regional GDP, with the (very small) balance being split between Paraguay and Uruguay (World Bank — GDP in current US\$). In comparison, market shares are much more evenly distributed in ASEAN than in Mercosur. ASEAN’s much larger membership means that these shares are better illustrated in a table than in prose.

Table 5.1 demonstrates each state's share of the regional market (less Myanmar, which is omitted due to insufficient data).

Table 5.1 — National shares of regional ASEAN market (% of total)

Member state	% of ASEAN GDP, 2008
Brunei	1
Cambodia	0.7
Indonesia	33.8
Malaysia	15.3
Philippines	11.5
Lao PDR	0.4
Singapore	12.7
Thailand	18.1
Vietnam	6.6

Author's calculations from World Bank — World Development Indicators, GDP in current US\$ (2015). Due to rounding, total may not equal 100.

Mercosur contains one very large economy, and three much smaller partners. ASEAN contains one relatively large economy, four or five mid-sized markets, and three (four, counting Myanmar) very small markets. This suggests that satisfying Indonesia will be less important to the smaller partners than maintaining negotiations amongst themselves. It will certainly be less important than access the Brazilian market would be for the smaller Mercosur partners. The diffuse nature of regional wealth produces cooperation that reflects the will of a larger number of states, rather than merely that of one or two very large partners.

Brazil is less dependent than its partners on regional trade: in 2008, 23% of Argentine exports were to Mercosur partners, compared to just 11% in Brazil (IMF — Direction of Trade Statistics, accessed via the UK Data Service, 2015). The asymmetries in trade dependence are more pronounced when one examines the smaller Mercosur partners: Brazil alone receives nearly 17% of all exports from Uruguay, and is the source of over a third of Paraguayan trade revenues (Ibid.). As a result, Brasilia holds a credible threat of veto and exclusion: without Brazil, the potential for gains associated with greater market sharing or a common policy environment evaporate (Doctor 2013: 528).

The first table below (5.2) identifies the percentage of total export revenues Mercosur partners associate with Brazil (the largest partner), Argentina (the second largest), Mercosur, and the United States. The second table (5.3) identifies the largest trading partners of each member.

Table 5.2 — Mercosur: Export Revenue Origins (% of total trade)

Partner	Brazil	Argentina	Mercosur	US
Argentina	19	-	23	7.7
Brazil	-	8.9	11	14
Paraguay	34.1	20.7	56	1.2
Uruguay	16.5	8.4	27	3.7

Author's own calculations from IMF Direction of Trade Statistics for 2008; source data accessed at UK Data Service, 2015.

Table 5.3 — Mercosur: Largest Trading Partners

State	Most important partner	2nd most important partner	Most important Mercosur partner
Argentina	Brazil	PRC	Brazil (1st)
<i>Brazil</i>	<i>United States</i>	<i>Argentina</i>	<i>Argentina (2nd)</i>
Paraguay	Brazil	Argentina	Brazil (1st)
Uruguay	Brazil	Argentina	Brazil (1st)

Author's own calculations from IMF Direction of Trade Statistics for 2008; source data accessed at UK Data Service, 2015.

The table below (5.4) shows the percentage of export revenues selected ASEAN partners associate with Indonesia (the largest member), ASEAN as a whole, the People's Republic of China, Japan, and the United States.

Table 5.4 — ASEAN: Export Revenue Origins (% of total trade)

Partner	Indonesia	ASEAN	PRC	Japan	US
Cambodia	0.01	7.2	0.03	0.07	45.2
Indonesia	-	19.8	8.5	20.2	9.5
Malaysia	3.1	25.8	9.5	10.8	12.5
Philippines	1.2	14.4	11.1	15.7	16.7
Singapore	10.6	32.1	9.2	4.9	7.2
Thailand	3.6	22.6	9.1	11.3	11.4
Vietnam	1.2	16.5	7.7	1.3	19

Author's own calculations from IMF Direction of Trade Statistics for 2008; source data accessed at UK Data Service, 2015.

ASEAN members are not dependent on Indonesia as an export destination. Linkages with the bloc as a whole, with the United States, and with continental partners such as China and Japan are more important to aggregate welfare. The table below (5.5), calculated from the same IMF DOTS data, identifies the most important trading partners of each ASEAN member.

Table 5.5 — ASEAN: Largest Trading Partners

State	Most important partner	2nd most important partner	Most important ASEAN partner (rank)
Brunei	Japan	Indonesia	Indonesia (2nd)
Cambodia	United States	Hong Kong SAR	Vietnam (4th)
Indonesia	Japan	United States	Singapore (3rd)
Malaysia	Singapore	United States	Singapore (1st)
Myanmar	Thailand	India	Thailand (1st)
Lao PDR	Thailand	Vietnam	Thailand (1st)
Philippines	United States	Japan	Singapore (6th)
Singapore	Malaysia	Indonesia	Malaysia (1st)
Thailand	United States	Japan	Singapore (4th)
Vietnam	United States	Japan	Singapore (5th)

Author's own calculations from IMF Direction of Trade Statistics for 2008; source data accessed at UK Data Service, 2015.

ASEAN member states are not dependent on Indonesia in the same way that Mercosur members are dependent on Brazil. Moreover, Indonesia's trading patterns bear

more similarity to those of other ASEAN states than do Brazil's to its partners in Mercosur. The tables also indicate that some ASEAN members (most notably Cambodia and Vietnam) are more dependent on the United States as an export market. These states would have felt more acutely the collapse in American demand associated with the financial crisis, and may have had an even stronger interest than their partners in regional solutions to economic turmoil.

5.3 ASYMMETRIC INTERDEPENDENCE AND STATE BEHAVIOUR

Who is most enthusiastic about regionalism, and why? Are large states more obstructive, because their potential gains are relatively smaller? If so, the theory introduced earlier in this chapter becomes more credible. Are small states less motivated to cooperate, because they feel they will become perpetual rule-takers? Understanding how more and less dependent states view trading organizations allows us to understand why variations in regional cooperation occur.

5.3.1 Mercosur

Mercosur is dependent on Brazil (and Argentina, and particularly on a healthy relationship between the two), but not vice-versa. On account of its desire to establish a coherent sphere of influence in the southern cone, Brazil has been Mercosur's most consistent advocate. Brazilian Presidents Lula da Silva and Dilma Rousseff both campaigned to strengthen Mercosur (International Centre for Trade and Sustainable Development 2010). Brazil led the "re-launch" of Mercosur in 2001, and throughout the 2000s was the most aggressive promoter of deeper regional integration (Phillips 2004:

112). However, its objectives are essentially political, whereas those of its partners are largely economic (Gomez Mera 2004: 72; Phillips 2004: 115; Cason 2011: 98).

The early stages of trade liberalization in Mercosur were motivated by Argentina's desire to gain preferential access to the much larger Brazilian market. Commercial considerations were the prime movers of Argentina's regional relations (Gomez Mera 2004: 66). Argentina's economy is less than one-third the size of Brazil's, and is more trade-dependent. As a result, Argentine (and Paraguayan and Uruguayan) negotiators have at times been receptive to exceptional Brazilian demands: the economic and political risks associated with Brazilian defection, or with a slowdown in the Brazilian market, are such that the other Mercosur members allow Brasilia to set the rules and determine the outcomes of regional engagement (Cason 2011: 98). In recent years, the smallest partners in the bloc have become resentful of their junior status, and have begun to agitate for change.

Mercosur's ban on extra-regional negotiations is a major source of discontent. Common Market Council decision 32/2000 prohibits members from individually signing new bilateral or multilateral agreements. This resolution was passed in order to smooth the way for the coming of the full customs union and Common External Tariff (International Centre for Trade and Sustainable Development 2007). Paraguay and Uruguay have argued that this compromises their ability to compete in global markets (Ibid.). In 2006, Paraguay threatened to leave the bloc, contending that the restriction on individual negotiations combined with Argentine and Brazilian protectionism rendered Mercosur ill-suited to their national interests (Mander 2006). In 2007, Uruguay threatened to withdraw from Mercosur unless allowed to negotiate an (as yet largely

unrealized) free trade agreement with the United States (Mander 2007). Such disputes have helped to significantly slow Mercosur's progress toward deeper regional integration.

It is in the interest of Mercosur's smaller members to grow their markets through new agreements with extra-regional partners. The Common Market Council's restriction on such deals is more harmful for Paraguay and Uruguay than it is for the two larger Mercosur partners. Mercosur is thus divided between large rule-makers, and small rule-takers. The organization is defined by bargaining between political leaders (rather than more structured, legalistic dispute resolution), minimal investment in supranationalism, and fierce protection of sovereignty (Bakker 2013: 51). All of this disproportionately benefits larger countries.

In 2009, Brazilian intellectual Roberto Mangabeira Unger indicated that the disparities in economic power between Mercosur members presented a major challenge to any sort of formal cooperation beyond basic dialogue (MercoPress 2009). The following year, Uruguayan Vice President Danilo Astoria expressed discontent regarding Uruguay's frequent rule-taking role in regional talks (MercoPress 2010). Such statements suggest that regional asymmetries of interdependence drive state behaviour and help determine state satisfaction in Mercosur. It also suggests they inhibit cooperation — a finding consistent with the theory laid out earlier in this chapter.

5.3.2 ASEAN

The ASEAN partners are more symmetrically dependent than those of Mercosur, and are enmeshed in a complex network of linkages associated with fragmented/component trade. (Plummer 2009: 20; Plummer and Yue 2009: 5).

Fragmentation engages multiple actors. This gives more members an interest in maintaining regional cooperation, and in fostering further trade in unfinished goods.

How does the behaviour of ASEAN members reflect the diffuse nature of economic power in the region, and how does this affect states' inclination to cooperate? The bloc's members have negotiated regional directives promoting further joint production activities in ASEAN member countries and the concomitant expansion of intra-regional trade. Community policies have included the ASEAN Industrial Cooperation Scheme (AICO), and lower barriers to intermediate goods trade in food processing and a variety of complex manufacturing activities (Plummer 2009: 37).

The deep regional integration envisioned by the AEC Blueprint was pursued as a means of ensuring that the heavy trade in components, finished goods, and services would continue even in the event of a major economic crisis (Plummer and Yue 2009: 5). Intra-regional trade and investment has risen sharply since the early 1990s (Ibid.), ensuring a widespread interest in policy coordination and bolstering both the openness and resilience of the regional market. As a result, deepening was pursued even though Southeast Asia's largest market is relatively inward looking (see discussion of Indonesia in chapter 5).

It is almost impossible to find reports of state discontent with ASEAN. Perhaps this is due to the consensus-based, informal nature of regional decision-making. Regardless, it suggests that smaller members are satisfied with their status in the organization. Initiatives such as the deregulation of the regional airline industry (Russell 2007) and the bloc's commitment to preserve open markets in the face of creeping global protectionism (Johnston 2009) have been celebrated by all members.

As in Mercosur, asymmetry and cooperation appear to be negatively correlated in ASEAN. The greater willingness to pursue a coordinated response to the financial crisis (and to continue with implementation of the AEC Blueprint) occurred in a bloc in which economic power was distributed relatively evenly. Grieco asks, "Why should countries accept the costs associated with the establishment and maintenance of an international institution?" (Grieco 1997: 170) Such an action compromises a nation's ability to act. In ASEAN, the answer seems clear: all partners stand to enjoy significant material gains from regional cooperation.

5.4 Conclusion

Asymmetric interdependencies shape regional integration projects. For states with smaller home markets, the alternative to cooperation may be reliance on domestic production, or smaller markets for domestic firms. Their gains from cooperation significantly outweigh the benefits of non-participation. Larger states' gains from cooperation will be smaller, and they may be less willing to make concessions in order to sustain negotiations. Smaller states will make concessions to keep the larger state engaged, as that state's defection would undermine the efficacy of the overall agreement. As a result, when one state controls the greater part of a region's productive capacity, that state's interests will come to dominate the cooperative agenda; when economic power is diffused, integration will reflect the desires of the many.

Those actors least affected by an agreement will have the strongest bargaining position. Over time, this can guide the institutional development of a regional trading agreement, and may foster or inhibit future cooperation. Major states will be more likely

to defect and that commitments will be more difficult to enforce. Brazil is large enough and sufficiently diversified to consistently set the agenda for regionalism in the southern cone. Indonesia is not able to exercise the same kind of power in Southeast Asia.

These varying asymmetries have shaped ASEAN and Mercosur, and are reflected both in the institutional designs of the two blocs, in the kinds of programs they support, and in the propensity of their members to cooperate. Mercosur is weakly institutionalized, and has been more effective as a unified negotiating force for extra-continental relations; this reflects the will of Brazil much more so than it does that of the smaller countries. The persistent rule-making (and rule-breaking) behaviour of Brazil (and Argentina) enabled by an asymmetric relationship with their regional partners, has undermined faith in cooperation. Such dynamics are not present in ASEAN, where asymmetries are less pronounced.

Asymmetry is an important element in the study of states' propensity to cooperate within the context of a regional institution. Asymmetric interdependence is strongly, negatively, associated with cooperation, and institutions defined by the concentration of power in a single actor appear to discourage sovereignty pooling in economic negotiations.

CHAPTER 6 COOPERATION & THE CONSTRUCTION OF THE REGION

Constructivism focuses on how state behaviour is determined by values, norms, and ideas. The constructivist perspective looks at the extent to which leaders and constituencies within a given region feel they share a common identity.

Regions are not given: "all regions are socially constructed and hence politically contested" (Hurrell 1995: 334). Nor can they be explained in purely material terms. As Alexander Wendt argued, "structures of human association are determined primarily by shared ideas rather than material forces" (Wendt 1999, in Pace 2003: 167). Regions are born from interaction and discourse. The sharing of ideas generates new identities and interests. Repeated interactions generate new concepts of the region and nation state. How regions are socially constructed, and the identities institutions develop or assume, helps to determine whether or not states cooperate.

Successful regionalism is preceded by the development of a commonly recognized regional "core" (Hettne 1999: xxii). This core may be a bundle of shared ideas about statehood and governance; it may be a shared history, language, or religion, or a consensus on acceptable practice in state-to-state relations (Higgott 1998: 42; Acharya and Layug 2012: 12). The core may be an amalgam of factors. The extent to which a core can be discerned, and the importance states and individuals assign to it, is the measure of regionness. Regionalization is the process of creating *regionness*, and regionness in turn supports the emergence of formal regionalism (Hettne and Söderbaum 2000: 458).

Regionness is measured as the extent to which states of a particular group identify as a coherent unit (Hettne 1999: xviii). Higher levels of regionness makes continents

look like nation states, while lower levels best characterize blocs whose members seldom interact and disagree on the proper conduct of international politics. When states agree on the makeup of the region's heart, be it defined in material, cultural, or ideological terms (as per Higgott 1998: 54), institutionalized cooperation's vital statistics will improve.

Regionness is about more than the extent to which integration follows from a shared reliance on "capitalism, industrialism, and pluralistic democracy" (as per Haas 1968: 149). It employs some of the criteria identified by functionalist thinkers as being integral to successful regionalism, but ideas and identities play a pivotal role here, whereas they are absent in the conventional functionalist account of European integration. While a broad consensus at the societal level is a precondition for cooperation in the neofunctionalist view, the constructivist approach is more concerned with how these factors contribute to creating the concept of the region as a cohesive whole, rather than how they may generate political support for integrating policies.

Regionness is a consensus (or at least the makings of one) on regional identity which can be shared across all levels of society, contributing to transnational societal demands for integration (as posited by neo-functionalists, see Caporaso 1998: 8), or may be held widely in "elite" circles but have gained little traction with the majority of citizens (Acharya and Layug 2012: 6).

Regionness is not static: the intermingling of states — through the movement of migrants, businesspeople, political leaders, and others — facilitates an exchange of practises and ideas which over time can lead to greater regional coherence. Regional integration both feeds and feeds upon regional coherence. Dynamic patterns of engagement and discourse will see a geographic space morph "from a passive object

to an active subject capable of articulating the transnational interests of the emerging region" (Hettne and Söderbaum 2000: 461).

The concept of regionness is indebted to the English School and its focus on the explanatory power of international society. In *The Anarchical Society*, Hedley Bull argues that international society is the product of "economic and social intercourse between one country and another"; this society gives rise to common rules and institutions which constrain state power (Bull 1982: 27). While Bull's international society and Hettne's coherent, socially constructed region are clearly very different animals, they rise in part from the same dynamic (repeated interaction), which in turn imposes new restrictions upon state behaviour.

To linger too long on whether or not a group of states shares a "we-feeling" is to short-change the constructivist challenge to international relations theory. "Instead of focusing solely on material incentives [to pursue regional integration], constructivists emphasize the importance of shared knowledge, learning, ideational forces, and normative and institutional structures" (Hettne and Söderbaum 2000: 460). Therefore, this chapter will not focus merely on the matter of how many of a group of states have predominantly Buddhist or Roman Catholic populations or utilize Westminster-style Parliamentary systems. In addition to the cultural and historical factors Richard Higgott and others identify as central to regionness, I assess how normative and ideational factors have developed the region in the public and political consciousness. In other words, I will examine how the region is socially constructed.

If socialization is the "process whereby the participants in the policymaking

process, from interest groups to bureaucrats to statesmen, begin to develop new perspectives, loyalties, and identities as a result of their mutual interactions" (Laursen 2003: 9), what signs indicate that actors have begun to think about themselves as part of a region?

Is regionness positively associated with increased strategic cooperation (in the context of a formal institution) in times of trouble? A strong regional and institutional identity (which can itself be a normative consensus) is a necessary (but insufficient) support of the constructivist approach. As Oelsner notes, "an institutional identity approach [...] sees organizations as actors in their own right" (Oelsner 2013: 117). Institutions viewed by their members as being somehow something distinct from the sum of their parts are likely to be better suited to fostering cooperation. Evidence of regional coherence as a justification for state behaviour would allow us to adjudicate further in favour of the constructivist challenge.

6.1 ASEAN

"As with nations, so regions can be seen as imagined communities which rest on mental maps whose lines highlight some features whilst ignoring others" (Hurrell 1995: 335). Do actors share a sense of community? And what are the foundations of this community? Often, the community rests on a framework of common culture, history, and religious tradition, and is defined against a common "other" (often a regional hegemon). A regional community's internal logic may not always be readily obvious to the outside observer; so it is with ASEAN.

There is no immediate reason why, on first glance, the ten members of ASEAN

should possess any degree of “coherence.” Scores of languages are spoken throughout the bloc. An ASEAN national may speak English or Vietnamese or Tagalog; Khmer, Bahasa Indonesia, or something else entirely. Ethnic identities are manifold and ethnic politics fraught at every level. Muslims, Roman Catholics, Buddhists, Caodaists, Hindus, and others compete for spiritual space. Economies exist at all levels of development, ranging from Myanmar (per capita GDP in 2009: US\$456) to Singapore (per capita GDP in 2009: US \$38,577). In Singapore, 73% of homes have an internet connection, compared to less than 1% in Myanmar (Internet Society and TRPC 2013). Southeast Asia is home to democracies, monarchies, authoritarian single-party states, and troubled military regimes. The region is defined by its diversity (Jönsson 2010: 43; Acharya and Layug 2012: 6). If we accept that regional coherence is a reasonably good indicator of cooperation’s prospects, then the question becomes less “why” ASEAN works, and more “how” it works at all.

However, there is more going on here than meets the eye. For one, ASEAN’s diverse collection of states share a long history of commercial partnership. This has bred sensitivity to the networked needs of all members of the region. It has also facilitated cultural and ideational exchange over time. The economies of pre-colonial Southeast Asia were underpinned by a robust regional maritime trade: the historian Anthony Reid (Reid 1988, cited by Acharya and Layug 2012: 12) notes that “maritime intercourse continued to link the peoples of Southeast Asia more tightly to one another than to outside influences down to the seventeenth century.”

In the post-Cold War environment, complex production networks have overlaid ancient patterns of exchange. This is of both social and material consequence. Trade

deepens interdependence, while transactions take on meaning which transcends their economic value: when a Malaysian firm negotiates a contract with a supplier in Cambodia, or when an industrial delegation from Ho Chi Minh City attends a meeting in Jakarta, ideas and values are exchanged. Piece by piece, every day life yields the "formation of a transnational regional economy and regional civil society" (Hettne and Söderbaum 2000: 465). All exchange acquires symbolic content and contributes to the growth of regionness (Caporaso 1998: 3).

It is remiss to suggest that the creation of regional coherence, to say nothing of the legitimacy of ASEAN as a regional project, is the project of the grassroots. "Southeast Asia" as an idea is much more widely accepted in embassies and government committee rooms than it is on the streets. If an ASEAN identity exists, it matters little to the average Southeast Asian. This view is upheld by the *Straits Times* ("Taking ASEAN to the people", 7 January 2016), *The Nation* ("How Thailand missed the AEC boat", 4 January 2016), and the *Bangkok Post* ("AEC nears with little sense of unity", 27 December 2015). As the third article notes, "ordinary people cannot be blamed for lacking enthusiasm in the Asean process, because most simply do not see any tangible effect on their lives." (*Bangkok Post* 2015).

Does it matter that most residents of ASEAN countries are not active regional citizens? The organization finds support amongst "policy elites who have imagined themselves as belonging to a region called Southeast Asia with their common interest in regional cooperation as key to regional peace, stability, and prosperity" (Acharya and Layug 2012: 6). It does not matter that the average resident of Bangkok or Mandalay thinks of herself as Thai or Burman, rather than Southeast Asian. The regional

consciousness explored in this chapter is a phenomenon of the most senior policymaking and business circles. Examining regional consciousness at this level is appropriate, as these same elites negotiate ASEAN's treaties and control (ostensibly) the levers of national trade policy.

In spite of its diversity, ASEAN possesses a high level of regionness. In contrast to the kaleidoscopic nature of the region's cultural and institutional makeup, the "core norms" of ASEAN — non-interference and consensus-based decision-making — are widely agreed upon (Katanyuu 2006: 826; Nair 2011: 245). Rooted in the regional politics of the 1960s, ASEAN's normative principles have allowed states to cooperate without jeopardizing their autonomy. The non-interference principle imposes boundaries on sovereignty pooling. Instead, policies are made by consensus and implemented by states as they are able¹⁵. As Acharya and Layug note, "ASEAN has unified itself amidst diversity through common values" (Acharya and Layug 2012: 11). These values have allowed regionalism to emerge in a potentially inhospitable environment.

These normative underpinnings are central to ASEAN's institutional identity and relevance as an organization. Absent a consistent identity, the members of ASEAN instead turned to the uniformly acceptable principles of the "ASEAN Way", which "[promote] engagement with and cohesion within the regional organization" (Oelsner 2003: 116). As a result, institutional identity rests on consensus, interdependence, and non-interference in the domestic affairs of the state. Rymarenko argues that ASEAN succeeds as an organization precisely *because* its organizational identity and institutional design are closely linked (Rymarenko 2013: 53).

¹⁵ See discussion of ASEAN-x in chapter four.

ASEAN's core values and norms have been tested throughout the organization's history. They have survived repeated challenges, suggesting that such ideas are resilient and have value to regional policymakers. In defiance of substantial pressure from the international community, ASEAN long refused to intervene directly in the affairs of Myanmar's military government (Ramcharan 2000: 66), pursuing until 2005 a program of commercially-oriented "constructive engagement" (Katanyuu 2006: 825). Regardless, the political power of shared norms (non-interference, consensus, and more recently appropriate governance) in ASEAN remains, even if the norms themselves are malleable over time (Poole 2007: 22).

As discussed in earlier chapters, decisions in ASEAN are made by consensus, and states have considerable freedom in how they choose to implement regional directives. The rational design literature, as reviewed in chapter four, contends that such a liberal approach to regional governance is conducive to the emergence of deeper and broader cooperation. However, if regions are not given, then their institutions certainly do not develop in a vacuum: shared ideas and socialized norms shape the legal structure of international organizations. The importance of sovereignty and non-interference is reflected in the consensus model and the flexible nature of regional agreements.

Throughout ASEAN, it is common for members of the elite to express themselves in regional, rather than national terms. Speaking in 2009 to a delegation of Chileans, Thai academic and former foreign minister Kantathi Suphamongkhon referred to Southeast Asia in terms suggestive of a strong regional identity (*The Nation* 2009). Policymakers in Singapore have likened ASEAN to a federal state such as the United States, arguing that "Singapore can become the New York of ASEAN" (Remarks by Minister for Foreign

Affairs K Shanmugam 2015). At the same time, regional leaders began recognizing the disconnect between ASEAN's intergovernmental character and strong identity amongst the elite and its weakness in constituting a more “people-centered” movement (Lawansiri, *Jakarta Post*, 2008); among the strategies employed to bridge the gap was the release of a community-building video game called *ASEAN Quest* (Arpon, *AsiaNews*, 2008).

Regional identity carries different value to different states: for smaller ASEAN members (Cambodia, Laos, and especially Myanmar), a “Southeast Asian” identity shared with Singapore and Malaysia is a key to greater legitimacy in the international community (Sun 2014). With this legitimacy comes foreign investment, foreign aid, and a louder voice in global negotiations. As a result, the less developed “CLMV” states have been among the most vocal proponents of the AEC and other efforts to accelerate regional integration (Ibid.).

Moreover, ASEAN's own institutional international relations have both affirmed its cohesiveness and, on occasion, given it something against which to define itself. To this end, Manea argues that the “[European Union's] insistence on human rights standards and continued condemnation of the lack of democracy in Myanmar has even been seen as a catalyst for the emergence of an ASEAN identity, whereby ASEAN defined itself in opposition to the EU” (Manea 2009, in Portela 2013: 24).

A final indicator that Southeast Asian states have been socialized to think of themselves as a group (and act as one) rather than as simply individual entities comes in the form of the numerous negotiations ASEAN as a bloc has undertaken with third parties. Collaborations with other states or regional organizations are strong indicators of regionness (Pace 2003: 170). ASEAN has established free trade agreements with

numerous “dialogue partners”, including Australia, New Zealand, Japan, the Republic of Korea, China, and India; in 2009, the organization established new strategic partnerships with the European Union and the United States (Acharya and Layug 2012: 1). Here, in the arena of inter-regional negotiations, regionness appears robust.

Formed of states which really ought to have little in common, ASEAN works on account of its potent normative regionalism: by focusing on such as norms and identity rather than material variables such as relative gains and the balance of power, differences are overcome and common objectives realized (Ibid.).

6.2 MERCOSUR

Andrea Oelsner writes that Mercosur owes its existence to a long and gradual process of *rapprochement* between Brazil and Argentina; regional integration was a means of consolidating peace and an essentially liberal conception of democracy, and so strides were made toward the establishment of first a customs union, and ultimately a common market (Oelsner 2003: 187; Dabène 2009: 62).

Ignoring for a moment the obvious role played by shared norms (commitment to liberal democracy, see Oelsner 2003: 199) in the creation of Mercosur, let us consider that which is shared by Brazil and Argentina (the two largest partners, and upon the goodwill of whom Mercosur’s survival depends). Since their political beginnings as overseas possessions of Portugal and Spain, Brazil and Argentina have viewed each other with suspicion: since the first colonial competitions over the Río de la Plata, the bilateral relationship has frequently been that of two partners motivated by uniform (that is, competing) and seemingly irreconcilable objectives (Ibid: 189). In the past, these

objectives have tended to be overtly strategic; today, they are usually commercial.

Consider the protracted debate over exchange rates, which dominated the bilateral agenda around the turn of the millennium. Brazil sharply devalued the real in January 1999, triggering a decline in intraregional trade and a freezing over of bilateral relations (Cason 2011: 99). Mercosur's viability was questioned (Gomez Mera 2004a: 69). The advantages gained by Brazilian producers from changes in exchange rates were so great that Mercosur countered with a mechanism designed to *restrict* trade in order to prevent the formation of large imbalances in the event of future currency swings (Ibid: 106). The desire of both Brazil and Argentina to dominate the regional market while maintaining stability at home at times generates significant externalities. These can undermine both bilateral and regional relations.

The notion of a common Latin American identity continues to carry some weight at both the elite level and the grassroots (Jenne and Schenoni 2015: 12). Reference has been made in South America since colonial times to an imagined regional community (Dabène 2009: 24), and politicians (particularly Brazilian politicians) have often used language suggestive of their acceptance of a strong regional identity. Fernando Henrique Cardoso framed Mercosur as being integral to the construction of a South American identity — an identity crafted in part with the objective of challenging the hegemonic power of the United States (Gomez Mera 2004: 124). Likewise, Néstor Kirchner spoke in 2006 of Mercosur as an institution founded on a common (and still emerging) identity; once again, this identity was crafted in opposition to American power and American neoliberal policies (Cormier 2006). State efforts have also promoted the study of regional integration and Mercosur in Argentine and Brazilian universities, fostering a "[...]

growing sense of common identity, shared destinies, and 'mutualism'" in the academy (Oelsner 2003: 204).

Despite apparently deeper historical and cultural ties (in the sense that all four Mercosur members were once colonies of Spain or Portugal), the bloc seems to operate at a lower level of regionness than ASEAN. Mercosur's identity remains contested and fragile. As democracy was consolidated across the bloc, commercial integration gained rhetorical importance, and the became politically more difficult to justify. As Oelsner notes, "[...] since democracy can now to some extent be taken for granted, the weakness and contradictions of other potential central, enduring, distinguishing, and cohesive political attributes have surfaced" (Oelsner 2013: 121). The inability of Mercosur to consistently define — or redefine — itself in normative terms has resulted in a creeping organizational inertia (Ibid: 124).

The relaunch of Mercosur under the guidance of Presidents Lula da Silva and Néstor Kirchner seems to have lacked a normative heart large enough to rival that of the earlier commitment to democracy; neither was it supported strongly by actors in the business community in either Argentina or Brazil (Gomez Mera 2004: 74). And while the bloc has frequently been defined in elite circles in opposition to the hemispheric influence of the United States, this defining is primarily a Brazilian preoccupation (Ibid: 77). Brazil has many engagements around the world — with the other BRICS states, for example — and Mercosur is "merely one of [its] interlocutors" (Oelsner 2013: 121). Seeking to recast Mercosur as another vehicle for global engagement outside of the immediate influence of the United States thus risks alienating a bloc already suspicious of the pseudo-hegemonic ambitions of its largest member. As a result, Mercosur's

institutional identity remains contested and controversial.

Since the 1990s, Mercosur has lacked unchallenged political meaning. While its members should enjoy some degree of regionness — they share languages, similar colonial histories, and a long history of both contest and exchange — an enduring institutional identity has remained elusive. Identifying far more as individual states rather than as the parts of a cohesive whole, Mercosur's members have tended to respond to crises unilaterally.

6.3 COMPARISON

The processes traced in this chapter demonstrate that the differing social constructions of ASEAN and Mercosur raised or lowered the chances that their members would seek collaborative responses to systemic crises.

The normative consensus enjoyed by the members of ASEAN suggests that the bloc functions at a high level of regionness. It also exhibits many of the characteristics of a regional security complex. While Buzan and Wæver's work on regional security complexes may seem inconsequential to a study of economic policy cooperation, it rests on observations and predictions which lend themselves well to translation across issue areas. At the heart of the regional security complex is a "subsystem of states whose major security perceptions and concerns are so interlinked that their national security problems cannot be reasonably analyzed or resolved apart from one another" (Buzan 1999: 5). States are socialized into identification with the regional security complex, the emergence of which rests upon a "logic of interactions and interdependence" (Ibid: 13).

Repeated interactions over time create not only linkages in the realm of security:

the patterns underpinning a regional security complex are the same as those which underlay strong economic regions. Put simply, ASEAN is not only a remarkably resilient regional security complex (Ibid: 8): it is also that concept's economic equivalent — perhaps we can call it a *regional commercial complex*. The commercial interests of Southeast Asian states are inseparable. Their markets (and possibly therefore their politics) cannot be analyzed in a void. This deep interconnectedness, and the resilience of Southeast Asian regionalism, is in part due to (and in part a cause of) ASEAN's emerging institutional identity.

ASEAN enjoys a strong institutional and regional identity in part as the result of centuries of commercial exchange, and in part because of the strength of the organization's normative underpinnings. The “ASEAN Way” developed in order to help states overcome diversity and pursue security cooperation during the Cold War; in some form, it remains relevant to the much changed Southeast Asia of today.

Mercosur's members are less interdependent: the bloc possesses a weaker regional identity. Conceived as a means of nurturing the then-nascent democracies found throughout the southern half of South America, Mercosur suffered from identity crises as representative government matured in its member states. Unable to acquire a new normative core in this millennium, the bloc appears to be becoming a tool of Brazilian foreign policy.

As a result, Mercosur has not become an important component of multilevel governance, whereas ASEAN has succeeded in doing so. Mercosur lacks a distinct identity of its own, and as a result cannot easily act as one. The “convergence and compatibility of ideas, organizations, and processes” (Hettne and Söderbaum 2000: 466)

within the region has been largely inconsequential since the initial push for integration ebbed at the turn of the millennium, and as a result states are more likely to act of their own accord than as members of a larger whole.

The varying patterns of international cooperation observed in ASEAN and Mercosur in the late 2000s have been discussed at length in previous chapters. We have repeatedly seen that Mercosur members engaged in technical cooperation (albeit at below average levels), while ASEAN members committed to ambitious strategic cooperation on a variety of fronts. This provides further proof that social constructed regionness is a powerful determinant of state and institutional behaviour: the institution with the stronger socialized identity and the more coherent values and norms was also the one more capable of opening up new avenues for cooperation in the midst of instability.

6.4 CONCLUSION

The constructivist challenge to the materialist approaches presented elsewhere in this thesis goes a considerable distance to explaining why and how the members of ASEAN and Mercosur cooperated (or did not cooperate) in the aftermath of the global financial crisis. While there are no smoking guns linking the social construction of the region and its identity to observed patterns of cooperation, the many small pieces of evidence reviewed here add up to indicate that institutional identity does indeed play a role in determining whether or not states will cooperate in times of crisis. This conclusion is further supported by the results of the comparison test. When integration fails to converge around an “idea” (as per Oelsner 2013: 120), it atrophies and cooperation becomes a rare occurrence.

CHAPTER 7 CONCLUSION

This thesis began with a single question: Why do some groups of states use regional institutions as platforms for cooperation in times of crisis, when others choose to act unilaterally? Two groups of states were selected as cases. Both groups had similar histories of open regionalism, rapid economic growth in the first decade of the 21st century, and gradual liberalization through cooperation. In each bloc, the 2008 financial crisis had limited direct effects, but caused significant economic instability when transmitted via the trade and foreign investment channels.

In spite of these similarities, ASEAN and Mercosur exhibited markedly different responses to the global financial crisis. ASEAN members negotiated a large number of new, strategically important, and politically demanding projects during and immediately after the onset of the global slowdown. These included the ASEAN Bond Markets Initiative, the ASEAN Exchanges Initiative, the ASEAN Comprehensive Investment Agreement, and the Chiang Mai Initiative Multilateralization Agreement. At a regional summit in early 2009, all ASEAN members pledged to combat protectionism. At the same time, Mercosur's largest members became embroiled in a bitter trade war, the bloc's smaller partners continued to express discontent with the restrictions the customs union placed on their own relations with world markets, and very little strategic cooperation was realized.

My research explained why these two outwardly similar organizations behaved so differently when confronted with systemic economic instability. Following a thorough

review of the literature on interdependence and regional economic cooperation, three theories were examined in depth. In order to gauge the explanatory power of each theory, the cases of ASEAN and Mercosur were compared and process-tested. This method was chosen in order to “double-check” each theory.

The first theory tested was distilled from the essentially liberal literature on the rational design of international institutions. Focusing on how institutional design raises and lowers costs of cooperation for individual states, the theory tested in chapter four holds that flexibility provisions lead to more plentiful and more durable international agreements — e.g., to more cooperation. My expectation was that more institutional flexibility would be associated with more cooperation. The associated comparison test determined that ASEAN members had access to much more generous flexibility provisions than the four Mercosur partners. Given that ASEAN members cooperated more during the crisis, the comparison test supports this theory.

The first process test yielded an inconclusive result in the case of Mercosur, but determined that cooperation in ASEAN intensified after existing safeguards were codified in 2007. The second process test showed that Mercosur members, unable to manage instability with the sort of controlled, temporary defection allowed by escape clauses, were more likely than their counterparts in ASEAN to simply break regional rules. The chapter concluded by arguing that this undermined regional integration over time, making the entire process less predictable and thus neutralizing one of international cooperation’s key benefits.

The second theory tested examined asymmetric interdependence and its effect on cooperation. The theory holds that members of highly asymmetric regional institutions are less likely to cooperate, as small states will have very limited negotiating power. Large states set the agenda for cooperation, driving up the costs of compliance for smaller partners. In the comparison test, I expected greater asymmetry of interdependence to be associated with less cooperation. The comparison test showed that significant market size asymmetries existed in Mercosur, with Brazil being much more important to the three smaller partners than vice versa. This sort of pronounced asymmetric interdependence is absent in ASEAN. The comparison test thus validates the argument that asymmetric interdependence undermines the viability of ongoing regional cooperation.

The process test of asymmetric interdependence analyzed state behaviour: it looks for evidence of small state discontent with regional outcomes. As rule-takers, smaller, more dependent partners may become disenchanted with routinely conceding regional negotiations to larger members of the bloc. Evidence of this is found in Mercosur, with the smallest states (Paraguay and Uruguay) at times threatening to defect rather than accept regional policies contrary to their national interests. As expected, such behaviour is not observed in ASEAN.

The third and final theory is derived from the constructivist tradition. It claims that a stronger ideational basis for regionalism will lead to more cooperation. In the comparison test, I expected to find that groups of countries exhibiting greater regional cohesion were more likely to cooperate. The comparison finds that, in the case of ASEAN, a strong consensus on the institution's identity and normative foundation exists

— at least at the elite level. In the case of Mercosur, a shared regional history (and to some extent, culture) has not been transformed into a coherent, consistent regional identity. Thus, the comparison supports the theory tested in chapter six.

None of the three theories tested has been eliminated as a possible explanation of the regional variation in the face of systemic instability. Does this mean the results are ambiguous, or that all three theories together can help us explain why some groups of states use regional institutions as platforms for cooperation in times of crisis?

7.1 WEIGHTING FINDINGS; THEORY IMPLICATIONS

As demonstrated in the comparison and process tests, institutional flexibility, roughly symmetric interdependence, and a strong ideational base for the region all contribute to determining whether cooperation survives or fails amidst instability. However, while all theories “passed” the tests used in this thesis, not all the theories are necessarily “equal.”

The strongest evidence is presented in support of the asymmetric interdependence variable. Here, we found evidence that small Mercosur members were explicitly discontented with integration, which they felt disproportionately benefitted Argentina and Brazil. This evidence comes close to being a “smoking gun” in support of the theory. No similarly strong piece of information suggests that symmetric interdependence was responsible to driving cooperation in ASEAN. Thus, the theory is a stronger pass in the case of Mercosur.

In my tests to determine whether or not institutional flexibility was a determinant of institutional cooperation, I found that more generous flexibility mechanisms were

associated with decreased conflict and more cooperation. However, support for the causal linkages between institutional flexibility and these outcomes is not strong. Other factors — domestic or extra-regional politics, for example — could also be driving state behaviour. Thus, while the theory passes the twin straw tests, the evidence presented allows us to do little more than make some qualified inferences.

Plenty of indirect evidence suggests that coherent regions are more likely to cooperate, but these findings too can be challenged. With the information available, it is hard to say that regional coherence is not itself an *effect* (rather than a cause) of regional cooperation. ASEAN was founded in 1967, Mercosur in 1991: have an extra twenty-four years of cooperation helped to socialize states into thinking regionally? Until more work is done to resolve this potential “chicken and egg” problem, the regional coherence approach must be treated with some suspicion.

The strongest take-away from this research is that asymmetry of interdependence undermines chances for regional cooperation under instability. What are the implications of this finding? Given that each theory was successful, to varying degrees, there are two possible conclusions: (1) ambiguity (all results are sound, some perhaps much more so than others), or (2) a hybrid/synthetic explanatory model of regional cooperation under instability.

We know from the background information presented in the introduction that the region in which more cooperation was observed was also more dependent on trade and foreign investment. Regional cooperation sends investors signals about states’ intentions. Existing literature on regionalism suggests that when applied *en masse*, commercial policies gain legitimacy; a measure of collective security is involved. For states reliant on

trade, and particularly on foreign investment, such signalling is very important. States cooperate in order to ensure they send the right signals, and in order to gain leverage over their partners commercial policies (in order to control externalities).

Cooperation is more likely when states are negotiating within an institution which already guarantees a generous measure of flexibility. The optimal degree of flexibility required to maximize both the chances of cooperation, while also ensuring the agreement remains effective, has been discussed elsewhere (see Milner and Rosendorff 2001). Future research must more fully and systematically incorporate work on the optimal design of institutions into studies of regionalism and systemic crisis.

Cooperation also proceeds more smoothly when states have a broadly equal interest in integration. This ensures that concessions are made evenly, and that no partners are left feeling alienated or disenchanted with the negotiating process.

Finally, groups of states which exhibit a higher degree of *regionness* and which have a strong ideational foundation are more likely to cooperate, as there will be a better developed sense of regional, rather than simply national, interest.

If we were to synthesize these findings, we would expect regional trading institutions to be effective platforms for cooperation when partners have a common and equal interest in liberal economic policy, when flexibility controls the costs states bear in the face of future instability, and when group identity is strong. However, the immediate implications of this research are more theoretically ambiguous. For one, it is difficult to say whether regional identity caused cooperation, or whether more regionalism nourished regional identity. This ambiguity means that the constructivist-regional coherence

argument outlined in chapter seven is less useful as a predictive theory than those discussed in chapters four and five.

Taken alone, flexibility mechanisms appear to have improved the likelihood of cooperation, at least in the case of ASEAN. After ASEAN-x was institutionalized in 2007, cooperation proliferated. Cooperation in Mercosur proceeded, if fitfully, throughout the 1990s and 2000s. Mercosur members in this period cooperated widely even though the flexibility mechanisms to which they had access were quite limited in scope. After 1994, changes were made to the flexibility provisions available to Mercosur members, yet no evidence exists of this increasing or decreasing the bloc's dynamism. Instead, cooperation appears to have increased when Mercosur was prioritized by its senior partners, and decreased when the relationship between these states deteriorated.

Moreover, Paraguayan and Uruguayan leaders have cited Mercosur's asymmetry as a key reason why the organization does not work for their states. This strongly suggests that, in the case of Mercosur, asymmetric interdependence led to small state discontent and helped to undermine cooperation amidst instability. The closest evidence to a "smoking gun" presented in this thesis, the findings of the state behaviour "talk test" (e.g., analysis of public statements of leaders) lends considerable support to the notion that asymmetric interdependence is responsible for variations in regional behaviour.

Thus, of the three independent variables examined in this thesis, the strongest case can be made for asymmetric interdependence. Are flexibility mechanisms responsible, is asymmetric interdependence, or do both variables play a role in determining regional behaviour? More research — possibly involving more crises and more cases — is

necessary in order to help further isolate the determinants of regional institutional behaviour in the face of systemic instability.

A number of further theoretical implications can be drawn from my findings. My research confirms that asymmetric interdependence *does* matter, and that it steers states away from cooperation. This is a significant challenge to realist hegemonic stability explanations. Not only may regional leaders may be unnecessary for successful cooperation, they may actually undermine it if small states feel their needs are being ignored.

This thesis also determines that cooperation remains a challenged endeavour. States are hesitant to cooperate. Cooperation in ASEAN accelerated on when members were given access to new exit strategies. More broadly, this work calls into question the utility of international institutions. Mercosur members defect easily and often. This suggests that Mercosur does not manage anarchy so much as it imposes on it a thin and brittle veneer of respectability. States agree to that which is expedient, and go their own way when cooperation ceases to be in their best interest. This has yet to occur in ASEAN.

However, ASEAN imposes no significant constraints on its members' autonomy. The array of flexibility mechanisms available to ASEAN members is so generous that cooperate barely mitigates anarchy at all. States adjust their policies to achieve shared goals, but no meaningful mechanisms exist to ensure that promises are kept. In both regions, cooperation may at times look impressive on paper and may yield genuinely positive results, but in neither case does it fundamentally change state behaviour.

7.2 POLICY IMPLICATIONS

My findings have implications for policymakers in ASEAN and Mercosur. These implications can also, to some extent, be applied generally.

It is clear that asymmetries of interdependence played a role in undermining the prospects for cooperation in Mercosur. If members of a bloc are genuinely committed to regionalism, then steps need to be taken to accommodate the unique needs of smaller, more economically dependent states. This will mitigate conflict in the region, fostering further cooperation and making the regional institution and its members more predictable actors. Thus, for policymakers in Mercosur, the fact that strong evidence exists to suggest that asymmetric interdependence undermined cooperation ought to be of concern. Further steps should be taken to manage and mitigate power imbalances in the bloc, or at least to allow negotiators to overcome the huge asymmetries of interdependence which presently defined regional politics. Moving more decision-making and dispute resolution responsibilities to formal, institutionalized tribunals (rather than *ad hoc* political negotiations) would help to ensure the voices of Paraguay and Uruguay are heard in future regional negotiations.

It also appears that less institutionalized regional agreements are more durable when systemic crises arise. More generous flexibility provisions appear to promote new cooperation; this is a finding policymakers ought to bear in mind as they pursue new bilateral and multilateral agreements in trade and other issue areas. As a result, Mercosur's leaders should seek to develop and implement new flexibility mechanisms. This would help preserve the integrity of existing agreements. In doing so, it would improve the predictability of regional and state behaviour. At a minimum, future regional

commitments should incorporate escape clauses, designed according to the specifications of Milner and Rosendorff (2001).

ASEAN realized significant cooperation during the Global Financial Crisis, and in its case fewer policy recommendations are implied by my work. Policymakers across ASEAN must continue in their attempts to build regional coherence at the mass participatory level. They must also work to continue closing the gap in economic development between the ASEAN-6 and the CLMV countries, lest the progress of the latter should slow and fuel the development of more lopsided power relationships.

7.3 FUTURE RESEARCH

Given greater time and resources, future studies of regionalism and instability must map out a means by which states and their interlocutors can design agreements and institutions which promote international cooperation even in the most challenge of economic and political environments. This work must incorporate the full extent of writing on the optimal design of flexibility clauses.

The ill effects of asymmetric interdependence also require further study. Examining a larger number of regional organizations (or even bilateral treaties) at many different points in time would allow us to make more conclusive claims about the effects on cooperation of unequal power relationships.

Finally, a much more thorough understanding of non-elite views on regional coherence in both blocs (and elsewhere) is needed. No author has written widely on what ordinary people think of ASEAN or Mercosur. Original research is needed to fill in this gap in the literature.

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