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Empirical Puzzle and Theoretical Approach

1.1 Introduction: Relevance and Focus of Research

New treaties on economic cooperation among states at a regional scale have become central features of international relations since the end of the 1980s. European integration was revitalized by the Single European Act (SEA) and the Treaty of Maastricht. The North American Free Trade Agreement (NAFTA) formally established the second-largest economic area in the world. The Common Market of the South (MERCOSUR) symbolizes the end of traditional rivalry and the new attractiveness of free market policies in South America. Other initiatives, like the ASEAN Free Trade Association (AFTA), are still in a nascent stage. These regional economic frameworks increasingly influence political and private actors and structure the process of international relations. Government decision-makers and political scientists assume that policies and economies will increasingly be shaped by regional frameworks. The former French foreign minister Jean François-Poncet sees regional agreements as the 'centers for the political and economic development' of a new world order (Wörl 1994: 21). Peter Katzenstein (1995: 14) observes the emergence of a 'world of regions' and stresses the need for more research on this subject by political scientists. The question that guides this book is a simple one: why do states decide to restrict their freedom of action by signing regional treaties with other states?

Theoretical understanding and empirical analysis of the reasons for these new agreements are important prerequisites for an explanation of regional cooperation. The reasons and motivations behind cooperation are in need of explanation, especially because the recent

initiatives represent two fundamental political changes. First, the new regionalism is market and competition oriented. Growth is to be achieved by deregulating and leaving the allocation of production and capital to the market. This strategy represents a distinct change of course for many members of regional agreements and a weakening of formerly dominant models of domestically focused interventionism, such as neo-Keynesianism in Europe and the import substitution industrialization (ISI) in Latin America. Second, recent historical developments and specific circumstances in the 1980s made a resurgence of regionalism appear unlikely: existing cooperation seemed to have either stalled ('Euro-sclerosis') or failed altogether (Latin America, Africa) and the end of the cold war led some observers to expect a new wave of nationalism and conflict, even in Western Europe (Mearsheimer 1990: 5–56). In addition, the globalization of economy and communication made worldwide integration, the 'global village' scenario, seem more plausible than new regionalism. In the light of these developments, the new agreements suggest a puzzle. Why did regional cooperation among states gain new momentum in the 1980s and 1990s? *Which factors led governments to agree on new market-oriented, liberalizing regional cooperation?*

In the pages that follow I specify the empirical 'puzzle' more thoroughly. Which cases of new regionalism are to be considered, and why do they require explanation? Political science offers diverging theories on cooperation. The explanatory power of these theories will be discussed in section 1.2. Given the fact that these approaches fall short of explaining why governments formed a preference for new cooperation, I develop a new approach in section 1.3. I argue that the simultaneous convergence of national preferences for cooperation was stimulated by the influence of global markets on domestic policies and national economies. In the final section of this introductory chapter I discuss methodological questions and the operationalization of the approach for the following case studies (chapters 3, 4 and 5).

Regional cooperation in Europe and the Americas

Since the 1980s initiatives for new cooperation have been introduced in nearly all regions of the world. If one defines regional cooperation as a partial devolution of a member's unilateral capacity to act in specific economic policy areas and towards specific regional partners, however, only a few cases remain: the EC single market of 1992, the Monetary Union envisioned in the Maastricht Treaty, NAFTA and

MERCOSUR.[1] In addition to global trends, the specific regional characteristics, the timing and the strategies pursued also contribute to the unexpected nature of the new regionalism and underscore the empirical puzzle.

In Europe, the completion of the Single Market and the ratification of the Maastricht Treaty raise the question as to why these projects became possible now, although they had been discussed since the 1960s without ever passing the planning stage. The paralysis of European integration in the 1970s, the increasing heterogeneity of national interests following the various enlargements, and the disappearance of the cold war's unifying force did not make the development towards '1992' and Maastricht appear self-evident (Anderson 1995; Rosamond 1995). It is also puzzling that European economic policy turned away from its previous neo-Keynesian paradigm to push through the liberalization of the single market, which weakened government demand management and interventionism and strengthened supply-side liberalism. What caused EC members to depart from existing cooperative regimes and to introduce substantial changes in their economic policies? Why did national interests converge in the 1980s and not before?

With MERCOSUR, the *rapprochement* of its two leading members, Argentina and Brazil, reached an unexpected peak.[2] Until the beginning of the 1980s, relations between these two countries were shaped by their traditional rivalry for dominance on the South American continent. Bilateral trade was practically non-existent. Moreover, attempts at regional integration encompassing all Latin American countries failed in the 1970s and 1980s mainly because of the then dominant protectionist import substitution policies. MERCOSUR adheres to the opposite strategy by trying to promote competitiveness on world markets (Schirm 1997a: 79–112). Since the creation of MERCOSUR in 1991, nearly all the measures for a full customs union have been implemented and intraregional trade has quadrupled. Why did member countries agree on liberal economic rules in MERCOSUR that contradict long-standing development strategies? What stimulated the MERCOSUR states to create a cooperative approach, whose binding character and regulatory scope is second only to European integration?

NAFTA formalizes a North American economic area encompassing Canada, Mexico and the USA.[3] In signing NAFTA, Mexico basically agreed to adapt to the US economic model and merge further into the economy of its larger neighbour. The binding commitments

of the agreement were undertaken after decade-long political conflicts between Mexico and the USA and after Mexico's attempts to 'free' itself from economic dependence on the USA (Weintraub 1990: 16ff). In order to join NAFTA, Mexico had to put an end to its traditional development model of ISI and to strengthen the free-market reforms of the 1980s. In this case, as in the others, regional cooperation represents a departure from former traditions and policies and thus raises questions about the causes of change.

1.2 The Weaknesses of Regional Integration Theory

Prior to any discussion of current theories in this area, it should be said that regional integration theory is only partially concerned with the *reasons* for cooperation – in other words, with preferences that lead to cooperation at a specific time. Instead, most theories focus on *how* cooperation works (decision making, institutions) and *which* characteristics it demonstrates (supranational, intergovernmental, regime-specific).[4] In addition, theories concentrate almost exclusively on the *European* case (an exception is Nye 1971 / 1987). By offering an analysis and a theoretical conceptualization of regional cooperation in Europe *and the Americas*, this book also attempts to overcome eurocentrism. This approach is based on the assumption that social interaction, and therefore international relations, follow generally applicable rules. Powerful theories should be able to explain regional cooperation in Europe and other areas of the world. Thus, it is assumed that European integration is not *per se* a unique case, but can be compared to other examples of regional cooperation (see Mols 1993).

Neofunctionalist institutionalism

Until the theoretical debate on regional integration broke off in the mid-1970s, functionalism (Mitrany 1943 / 1966), neofunctionalism (Haas 1958) and the various corollary theories (Lindberg and Scheingold 1971; Nye 1971 / 1987) formed the dominant paradigm. Cooperation occurs where it is functionally efficient – that is, where specific government functions can be exercised more efficiently by means of regional cooperation than by an individual nation. All variations of functionalism focus on explaining how the process of integration, once

begun, builds on factors that are inherent in the cooperation itself. It is assumed that cooperation in areas of technical-economic issues necessarily (functionalism) or probably (neofunctionalism) leads to cooperation in new political issue areas through spillover effects. Because different versions of functionalism were unable to explain the de facto development of the EC, even through an inflation of variables (Nye 1971 / 1987), one of functionalism's intellectual fathers, Ernst B. Haas, proclaimed the 'Obsolescence of Regional Integration Theory' (1975). The continued decisiveness of the nation-states' role in determining the progress of integration rather than the functional overcoming of the nation-state shaped the EC, thus weakening the validity of functionalist assumptions.

But recent works on functionalism show that it is relevant in interpreting the effect of regional non-national dynamics on the deepening of cooperation. Common policy areas, supranational institutions (Commission, European Court of Justice, European Parliament) and regional interest groups have been identified as driving forces for recent developments (Pierson 1996; Sandholtz and Zysman 1989). 'New institutionalism' follows the functionalist tradition of assuming that common regional institutions decisively influence the integration process. As Pierson (1996) argues, institutions shape member states' expectations and possess a certain independence in specific situations (on institutionalism, see Keohane 1989). According to this line of thought, European integration can be explained primarily by the influence of the European Court of Justice and the Commission. The latter acts as a supranational political *entrepreneur*, which conducts regional policies in its own ('European') interest while enjoying relative autonomy from member states.

But neofunctionalist institutionalism does not suffice to explain regional cooperation in the 1980s and 1990s. First, it cannot explain the central role of the nation-states in the creation of the new regionalism. Second, while the EC Commission may have played an important part in the formation of the single market, NAFTA and MERCOSUR cannot be traced back to the activities of a supranational institution because no comparable institutions existed in those cases. In the European case, the Commission served as a catalyst rather than a cause (Moravcsik 1991: 66ff; Cameron 1992: 51ff). Most importantly, neofunctional institutionalism cannot explain why the Commission was possibly able to promote cooperation in the mid-1980s but not in the previous decades, and why integration was suddenly accompanied by a liberalizing and deregulative economic strategy. Finally, the

hypothesis of 'functional efficiency' as a driving force for cooperation offers only a theoretical scaffold without specifying those factors that could make functional efficiency a necessary or viable force. Which developments led a liberalizing regional cooperation to be perceived as 'functionally efficient' in the 1980s?

Neorealist liberal intergovernmentalism

The functional-institutionalist approach has been criticized since the 1960s with arguments drawn from a general theory of international relations, neorealism. This gave rise to a second school of thought on regional cooperation. It focused on the continuing centrality of the nation-state to the integration process in Europe. Starting with the dominant role of the member states, which became obvious in the EC crisis of the 1960s, this school argued that national activities, more than other factors, initiate and shape cooperation (S. Hoffmann 1966). The convergence or divergence of national interests was held to be the decisive factor for the progress or paralysis of cooperation. According to the neorealist paradigm, states are the decisive *driving force* in international relations and act as power-seekers in line with their national interests (primarily security interests) in an anarchic international system, in which non-state actors, domestic politics, international organizations and economic issues matter only at a secondary level. Sovereign nation-states 'decide' on regional cooperation when their 'national interests' prove to be compatible (on neorealism, see Keohane 1986).

In the 1970s, this view of nation-states in international relations was critically modified by adding the concept of interdependence among states and by introducing non-state actors and international interconnectedness as central elements of international relations (Keohane and Nye 1977). The interdependence of states, together with the assumption of their basic willingness to cooperate, is an underlying feature of the concept of 'international regimes' for regulating specific policy issues (Rittberger 1993). Transferred to regional cooperation, this view explains cooperation as a function of management requirements between states. Regional cooperation is thus considered an 'intergovernmental regime designed to manage economic interdependence' (Moravcsik 1993: 474).

While the traditional literature on interdependence and regimes took 'national interests' largely as given, recent works have propagated more differentiated views. In publications *inter alia* by Evans et al.

(1993), Moravcsik (1991, 1993), Sorensen (1995) and Zürn (1993), domestic politics (societal coalitions, political institutions, etc.) are used to explain governments' foreign policy behaviour. It is assumed that regional cooperation is a consequence of domestic coalition building and the desire of governments to strengthen their power vis-à-vis domestic interest groups (Moravcsik 1993: 485). Governments' international actions are seen as a reaction to endogenous influences – as instruments that either accede to or resist domestic pressures. National interests are thus delineated in accordance with domestic policy requirements and subsequently introduced into the intergovernmental bargaining process at a regional level (e.g. the EC Council). According to neorealist assumptions, this bargaining process then reflects the distribution of national power (Moravcsik 1991: 75). State sovereignty is therefore not weakened. Instead it is conjoined in order to establish regional regulations through a 'pooling of sovereignty' (Keohane and Hoffmann 1990: 277).

The neorealist-intergovernmental approach, expanded by the dimension of domestic politics and thus 'liberal'-intergovernmental, is considered the dominant explanatory model for the study of the European Union by some authors (Rosamond 1995: 396). Nonetheless, it would be problematic to use this approach because it cannot adequately explain the empirical developments. Why did domestic coalitions and national governments favour cooperation in the 1980s and 1990s but not before? Moreover, this line of thought does not explain why new cooperative moves were undertaken with liberal economic strategies, thus changing longstanding economic policy paradigms. The formation of 'national interests' occurs in an analytical vacuum: there are explanations of *how* interests are articulated and shape foreign policy behaviour, but none of *why* interests emerge and *which* interests succeed in becoming driving forces. For example, Moravcsik (1991: 42, 67) mentions the 'convergence of the economic policy prescriptions' in the major EC countries as an 'essential precondition' for the Single Market Project (SMP), but does not sufficiently investigate whether there is a common explanatory factor for this simultaneous convergence of national preferences, for the dominance of neoliberal domestic coalitions and the 'failure' (Moravcsik 1991: 73) of neo-Keynesian politics. The frequent reference to 'interdependence' (Moravcsik 1993: 474) as a reason for cooperation is a static description of a certain situation that does not delineate clear causalities. The neorealist, 'liberal' intergovernmental approach thus fails to offer a full explanation of the simultaneous preference for cooperation in

several states. If government preferences are shaped by domestic coalitions, what led domestic interests to develop in a way that stimulated governments to favour liberalizing regional cooperation in the 1980s?

The gap in research The conclusion of this short analysis of regional integration theories is that, while they do explain how convergent interests can induce cooperation (through 'functional efficiency', 'institutional dynamics', 'domestic coalitions' and 'intergovernmental bargains'), their explanation for the causes of convergence is insufficient.

Which specific driving forces encourage the perception of regional cooperation as a desirable option to further 'functional efficiency' and 'national interests'? The research community agrees on the decisive role of liberal economic reforms in major EC countries in the mid-1980s for the decision on the SMP (Keohane and Hoffmann 1991: 24; Moravcsik 1991: 42, 67). However, the question of whether there is a factor that brought about the alignment of national preferences around liberalizing reforms and for the functional efficiency of regional cooperation has not been investigated. What remains to be explained, therefore, is the simultaneous convergence of national preferences for new cooperation in liberalizing markets and enhancing global competitiveness.

The global economic context as a complementary factor

The target of the new agreements and their liberalizing strategies offer a possible explanation: the agreements were created specifically in order to enhance their members' competitiveness on the world market. This global economic context is neglected by both liberal intergovernmentalism and neofunctional institutionalism. Neither approach has taken account of the fact that globalization has dramatically increased the transborder mobility of economic factors, thus modifying states' power to shape policy. Owing to the increase in private actors' transborder activities, developments in the domestic economy can be influenced more easily by transnational processes. This has lowered the efficiency of governments' ability to regulate the domestic economy because governmental outreach is territorial in scope. However, if economic interaction increasingly transcends state structures and relies to a growing extent on transnational private net-

works, then those theories that focus on national and supranational 'statehood' reflect a diminishing proportion of the government's decision-making environment and thus of the causes of government preferences. Therefore, any explanation of government action must take into account the transnational, non-state environment in which decisions on regional cooperation are made. Since cooperation was conceived as an instrument to enhance competitiveness on the world market, we can presume that the global economy was a driving force.

Such a supposition also seems plausible when considering the specific developments in the regions at stake here. In the case of regional cooperation in the Americas, focusing on states and domestic politics seems insufficient given the thorough integration of Mexico, Brazil and Argentina into the world economy. This became obvious during the debt crisis of the 1980s and in view of the dominance of foreign direct investment (FDI) in industrialization (Schirm 1990: 74–99). Moreover, NAFTA and MERCOSUR were explicitly created as 'springboards to the world market' (Schirm 1997a: 52, 83).

Europe's SMP was a product of the fear that Europe was falling behind in global competition and therefore reflects the expectation that a better position in the global economy could be achieved through cooperation (Checchini 1988: xix; Keohane and Hoffmann 1991: 22ff). As Zürn (1995: 159) has pointed out, with regard to Western Europe, intergovernmental approaches and neorealist structuralism have to be augmented. Because of the increasing permeability of territory, the erosion of sovereignty and the denationalization of the economy, the analytical focus on domestic politics is increasingly inadequate as the separation of 'internal' and 'external' becomes more difficult to sustain. Analysing 'domestic politics', regional institutions and intergovernmental bargains without including the global economy weakens the explanatory power of these theoretical approaches. Although they mention international interconnectedness, they fail to answer the question: *which* developments have *what* repercussions on government preferences?

Furthermore, we need an explanation of why the participating governments developed new preferences for cooperation *simultaneously*. Causal factors that could have provoked a simultaneous and strategically convergent formation of interests need to be identified. Such causal links must be valid for all the states involved and therefore need to reach beyond single states and regions. The global context meets these criteria.

1.3 The Global Markets Approach in Explaining Cooperation

In the following, I will conceptualize the global economic context in order to explain specific cases of regional cooperation. The approach does not invalidate existing theories; it complements and encompasses them. The aim is to explain national governments' preferences for new liberalizing and world-market-oriented cooperation in Europe and the Americas.

For this purpose, I am developing a new approach, which will attempt to explain these preferences as a function of the influence of global economic actors and processes on national economies and economic policies. The first part formulates two hypotheses on the cross-section 'global context–governmental preferences–regional cooperation'. The second step provides an empirical and theoretical foundation of the first hypothesis on the impact of global markets on states. The third part offers a foundation of the second hypothesis on why governments perceive regional cooperation as an adequate answer to the impact of global markets. Finally, I discuss the extent of the new approach's applicability.

Hypotheses

In accordance with the theories discussed previously, the following assumptions are taken as a point of departure: regional cooperation results from new challenges, which governments believe can be better met by means of new regional regulations than by adhering to present national or regional strategies. Such new challenges make regional cooperation seem 'functionally efficient' and compatible with the 'national interest'. By engaging in new regional cooperation, states create or strengthen a policy domain in which they receive new instruments for dealing with specific actors, situations and processes. The attractiveness of a common regional capacity to act is due to the inadequacy – or the perceived inadequacy – of purely national means to face new challenges. Thus, it is necessary to discover which new challenges increased the benefits of new (or further) cooperation to such a degree that participating governments developed a preference for cooperation. Therefore, the premise is that regional cooperation gains attractiveness if several governments see themselves exposed to

new challenges that they believe can be better met by a regional approach than by national strategies.

Hypothesis I: the impact of global markets on states Challenges that meet the criteria of the premise have to influence a group of states at the same time in order to explain *simultaneous* government preferences for cooperation. In addition, national means must be less efficient than regional policies in dealing with these challenges. Alternatively, the challenges may overwhelm or weaken national policy instruments. Developments with these characteristics have to transcend national structures and affect several states, in this case several continents (Europe, North and South America) at the same time. These criteria are fulfilled by *global* processes. As the purpose is to explain economic cooperation among states, this study will focus on the global economic phenomena identified in the previous section and subsumed here under the term 'global markets'.

Although I have referred to the term 'globalization' in earlier works (Schirm 1996, 1997b), I will refrain from doing so here because the term's varying definitions in the academic literature increase the probability of misunderstandings (see Germann et al. 1996: 18ff; Schirm 1999a: 24). In addition, the term 'globalization' is increasingly used as a tool for special interests in the public debate. The term 'global markets' is more precise because it is restricted to the economic dimension. Most importantly, it provides the definitional distinction between 'market' and 'state' necessary for any theoretical conceptualization of the interaction between the two. Global markets function in accordance with the logic of profit maximization of private, transnational and potentially globally operating actors. Therefore, global markets are clearly distinguishable from the allocation of public goods as undertaken by governments, which are restricted by the confines of the nation-state and aim in principle at the common weal.

The development of 'global markets' is characterized by the increasing cross-border mobility and connectedness of private economic activities. This integration of markets can influence several states simultaneously. While private entities such as markets and actors can be present in a multitude of states, governments remain restricted to 'their' nation-states with regard to their governing capacity. Global markets are shaped by interactions that transcend the boundaries of nations and are not determined by single national frontiers, norms and interests. Therefore, functions and character of global markets clearly differ from those of the state and its government,

which are determined by territoriality, sovereignty and community interests.[5]

The following supposition derives from these conceptualizations and definitions: governments find themselves restricted in their autonomy to act[6] and pressured to adapt to the logic of the global economy according to their national economy's level of integration into global markets. To that degree (i.e. the extent of trade, loans, investment), the costs of a policy that does not take the profit expectations of transnational economic actors into account will rise. The decisive cost factors are both the increased mobility, which facilitates the withdrawal of resources by private actors, and the potentially global possibilities for investment, which permits private actors to direct their resources to those locations that offer the most promising conditions for profits. At the same time, increased mobility and the potential for global investment also imply higher incentives for governments to adjust to the expectations of global markets. These incentives take the form of a potential influx of resources to the locations with the most attractive conditions.

For a government's policy to be considered attractive by global markets, it must accommodate this increase in factor mobility by pursuing economic liberalization and entice potentially global resources by increasing the profitability of the national location for global actors, for example, by enhancing free market conditions and implementing supply-side and employer-friendly measures. In this regard, global markets imply a deterritorialization and denationalization of economic activity because their operational logic transcends the functional logic of states. As global markets grow in importance, as they have since the 1970s, they exert pressure on states to align their policies increasingly with the competition-driven logic of transnational private activities (Schmidt 1995; Strange 1996: 3–43).

In the light of the fact that, in the decades prior to the liberalizing regional treaties, economic policies in Europe (neo-Keynesianism) and Latin America (import substitution) were mostly domestically oriented and tended to be interventionist, global markets appear to have the following effects.

1 *Crises*. Inward-looking interventionist policies presumably reach a crisis because they do not take the increasing relevance of global markets' expectations and mechanisms into account. In addition, these policies are based on the states' ability to govern the na-

tional economy – an ability that declines with the denationalization of private economic activities.

2. *Interests.* A shift in the interests of important groups in domestic politics becomes plausible given that the increasing integration of economic sectors into global markets weakens their orientation towards the national arena and strengthens their involvement in competition at the global level.
3. *Instruments.* The denationalization of economic interaction following the integration of national into global markets presumably restricts the efficiency of governmental instruments because transnational activities cannot be influenced as effectively by the state as national activities.

In sum, I suppose that governments develop a preference for world market-oriented liberalization as a result of the impact of global markets. *Hypothesis I: if global markets influence several states by triggering a crisis of inward-looking interventionist policy, by strengthening transnational interest groups, and by weakening the governments' regulatory instruments, then a simultaneous preference for liberal, global competitiveness-enhancing policies will be stimulated.*

Hypothesis II: on the attractiveness of regional cooperation as an answer to the impact of global markets on states Under which conditions would liberalizing regional cooperation be an adequate means of adjustment to the impact of global markets? As regional economic cooperation falls into the realm of economic policy, we can presume that the basic government task involved is 'wealth' (and not 'security'). The support of a majority of voters and therefore the maintenance of power for governments vitally depends on their economic performance. If the impact of global markets reduces the efficiency of previous policies in providing economic goods, then new instruments allowing for an efficient adjustment to these influences become attractive. To put it differently, if the increasing integration of a national economy into global markets makes the inward-looking interventionist pursuit of growth and wealth unviable or costly and stimulates liberalizing reforms, then instruments that permit the efficient implementation of these reforms will be given priority.

Governments presumably perceive regional cooperation to be a better option than purely national strategies on both the economic and the political level.

1 *Economic efficiency*. The economic impact of liberalizing reforms can be enhanced by the economy of scale, the specialization and the competition effects of a regional market or a free trade area.
2 *Political acceptability*. The implementation of reforms can be improved by anchoring the new political approach in a regional framework. Regarding domestic opposition, the government will gain additional leverage because its new economic course will no longer be solely a matter of national responsibility but will be part of a binding multilateral commitment.

Therefore, I presume that regional cooperation will offer governments an attractive instrument for reacting to the challenges of global markets in a way that is more economically efficient and easier to implement politically than a purely national approach could have been. These considerations lead directly to *Hypothesis II*: *regional cooperation gains attractiveness to the degree that it offers a means for an economically more efficient and politically more acceptable adjustment to global markets and competitiveness, giving governments a better chance of staying in power as a result of enhanced economic performance.*

In suggesting 'global markets' as an explanatory approach, I have chosen a factor that is widely neglected by existing theories but that does not contradict them. I maintain that regional cooperation is stimulated indirectly by global markets through a shift in national interests, domestic coalitions, international interdependence, functional efficiency and supranational institutional dynamics.[7] This book will attempt to meet Müller's and Risse-Kappen's claim for an approach that 'incorporates the three levels of analysis – society, political system, and international relations' (Müller and Risse-Kappen 1990: 379). By cooperating on a regional level, the state does lose autonomy vis-à-vis its partners (other states), but it hopes to gain new instruments for dealing with new domestic and transnational pressures, which derive from the influence of global markets. Therefore, the approach chosen complements existing theories in so far as it focuses on the relationship between governments' strategic options and transnational developments. As the latter change states' economic capacities, regional cooperation offers an option not attainable by any individual state.

Actors in global markets operate transnationally and follow private economic interests. They are not determined by any *specific* national context (interests, norms, territory) and therefore differ from state

actors.[8] This applies to transnational firms and banks as well as to the world financial system, to the worldwide division of labour, trade and investment. The 'global markets approach' (GMA) also resembles the transnationalism debate, which has recently experienced a revival (Kaiser 1969; Keohane and Nye 1972; Risse-Kappen 1995). Where it differs, however, is that global markets are not identical with 'transnational actors'. The latter can also be non-economic in nature (e.g. Greenpeace) and be transnational even if they cross only *one* border. Global markets (and transnational actors as defined here) are distinguished by their profit-seeking interest and by their potentially – and increasingly – global reach.[9] The argument that global integration changes national policy options might at first resemble the 'management of international interdependence', but on further consideration goes beyond this. While 'interdependence' denotes interconnectedness *among states* and their mutual vulnerability, this book's central focus is on the interconnectedness *between states and global markets*. The decisive question is not how interdependent states influence each other, but what impact global markets have on government actions and preferences.

On the impact of global markets on states (Hypothesis I)

The explanatory factor 'global markets' is defined as the process of increasing integration of markets and economies, driven by the competition-oriented interaction of private actors in the interest of enhanced competitiveness, by growing factor mobility and shrinking transaction costs (Dunning 1990: 9–58; Germann et al. 1996: 18–55). This interaction differs from international relations because its *modus operandi* is not determined by specific national interests and frontiers. The allocation of resources is driven primarily by the logic of the market and not by politics. Obviously, this is an analytical distinction. To avoid the impression of simplification and reductionism, three caveats must be made.

1 The question of the impact of global markets on states should not lead to the conclusion that states do not influence the world economy. States and global markets mutually influence each other. Without the liberalizing policies of nation-states, global markets would not have emerged (Wade 1996). The impact of markets *on*

states is the focus of this work because the purpose is to explain government preferences. I do not argue here that states are powerless against global markets, or that regionalism will inevitably occur, as Ohmae (1995) suggests.

2 The development of global markets is – historically speaking – not a new phenomenon. The transborder integration of production and capital flows was very strong at the end of the nineteenth century (Hirst and Thompson 1996: 2). This era of openness lasted until the 1910s. Possible parallels to historical developments, however, are not at stake here. The decisive question in explaining regional cooperation in the 1980s and 1990s is whether global markets gained importance after the 1970s in comparison to the preceding decades (1920s–1960s).

3 The term 'global' does not imply that economic transactions are *predominantly* global. It indicates only that the share of cross-border activities is *increasing* in proportion to global output (measured as the sum of the gross domestic products). 'Global' actors do not necessarily operate in every country or worldwide. Rather, their activities are in the process of global expansion and extension to a growing number of countries. Global markets are characterized by their ability *potentially* to extend to any country, if the respective government offers attractive conditions. States are integrated into global markets to very different degrees. Some are not integrated at all – like most African states.

Since the 1970s, the relevance of global markets has grown in the areas of production, finance and trade, driven by liberalization, global communication networks, better transportation and the worldwide proliferation of technology. The decisive point is not whether these phenomena are totally new, but whether the transnationally produced portion of GNPs has grown compared to purely domestic production.[10] Because of this progressive development, the tendency towards denationalization of economic activity was strengthened. Entrepreneurial concepts, such as 'strategic alliances', 'private global players' and 'global sourcing', indicate that private actors' activities are increasingly organized according to the opportunities of global planning, competition and allocation of resources (Kohler-Koch 1996: 87).

Even though production and services are still generated predominantly within national boundaries, the state is losing regulatory capacity because of the relative growth of transborder trade and division

of labour (Gereffi 1995: 100–20; Hirst and Thompson 1996: 18–98). Increasingly, the production of goods and components is undertaken wherever the most competitive conditions are offered in global comparison. These conditions include the attractiveness of local markets and – depending on the good at stake – productive factors, such as levels of education, wages and taxation, environmental protection measures and access to technology and capital (Bernard 1994: 216–29; Junne 1996: 516). While companies compete on the world market via their products, states compete with one another as locations for the activities of transnational and potentially global producers, investors and technology developers. Thus, the pressure to dismantle inward-looking interventionist policies mounts, because of the need to establish attractive and competitive conditions for globally mobile economic activities.

Those states that provide the best locational advantages will, in principle, benefit most from investment, credit and technology flows. The internationalization of economic activity, intra-firm trade, the deregulation and liberalization in industrialized countries, especially in the USA and the UK in the 1970s and 1980s, increased the worldwide competition in attracting investment, which has stimulated other states to improve conditions by permanently lowering restrictions and controls. Government authority over economic developments is reduced not only by this competition among states but also by transnational corporations (TNCs), which increasingly exert a 'parallel authority' over the allocation of resources (Strange 1996: 65).

As a result, states are less autonomous in determining their economic policy on the basis of purely domestic considerations without high opportunity costs if they wish to participate in the growing dynamics of the global economy. Therefore, the impact of global markets on states does not imply a weakening of the state *per se*, but rather a modification of the cost–benefit relationship of specific government policies. The costs of policies that do not take the functional logic of global markets into account rise owing to the higher mobility of an increasing proportion of economic factors. At the same time, the benefits of market liberalization rise because this stimulates an influx of resources. Link (1997: 270) argues, therefore, that 'globalization' does not cause the state to wither away but rather ties government decisions more strongly to the conditions of global markets.

The restriction of government autonomy by the costs and benefits of global markets and global locational competition was to a large

extent a result of the expansion of financial markets, which was triggered by the demise of the Bretton Woods System at the beginning of the 1970s and by subsequent national liberalization. Deregulation, the rapid growth of financial activities and the increasing interconnectedness of transnational banks through equity swaps and telecommunications led to the emergence of global financial markets, which can hardly be reregulated by individual states (Helleiner 1994: 101–91). Every year global financial markets trade amounts that exceed the value of world trade a hundredfold. These financial flows influence currency exchange rates (and thereby exports and imports) as well as national interest rates and inflation levels and thus affect the ability of governments to stimulate wealth and growth (see chapter 2). Global markets also affect the efficiency of specific instruments for domestic economic policy (Cable 1995; Milner and Keohane 1996b: 247–9). For example, the internationalization of capital markets lowers the impact of central banks' monetary and currency policies, while in many countries the increasing role of foreign trade leads to the weakening of neo-Keynesian demand management through import leakages. One-third of world trade by the 1990s was intra-firm trade (*The Economist*, 7 Dec. 1996: 25), which is difficult for customs and tax authorities to oversee. The proliferation of subsidiaries and transborder alliances has created more actors, which operate on several territories and are thus less controllable by the 'sovereign authority' of *one* territory.

This transnationalization of world trade and stronger competition leads world-market-oriented domestic groups to pressure their governments for economic policies that would enhance their access to and competitiveness on world markets – for example, through selective trade liberalization and monetary stability (Busch and Milner 1994; Rogowski 1989). Frieden and Rogowski (1996: 26) argue that the development of global markets increases the cost of non-participation in the global economy (e.g. higher prices, lower productivity and competitiveness) because of the 'exogenous easing of international exchange'. This implies first a loss of wealth in the case of non-participation and, second, interest-group pressure on the government to establish competitive conditions by deregulating and opening up the economy (Frieden and Rogowski 1996: 35). On the other hand, those domestic groups that are negatively affected will demand protection from or a slower adjustment to global markets. Therefore, govern-

ments see themselves exposed to new challenges regarding policy instruments and political legitimacy in securing growth and wealth.

Together, these developments stimulate states to adjust to the challenges of global markets by liberalizing and opening up to the world economy because global markets weaken governments' ability to attain a positive economic performance using inward-looking interventionist measures (Biersteker 1992: 113). Wessels argues that citizens in modern industrialized states tend to hold the government responsible for their well-being. In order to meet this demand, the state has to open up the economy to stimulate growth and competition. However, this opening creates a dilemma because, owing to the heightened impact of external forces, the state can no longer compensate for the negative social effects of liberalization by traditional national dirigisme. Therefore, governments tend to seek joint governing capacity on the regional level (Wessels 1992: 42ff). The political liability of governments for the well-being of their citizens is characteristic of all political systems, and the more participatory they are in structure, the stronger this liability is.

In summary, the conceptual and empirical foundation of the hypothesis on the impact of global markets on states (Hypothesis I) leads to the following conclusion. We can presume that global markets put pressure on states to enhance their attractiveness as economic locations via liberalizing reforms. The discussed effects of global markets can be categorized according to the three pathways introduced previously:

1 *Crises*. Global markets react to the locational disadvantages of inward-looking interventionist measures by withdrawing or withholding capital and production and thus provoke the crisis of such policies.
2 *Interests*. World-market-oriented groups are strengthened by the increasing transnational share in national economies and the exogenous easing of global exchange.
3 *Instruments*. The efficacy of political instruments that are necessary for inward-looking interventionism is weakened.

Why do groups of states develop a preference for a liberalizing regional cooperation as an answer to the impact of global markets?

On regional cooperation as an answer to global markets (Hypothesis II)

The connection between global markets, government preferences and regional cooperation should not be seen as functioning mechanically. States do not have to cooperate regionally. Rather, the costs and benefits of policy options are modified by global markets that produce specific pressures on states and stimulate their preference for regional agreements. The central impact of global markets is the increased competition for trade shares, production locations, stock market capital and investment. The adjustment to this competition requires governments to reorient their sets of regulations, for example, towards more deregulation and opening-up. The argument is that regional cooperation of a *liberalizing, market-oriented type* offers better instruments and leverage than purely national strategies: the adjustments are economically more efficient and politically better acceptable when undertaken in cooperation.

In liberal[11] free trade areas, customs unions and common markets, restrictions on economic activity are lowered, and thus efficiency and specialization gains as well as economies of scale and division of labour effects can be achieved. These benefits also provide new impulses for growth and higher competitiveness outside the region on world markets.[12] The reduction or elimination of national barriers increases the mobility of productive factors and makes a more efficient allocation of these resources possible. The European single market, for example, is working towards the unrestricted mobility of goods, services, capital and labour among the member countries, its 'Four Freedoms'. Thus, the process of the global integration of markets is met by an even deeper integration on the regional scale through a cooperation among states. Because of the enlargement of national markets, larger amounts of goods can be produced by a specific company, which makes capital-intensive production more cost efficient and reduces the price level because the costs per unit decrease and the profit margin per unit becomes less relevant.

Stronger competition in larger markets leads to a more efficient allocation of resources and thus to more specialization and division of labour. Economic cooperation also lowers transaction costs (customs, different norms, etc.) and enhances comparative and competitive advantages over competitors in world markets. Only a worldwide free trade area, a global common market, would have even greater

efficiency gains.[13] Through the reduction of barriers and regulations on the regional level, the member states increase the competitiveness of their economies and their chances to benefit from global economic dynamism (Streeck 1996: 306).

Compared to the economically sensible option of a unilateral lowering of barriers, the members of a regional association gain 'politically' from the relative discrimination of third parties that do not benefit from regional free trade, a common external tariff, harmonization or mutual recognition of norms. Therefore, regional cooperation has three functions: it strengthens the competitiveness of its members (1) on the regional market and (2) on world markets, and (3) it discriminates against those competitors from third countries whose comparative advantage could provoke politically unsustainable costs (Junne 1996: 517–19). Regional cooperation offers a custom tailored mix of economically and politically viable measures. According to the political weight of those groups interested in higher world competitiveness or in protection from world markets, regional cooperation can be conceived as globally open or only regionally open. Given the costs of protection (reduced competitiveness, etc.), the mixture of both variations will – among other aspects – be influenced by the dependence of the respective region on world markets.

Besides strengthening their competitiveness, the members create a common regulatory capacity, which can prevent unfair trade, beggar-thy-neighbour policies (e.g. via currency devaluations) and market distortions by different national regulations. The binding agreement on common rules of the game (customs, norms, taxes) reduces interventionist competition among member states and enhances the attractiveness of the region for investors by the increased market size and the stability of multilaterally secured investment and production conditions. In addition, regional cooperation allows for a restriction of transnational activities in certain areas and thus the reduction of their impact on the state. This applies, for example, to the elimination of currency-related trade and speculation through a monetary union with a common currency. Furthermore, regional cooperation can increase the bargaining power of the members vis-à-vis third actors (investors, states) without reducing government power *per se*. Rather, it is modified and transferred partially to the regional level. Regional cooperation in the sense of joint policy-making complements national policy. In addition, the region's influence on transnational actors and international organizations (e.g. GATT / WTO) can be strengthened if it acts from a joint position or with pooled resources.

The enhancement of the political acceptability and implementability of market liberalization follows from the possibility of legitimizing the adjustments to global markets as regional treaty obligations, by arguing that external obligations and the necessity of reaching a regional consensus do not permit the pursuit of purely national goals (Petersmann 1994: 41). In order to 'protect' themselves from demands of domestic opponents of liberalization, governments can 'tie their hands' by means of regional commitments and thus better resist protectionist pressures. Regarding the political costs of the liberalizing reforms (voter dissatisfaction owing to job losses, elimination of subsidies, etc.), regional cooperation offers instruments not attainable at the national level. The options for shifting responsibility reach from regional-level decisions with 'common' responsibility to the establishment of joint institutions (such as the European Commission and Court of Justice), for whose activities national governments are only indirectly accountable. The 'freedom' of national governments from political responsibility can be expanded if the regional commitments are justified on the basis of the coercive power of world market pressures.

The transfer of regulatory power to the regional level without the creation of respective mechanisms for democratic control constitutes an additional instrument with which governments can enlarge their room for manœuvre against domestic opposition (Moravcsik 1993; Rieger 1995: 351ff; Scharpf 1996: 15–25). A *binding* regional definition of government functions and economic rules gives national governments (1) the opportunity to attain greater autonomy from domestic groups by delegating responsibilities, and (2) the possibility of claiming external commitments when legitimizing their policies.

According to Scharpf (1991: 624), political science should not only explain but also judge. Thus, one criticism of regional cooperation is that it can have a negative effect if it leads to an erosion of governments' democratic accountability and to less societal participation. However, it is equally possible that it will have a positive effect by enhancing governments' capacity to stimulate growth and wealth. The ideal would, of course, be a participatory (i.e. encompassing as many segments of society as possible) improvement in the securing of welfare effects. This book concentrates on explaining the causal relationships.

In summary, the empirical and conceptual foundation of the hypothesis on the function of regional cooperation as an answer to the impact of global markets (Hypothesis II) yields two advantages of the regional option over that of individual nations.

1 *Economic efficiency*. A greater improvement of national economies' competitiveness as locations for production, investment and innovation can be reached by means of a liberalizing regional cooperation – the enlargement of markets, stronger competition, specialization and efficiency gains.
2 *Political acceptability*. Through regional cooperation, governments can obtain new possibilities of shifting responsibility for the costs of the liberalizing reforms. Its autonomy from domestic pressure groups increases through regionally self-imposed constraints. The acceptance and implementation of reforms are enhanced.

Therefore, governments' preference for new or renewed regional cooperation is stimulated to the degree that the cooperation offers an instrument for realizing an economically more efficient and politically better implementable adjustment to global markets through liberalizing reforms.

The strengths and weaknesses of the global markets approach (GMA)

The argument outlined here complements integration theories in the effort to explain why states developed a preference for a liberalizing regional cooperation in the 1980s and 1990s. The analysis in chapters 3, 4 and 5 will show to what extent this approach is empirically relevant and able to explain the cases. Conceptualizing the impact of global markets identifies a specific factor in governments' decision-making environment, which may cause 'functional efficiency' and 'national interest formation' to favour cooperation. The single most important effect that global markets have on the policy options of governments is increased global integration, which undermines inward-looking interventionist models, changes interests and constrains government instruments. Thus, states are pressured to adjust to the logic of global markets if they wish to benefit from global economic dynamics.

Since the approach concentrates on a specific driving force for economic policy and international cooperation, it does not claim to explain regional cooperation *per se* (as do the theories discussed earlier). Economic cooperation in other decades (e.g. in the 1950s and 1960s), as well as regional cooperation in foreign policy and security matters, is subject to different causal relations (see Schirm 1998). But even

with regard to the new initiatives for economic cooperation in Europe and the Americas, the GMA attempts to explain only the simultaneous emergence of preferences for liberalizing, world-market-oriented cooperation. The approach does not deal with the question of how parallel interests translate into successful intergovernmental negotiations if distributive conflicts and imbalances of power have to be overcome.[14] Therefore, the hypotheses of this work do not claim to explicate the different levels of cooperation in the various agreements. The differences in the depth of integration between the European Single Market Project, NAFTA and MERCOSUR might be explained by other causes than 'global markets' (Grieco 1994).

Moreover, the approach explains neither the interaction of intergovernmental activities and supranational institutions, nor the domestic distribution of the benefits of liberalization and growth. While liberalizing cooperation can be an adequate answer to the pressures of global markets, it is not necessarily the best strategy for every citizen of a given country. Indeed, there are usually losers. Moreover, more competitive conditions for transnational companies cannot be equated with the governments' task to secure 'the common weal'. But higher growth rates can improve the preconditions for a socially more balanced distribution of economic resources.[15] Obviously, deeper socioeconomic disparities may occur if growth and efficiency gains are not subject to distributive considerations.

The GMA to the *reasons* for preferences predicts that governments' preferences for a liberalizing cooperation will endure as long as the pressures of global markets persist.

Why did global markets not lead to binding regional cooperation in other regions, which are also integrated into the global economy? Testing the hypotheses on the Asian case, where no substantially binding cooperation was agreed upon, reveals some caveats to the explanatory power of the GMA (Schirm 1997b: 95–8):

- if the impact of global markets does not create pressures for economic reforms because a *competitive world market orientation* is already dominant;
- if global markets do not stimulate a regional enlargement of national markets because high growth rates are given;
- if the present market size as well as the *participation in global capital and trade flows is perceived as sufficient*; or
- if strong historical resentments or the danger of *new power asymmetries* exist,

then a binding cooperation due to global markets is *not* to be expected. Other forms of cooperation or no cooperation at all will be more likely.

1.4 Methodology and the Empirical Plausibility of the Hypotheses

How can the hypotheses and causal relations of the GMA be made empirically plausible? Two basic methodological directions seem viable and are to be discussed below.

Quantitative flows and political preferences

One way of testing the hypotheses is to measure the data on the integration of national economies with global markets. First, did the degree of integration rise? Second, did a closer integration create problems for inward-looking interventionist models? In order to test the impact of global markets on 'crises, interests and instruments', we can examine whether states' participation in global transactions had changed before they implemented liberalizing reforms and regional cooperation: did they become less attractive as a site for investment and less competitive versus other states or former times and were thus exposed to pressures to adjust and improve their attractiveness? Examples of indicators are growth in exports, in national share in world trade, in global investment flows and in credit, as well as data on how much production shifted abroad. Indicators for an increasing integration of national economies into global markets, and thus for their dependence on the logic of global markets, are external debt ratios and the growth of foreign trade compared to the growth of GDP. The increasingly transnational orientation of private actors (exports, investment, etc.) can serve as an indicator of growing lobbying in these sectors for better access to world markets, for conditions that enhance the global competitiveness of their location, and against protectionism.

The interests of companies that operate transnationally are particularly relevant because governments have to offer especially attractive conditions to keep these firms in the country or to attract new firms. Because of their transnational method of operation, these companies are affected more strongly by changes in the world economy and can shift their activities to other locations ('exit option') more easily than purely national companies. Such shifts can be

prejudicial to government attempts at stimulating growth, and thus endanger the maintenance of power of the respective governing coalitions. The political weight of these world-market-oriented firms can be expressed by their share in GDP. The political influence of pro-liberalization and anti-protectionist groups increases, for example, with a growth in exports' share of GDP. *Domestic pressures on governments to ameliorate conditions for global competitiveness through liberalizing reforms and regional market enlargement increase with a growing share of transnational activities (exports, imports, capital and investment flows) of GDP.*

If these figures change before national and regional liberalization is undertaken, this may indicate that a government's capacity to provide competitive conditions with its former inward-looking policies is either decreasing or increasing. If this capacity diminishes and induces an economic crisis (recession, unemployment, deterioration of the trade and current account balance, etc.), then the decision-making environment stimulates an adjustment to the demands of global markets in order to secure the government's positive contribution to growth. Indicators for domestic pressures deriving from an economic crisis are sinking growth rates, electoral results and public opinion polls.

Testing the hypotheses with these indicators is subject to the caveat that a change in quantitative values does not *necessarily* lead to a change in political preferences – even if rational behaviour would support such a conclusion. Just because it would be rational for a government to change its preferences on account of quantitative changes in its decision-making environment does not mean it is inevitable. Therefore, this book will treat quantitatively measurable flows and data only as plausible indicators for the formation of governments' preferences. I presume only a *plausible* and not a *necessary* causality between the material dimension of global markets and the policy course of governments.

For several reasons it would be problematic to draw conclusions about changes in social interaction solely from the aforementioned quantitative changes. A quantification of social processes, for example, by applying econometric-mathematical methods to social science, would provide only a façade of more scientific precision because the problem of the multiplicity of causalities in social interactions is transferred from the analysis to the premise. That is to say, if one assumes that a larger world market share of GNP necessarily leads to liberalizing policies through mounting pressures from involved groups, then the 'testing' becomes easy and precise: only the measurement of the

share of GNP produced transnationally is necessary. But does a higher export share inevitably induce such political pressures? Do these pressures really lead to a change in government preferences? Therefore, the quantitative measurement of data must be complemented by indicators of the actors' perceptions of these developments in order to provide a convincing analysis of the resulting political situation.

Besides the problem of translating quantitative data into political preferences, a second dilemma emerges in using the measurement of material flows as a method to test the hypotheses. How many and which data are relevant? How are they to be weighted against each other? The solution offered by game-theoretical approaches is the reduction of complexity by restricting the number of variables to very few and the adoption of the *ceteris paribus* proviso from economics. But this 'solution' is only of very limited value in explaining complex and continuously changing social interactions. The use of very few variables and *ceteris paribus* would mean that, if governments were not exposed to *any other* influences, the pro-liberalization lobbying of world-market-oriented groups would shape policy preferences.

Taking only very few variables or indicators into account increases the probability that important factors will be overlooked. For example, a government would possibly have pursued reforms without any pressure from world-market-oriented groups. Possibly the weakness of other influences, such as inward-looking interventionist strategies or domestically oriented groups, which could also have been induced by exposure to global markets, was more decisive than the strength of world-market-oriented sectors in causing the government to pursue certain policies. On the other hand, a consideration of *all* possibly relevant indicators can obviously not be operationalized and would not allow the selection necessary for analysis. The GMA already focuses on specific causalities and indicators, but should not be restricted to the measurement of data. Instead, this analysis incorporates all methodological approaches delineated in the following. The critical remarks on the methodological power of numbers, however, should not be taken to imply that this way of testing hypotheses is considered invalid. The plausibility of the hypotheses will *also* be underpinned by quantitative evidence.

Qualitative reasons for political preferences

An additional method for drawing plausible causal connections between global markets, national economies and the preference for

regional cooperation is the investigation of the perceptions of involved individuals or groups. What reasons do governments give for implementing liberalizing reforms and regional cooperation? With which arguments do opposition parties, entrepreneurs, unions and the media respond? Did growing global mobility and competition lead to an increasing perception of the costs of inward-looking interventionism? Was this the reason why pressure groups demanded better conditions for global competitiveness? Indicators for the perception of global markets as a reason for national reforms and for the perception of regional cooperation as an instrument for more economic efficiency and political acceptability of liberalizing reforms can be found in governments' arguments in favour and in opposition parties' criticism of reforms.

The contents of the treaties on the European single market (the SEA), NAFTA and MERCOSUR also reflect perceptions. Do the treaties aim at an economically more efficient execution of national reforms? Were the new initiatives explained in the treaties as a response to global competition? The presumed causal relationship is especially evident in the case of political conditionalities. Were governments explicitly asked to enhance competitiveness by liberalizing their markets through a regional agreement? This conditionality could consist of demands by transnational actors for a regionally assured liberalization as a precondition for their engagement (investment, loans, etc.). This indicator refers to new investment as well as to the maintenance of the current level of production and investment – that is, the threat to shift activities abroad. Indicators for the governments' attempts to use the regional level in order to offload political responsibility for domestically controversial reforms can be found in statements to that effect by ruling politicians and in criticism from opposition parties, companies, corporate organizations and unions.

The dilemma of testing the hypotheses with 'perceptions' is similar to the dilemma of 'numbers' – both can provide only plausibility, not 'proof'. A public statement by the government that new cooperation is vital in order to increase the efficiency of the liberalization made imperative by the impact of global markets does not necessarily provide the 'real' reasoning behind the government's preference. Governments may find that the impact of global markets offers a more convincing basis for justifying to the public its preference for a policy that is actually based on other motives. Although public statements of decision-makers do not necessarily reflect their motivations, the

political discourse on the consequences of global markets and the reasons for cooperation does create or reflect dominant perceptions and thus shapes the decision-making environment. Therefore, the debates over regional cooperation provide an insight into the attitudes of and information available to those involved and into the reasoning with which they approach the public. Thus, this enquiry is going to operate in a pluralistic way with regard to its methods. Qualitative statements about perceptions will be used in tandem with quantitative indicators in order to test the plausibility of the hypotheses.

Additional methodological elements: historical, comparative and cost–benefit analyses

As the aim of this book is to investigate the change in political preferences, it makes more sense to track the trends of change over a longer period than to undertake an analysis of the moment in which the decision to cooperate was made. Given that global markets began to (re-)emerge in the 1970s, the period most interesting to this investigation starts in the 1970s and culminates with the agreement on the respective treaties: 1986 for the European single market, 1991 for MERCOSUR, and 1992 for NAFTA. Moreover, an evaluation of the agreements' early results is vital. Did they achieve their goals? To what extent did the criticism of the treaties articulate the relationship between global markets and national preferences? In order to encompass these concerns, the period of analysis extends to the end of the 1990s. This longer period of time also takes into account the progressive character of the emergence and the impact of global markets. They did not 'occur' at a specific time, but rather, according to the GMA, have exerted an increasing influence on national economies and policies since the 1970s.

An additional methodological element is the possibility of strengthening the power of the GMA by comparing the results of multiple cases. The comparative element of testing the same hypotheses on several empirical cases can provide a broader and deeper verification of the GMA as well as a clearer definition of its reach and boundaries. Even though the 'preference for world-market-oriented, liberalizing regional cooperation' is given in all seven countries, the presumed causal impact of global markets could manifest itself in different ways, or it might not possess explicatory relevance at all. The

hypotheses-based analysis of countries with different levels of development (industrialized, industrializing) and different political as well as economic cultures, institutions and traditions also enables us to make statements on the interaction between politics and economics, between global markets and other determinants of government preference formation. To what extent was the impact of global markets altered by national specificities?

As pointed out before, the approach of this enquiry does not assume that global markets *automatically* lead to a liberalizing cooperation, but rests on the hypothesis that they *stimulate* government preferences in this direction. Therefore, the analysis has to concentrate methodologically on showing plausibly that the *costs* and *benefits* of political options have changed. 'Figures' and 'perceptions' suggest the likelihood that global markets increased the *costs* of inward-looking interventionist policies ('crises, interests and instruments') and the *benefits* of the liberalizing reforms as well as the benefits of regional cooperation ('economic efficiency, political acceptability'). The deduction of new preferences from the altered costs and benefits of political options presupposes rational perceptions and rational actions on the part of those involved. But political action and a priori preference formation derive not only from cost–benefit relations, but also from fundamental goals, cultural legacies, norms and institutional settings. Some underlying factors that must be taken into account are the states' fundamental tasks (such as 'wealth creation'), the basic governmental goal of staying in power and the political acceptability of governments' policies. Incorporating perceptions into the methodology not only permits the consideration of these underlying or prioritized goals, but can also contribute to answering questions concerning the relationship between the perception of global markets and fundamental governmental tasks as well as cultural values. Do global markets lead to an instrumental change of the latter? Are the answers to global markets shaped by the latter?

Regarding the reference to statistics, treaties and perceptions, this work will make use of primary sources, documents and public speeches (articles, memoirs, etc.) of decision-makers. The extent to which data will be used systematically in the case studies is subject to their availability. The same kind of data was not available for all countries. In addition to primary sources, the analysis refers to secondary sources in order to use the expertise and competence of experts for the particular country in each of the seven cases. The translations of foreign-language citations are all by the author.

Structure of the book

In a first step, the explanatory factor of the theoretical approach will be given further empirical foundation and operational structure. In chapter 2, the causes and the development of global markets will be systematically analysed in the areas of finance, production / investment, and trade. Building upon this research, the fundamental impact of global markets on states will be further discussed and explained in order to test the plausibility of the three pathways 'crises, interests and instruments'. How do global markets affect inward-looking interventionist policies and economies? How do they change domestic interests? How do they influence governmental instruments? As chapter 2 represents a deepening of section 1.3, a certain overlap is not only unavoidable, but also necessary, as the explanatory factor and its pathways are thoroughly developed.

Chapters 3, 4 and 5 are dedicated to the seven case studies, structured according to the three regional agreements. These chapters are organized symmetrically in order to employ the explanatory approach equitably across all the cases and to achieve comparability of results. At the beginning of each chapter (section 1, respectively), the regulations and goals of the cooperative treaties will be examined with regard to the following questions. Does the treaty represent a new strategy compared to former cooperation? Is it pursuing a liberalizing, world market approach? Is it justifying cooperation as an answer to the challenges of global markets? Subsequent sections will investigate the impact of global markets on the preference formation in the decisive countries for the agreement on the European single market (France, Germany, the UK), on MERCOSUR (Argentina, Brazil) and on NAFTA (Mexico, USA). The case studies are each divided into two parts: the first analyses problems of inward-looking interventionist policies deriving from the influence of global markets; the second investigates the liberalizing reforms and the formation of preferences for new regional cooperation.

All seven case studies follow the reasoning of the GMA: the pathways 'crises, interests and instruments', the preference building according to changes in the costs and benefits of policy options, the advantages of cooperation regarding the 'economic efficiency' and 'political acceptability' of adjustments, and the methodological elements focusing on figures and perceptions. In addition to the country studies, section 3.3 will investigate the impact of global markets on the

regional European level: on European institutions, interest groups and debates. This is necessary because the SMP was built upon three decades of European integration, decades in which regional organizations and a regional 'identity' emerged, which could have been relevant for the formation of government preferences. At the end of chapters 3, 4 and 5, the results of the case studies will be brought to a conclusion that attempts not a detailed summary, but rather a systematic aggregation of individual country results. The concluding chapter (6) will begin with a comparative summary of the empirical results with regard to the question 'to what extent was the GMA able to explain the preferences of governments for regional cooperation in the cases analysed?'. This section will be followed by theoretical remarks further developing the GMA. Section 6.3 investigates the implications of the results for theories of international relations and cooperation.