Foundation of Regional Integration: Common or Divergent Interests?

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Major Points

• Divergent Interests and Institutional Building
  – Neoliberal Institutionalism: Common Interests, Distributional Conflict, Multiple Equilibria
  – Realist Solution: Power and Pareto Frontier
  – Divergent Interests: Alternative to Realist Solution

• Empirical Illustration
  – European Monetary Integration: France and Germany
  – Chiang Mai Initiative in East Asia: China and Japan

• Future Studies
Question and Puzzle

• Question
  – Why do states cooperate to develop (regional) institutions?
  – Do common interests lead to cooperation for institutional building?

• Puzzle
  – Ambiguity of meaning of common interests
    • Same goals?
    • Shared goals? (Gains? Rewards?)
  – Common interests vs. Distributional Conflicts
  – Common interests vs. Multiple Equilibria
Cooperation and Institution

**Cooperation**
- Cooperation as occurring when actors adjust their behaviors to the actual or anticipated preference of others, through a process of policy coordination (Keohane 1986)
- Two main components
  - Actors’ common goals
  - Cooperation for mutual gains

**Institution (Regime)**
- International institutions defined as sets of norms, principles, rules, and decision-making procedures around which actors’ expectations converge (Krasner 1982)
- Formal rules and Informal rules (North 1990)
Neoliberalism, Cooperation, Institution (1)

• Why Do States Cooperate to Create Institution?
• Argument in Brief
  – Common Interests $\Rightarrow$ Cooperation $\Rightarrow$ Institution
• Anatomy of Common Interests
  – Dilemmas of Common Aversion
  – Dilemmas of Common Gains
• Why Institution?
  – Prevention of Defection (Monitoring)
  – Reduction of Information Cost
  – Reduction of Transaction Cost
Neoliberalism, Cooperation, Institution (2)

• Two Challenges to Neoliberal Common Interests
  – Distribution of Gains
    • Various meanings: Same, Shared, Mutual Interests?
    • Distributional Conflicts: Asymmetry of Gains
      – Relative Gain vs. Absolute Gain
      – Social Psychology: Importance of Relative Gains for Possibility of Cooperation
  – Multiple Equilibria
    • Not just one, but many points along the Pareto Frontier
    • Even in the presence of common interests, states still have to negotiate precisely what the terms of agreement ought to be
Realist Solutions and Limits

• Hegemonic Stability Theory
  – Hegemon bears the costs of cooperation
    • Stability of international system/order
    • Creation of Weak States’ Dependency on Hegemon

• Preponderance of Power
  – Power (Coercion) determines the Shape of the Pareto Frontier

• Limits
  – Hegemonic stability does not always happen
Divergent Interests and Cooperation

• States’ Divergent Interests ➔ Cooperation ➔ Institution

• Types of Interests
  – Security, Economic gain, Honor, Reason

• Logic of Divergent Interests
  – Divergent Interests ➔ Distribution Conflicts
  – Divergent Interests ➔ Focal Point (Multiple Equilibria)
European Monetary Union

- Single European Act 1989 toward the Creation of Euro
- France and Germany Cooperation
- Divergent Interests
  - France: Increasing Monetary Autonomy by joint monetary leadership with Germany
  - Germany: Removing European perception of ‘German Threat’ by integrating it into Europe
East Asian Financial Regionalism

• Three Major Institutional Developments

  – Chiang Mai Initiative (2000 ~)
    • Prevent and manage financial crisis
    • Toward the AMF?

    • Regional financial market development
    • Making East Asia a financially autonomous region

    • Exchange rate stability
The CMI before 2008

- **Major Institutional Developments**
  - **2000: Chiang Mai Meeting**
    - Institutional purpose: prevent and manage financial crisis in EA
  
  - **2005: Istanbul Meeting**
    - Doubling currency swap size ($ US 36.5 to 75 billion)
    - Doubling the amount of emergency funding without IMF linkage (10% to 20%)
  
  - **2007: Kyoto Meeting in 2007**
    - ASEAN +3 agreement to study multilateralization of bilateral CMI
CMI to CMIM after 2008

• The CMIM
  – ASEAN+3 members agreed to multilateralize bilateral swap arrangements in Bali, Indonesia, 2009.
  
  – The CMIM was officially launched on March 24, 2010.
  
  – Total funding size: US $120 billion.
    • ASEAN+3 decided to increase it to $240 billion in Hanoi, 2011.
  
  – Modality of funding: Pooling part of foreign reserves in central banks of member states.
  
  – Finalization of voting shares and rules
  
  – Delinkage with the IMF (20% to 40% from 2014)
CMI, CMIM in East Asia

• Emergence and Development of CMI(M)
• Japan and China Cooperation
• Divergent Interests
  – Japan: Financial Leadership in East Asia;
    Locking China in multilateral settings
  – China: Reducing ‘China Threat’ in East Asia;
    Learning how to develop and work in multilateral institutions
Future Studies

• When common interests work and when divergent interests work to create institutions?

• Relationship between power and divergent interests

• Continuity of cooperation:
  • Common Interests vs. Divergent Interests.