

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 → Cooperation → 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
 - Constitution of Power (Military? Economic? Technology? Knowledge? Norm-leader?)

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?
 - Asian Bond Market Initiative (2003 ~)
 - Regional financial market development
 - Making East Asia a financially autonomous region
 - Asian Common Currency (2006 ~)
 - Exchange rate stability

The CMI before 2008

- Major Institutional Developments

- 2000: Chiang Mai Meeting

- The CMI in 2000 as bilateral swap arrangements among ASEAN plus Three countries in the wake of the AFC of 1997-1998.
 - 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 \$240billion 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.