REGIONALISM & GLOBAL ECONOMIC INTEGRATION

Europe, Asia and the Americas

EDITED BY WILLIAM D. COLEMAN
AND GEOFFREY R.D. UNDERHILL

Regionalism and global economic integration

This scholarly and interdisciplinary volume sheds much-needed light on the relationship between national policies, regional integration patterns and the wider global setting. It covers regional patterns in Europe, Asia and the Americas. Individual chapters focus on topics ranging from industrial and financial policies to social welfare regimes, as well as broader assessments and comparisons of regional arrangements in a global context.

The chapters point to the diversity of regional patterns in the world economy and the continuing importance of national regulatory structures, yet they also point to the common pressures of globalization felt by all, especially in the domain of capital markets. With broad coverage and clear but sophisticated analysis this new book will be vital reading for all those seeking to clarify their understanding of the contemporary regional/global paradox.

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ROUTLEDGE
London and New York

First published 1998
by Routledge
11 New Fetter Lane, London EC4P 4EE

This edition published in the Taylor & Francis e-Library, 2002.

Simultaneously published in the USA and Canada
by Routledge
29 West 35th Street, New York, NY 10001

British Library Cataloguing in Publication Data
A catalogue record for this book is available from the British Library

Library of Congress Cataloging in Publication Data
A catalogue record for this book has been requested

ISBN 0-415-16247-5 (hbk)
ISBN 0-415-16248-3 (pbk)
ISBN 0-203-05835-6 Master e-book ISBN
ISBN 0-203-22162-1 (Glassbook Format)

This volume is dedicated to parents, pupils and teachers of the Suzuki violin method everywhere. We and our children have enjoyed every minute.

Contents

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Acknowledgements

This book began its life as a set of papers presented to a workshop in the Joint Sessions of the European Consortium of Political Research held in Madrid in April 1994. Several of the chapters appeared subsequently in a special issue of the *Journal of European Public Policy* in August 1995. Noting the growing importance of the interrelationship between globalization and regionalism, the editors sought out several other papers to provide depth to the special issue. The contributions by Yves Dezalay, Richard Stubbs, and Diana Tussie serve this purpose. In addition, Richard Higgott provided a new paper that built on his earlier work, but extended considerably the comparison of European integration and Asia-Pacific regionalism. All of the remaining chapters were updated and revised by the authors.

This volume would never have seen the light of day if it had not been for the European Consortium for Political Research and its welcome practice of inviting proposals for workshops around defined themes. This practice frequently has the fortunate result of bringing together a diverse group of scholars who are interested in a set of problems but approach these problems from various perspectives. This workshop brought together specialists in international relations, comparative public policy, and European politics from both sides of the Atlantic. The intellectual exchange and generous Spanish brandies in the evening helped create a constructive atmosphere for further research and writing. The editors wish to acknowledge the contributions of all of the workshop participants and to thank the contributors to the volume for their willingness to participate in this exercise.

Introduction

Domestic politics, regional economic co-operation, and global economic integration

William D.Coleman and Geoffrey R.D.Underhill

Global economic integration is one of the most pronounced developments of the late twentieth century. The liberalization of domestic economies, the strengthening of (basically liberal) co-operative regimes in international trade and finance, and the transnationalization of corporate structures have all contributed to this dramatically accelerated growth of globally integrated market structures.

The 'globalization' thesis can be taken too far, however. It is undoubtedly premature to announce the disintegration or even emasculation of domestic state institutions as a significant focus for economic management and change. The policies of nation-states continue to structure the market domain, liberalizing some aspects, yet retaining tight control of others. Likewise, global market integration has been accompanied by different patterns of institutionalized regional economic co-operation.

That various regions of the global economy should manifest distinct patterns of integration within the larger global context is hardly surprising. Geographical proximity is the likely starting point of this phenomenon. Unless there is a forbidding enmity between peoples (and sometimes despite it), one trades with one's neighbours first before moving further afield. Shared historical experiences among states of a particular region develop over time (not always pleasant ones), and the cultural affinities which facilitate commerce are more likely with neighbouring peoples than with those from afar. What is more remarkable, and more difficult to explain in the late twentieth century is not, then, the mere fact of different regional patterns, but the trend towards formalization of these regional patterns into a series of co-operative arrangements to facilitate regional economic integration of various kinds.

Most pronounced in this regard is undoubtedly the European Union as it moves, with some trepidation, towards a single currency. The implementation of the Single European Act and the conclusion of the Maastricht Treaty have greatly accelerated the process of European integration. A significant number of public policy issues in the EU member-states are now managed to a greater or lesser extent through co-operative processes at the regional level. The movement towards a single market for goods, services and capital in the European Union has, furthermore, been accompanied by parallel regional integration processes elsewhere in the world economy. Most notable was the recent conclusion of the North American Free Trade Agreement (NAFTA) embracing Canada, the United States, and Mexico. Greater regional integration has also developed in East Asia between Japan, the 'Four Tigers', and other members of the ASEAN group. The larger Asia-Pacific Economic Co-operation forum (APEC), which includes the antipodes, ASEAN, Japan, as well as the US and Canada, has also declared its intention of setting in motion a co-operative economic integration project based on free trade. The trans-Pacific interlinkages between the US and the Japanese economies are already well known.

These regional processes have accompanied important international co-operative measures which involve integration at the global level. The Uruguay Round GATT negotiations establishing the World Trade Organization (WTO) were successfully concluded with considerably expanded jurisdictional coverage, aiming to liberalize trade in services and to regulate other aspects of global trade unrelated to the traditional domain of manufacturing and primary goods. Central bankers in the Basle supervisors' committee have developed a nascent global regime to regulate international banking activities. Similar developments are occurring in areas as diverse as managing environmental pollution and telecommunications services.

What is less clear is the relationship between the development of global markets in many sectors and these evident steps towards greater and more institutionalized economic integration at a regional level in the world economy. This volume is a systematic attempt to look at the interrelationships between national policy arrangements, regional integration processes, and global economic integration. These relationships are examined primarily from the perspective of the European Union, NAFTA and APEC.

In order to illuminate this set of linkages across three levels of analysis, this volume has sought to pose a number of questions and to answer them through comparative assessments of regional economic integration, case studies of monetary, financial, welfare, and industrial policy issues, and an examination of public regulation in multi-level governance systems. First, to what extent do regional integration policies force convergence at the national level in policy areas where national policy styles were traditionally highly distinctive from one another? Do additional globalization pressures hasten this convergence process or slow it down? Second, how do regional integration projects compare the one to the other? Third, how compatible is extensive regional integration of markets, and corresponding policy co-ordination among participants, with attempts at liberalization at the global level?

The chapters also address a number of more specific questions. What is the relationship of global financial integration to regional currency zones like the European monetary system? Does the creation of large regional free trade areas mark a step towards a new kind of protectionism against global multinational firms operating in world-wide markets? Or are these areas a necessary stepping stone to the establishment of an even more integrated world economy? What are the implications of both kinds of changes for the future of industrial policies at a national level? Are anticipatory industrial policies based on indicative planning and state allocation of credit destined for the same museum that houses the Gold Standard and nationalized industries? Or is it simply an approach destined to be shifted to newly constituted regional authorities? Next, what impact will greater regional integration in a global liberalizing context have on the less advantaged strata of society, particularly on those dependent upon the social welfare safety net? Do both regional economic integration and globalization of markets favour the removal of defences for the less advantaged? Or do these economic changes promise an improvement in the quality of life for these groups? Finally, what effects do culture and the different forms which capitalism appears to take in various regions have on the process of integration? Are we moving towards an era of competing regional capitalisms and a 'clash of civilisations?' (Huntingdon 1993). Or are the cultural underpinnings of the variants of capitalism less meaningful in the long term? This question is particularly relevant because of the apparent clash between the neo-liberal idea of globalized capitalism and both the capitalist model in Asia, with its very distinct cultural traditions and open debate on democratization and 'Asian values', and that in continental Europe with its welfare state traditions of social justice and state intervention.

In short, the relationship between regional economic integration as illustrated by the Single Market in Europe, APEC, and the North American Free Trade Agreement on the one hand, and the rapid development of global markets on the other, is unclear in comparative public policy studies and in research on international political economy. Nor do we yet understand well the range of effects these two sets of integration processes have on the content of domestic policies and the structure of domestic policy communities and policy networks. The chapters in this volume investigate carefully these relationships and offer assessments of their impact on national autonomy in the areas of industrial, financial services, legal services, social welfare and macroeconomic policies, and on the resulting economic fate of the less advantaged sectors of society.

In analysing the relationship of global to regional integration patterns, this volume also addresses a number of debates in the converging comparative public policy and international political economy (IPE) literatures. In IPE, hegemonic stability theory, traditional realist analysis and radical political economy have all sought to understand the twin phenomena of regionalization and globalization by focusing on trade and money/finance issues. Depending on the theoretical approach, greater or lesser emphasis is paid to the role of large transnational firms, to changes in international regimes, and to more traditional assessments of national power. Considerable research has been devoted to trade issues in this regard. This volume contributes to the idea that there are intimate linkages between state policy processes, the private interests of market actors, and the emerging global/regional patterns of integration in the world economy (Underhill 1994:17–21). Neither globalization nor regionalization are dynamics devoid of politics.

Work on the international monetary system also provides examples of subareas of international political economy highly relevant to issues addressed in this volume. The considerable IPE literature on financial services globalization also relates to the chapters in this book. Several of the chapters provide some assessment of the astonishingly widespread effects of the globalization of financial markets. The new GATT agreement extends the liberalization in financial services even further and the EU and NAFTA have, in turn, pushed regional financial integration to still more liberalized levels.

Another important debate in IPE and the broader international relations literature concerns transnational economic interdependence and the question of levels of analysis. Traditional international relations perspectives have usually insisted on a clear contrast between the nature of domestic and international politics. The obvious interlinkages, however, among the global, regional, and domestic levels of politics which are revealed in the chapters of this book call into question this sharp domestic-international divide. Transnational interdependence means that state and non-state actors alike become interrelated across three levels of political institutions: global co-operative processes, regional institutions like the EU, and the traditional national level. There is a continuity in policy and institutional terms across the levels of analysis.

Likewise, the book has relevance for those doing research on international regimes and who are assessing the importance of policy and epistemic communities in the establishment of those regimes. The development of international regimes in the areas of international banking and international securities markets involve complex interactions among national governments, regional organizations like the EU, and global intergovernmental forums like the GATT, the Basle Committee on Banking Supervision and the International Organization of Securities Commissions (IOSCO). The politics of these multi-level games is an increasingly important phenomenon and one that is not yet well-understood.

Specialists in comparative public policy who have traditionally focused their attention at the national level also find themselves forced to take increasing account of the relationships between the creation of regional economic arrangements like the EU and globalizing market developments. These specialists, whose interests cover a broad range of sectors like high technology industries, financial services, and professional services to name but a few, find that they no longer can explain and evaluate policy at the national level without examining carefully developments at the supranational regional level and at the global level. Conceptual tools like policy networks and policy communities which were well-suited to domestic policy studies need considerable refinement if they are to explain these more complex policy developments. By trying to consider the interaction of domestic, regional and global factors, the chapters in this volume provide some groundwork for pursuing refinements in policy community approaches. Similarly, public choice theory and its examination of outcomes from regulatory competition in federal states has now been turned to consider similar issues in supranational governance systems. Several chapters indicate some of the complexities in moving from the domestic to the international level in this regard.

Finally, as a prelude to these empirical case studies, this introduction will examine a crucial set of issues related to democratic politics. The case studies provide us with an excellent overview of the institutional consequences of interactions between global, regional and national levels. It is important to remember that these institutional changes present important challenges to the persistence of democracy.

GLOBALIZATION, REGIONAL CO-OPERATION AND DEMOCRACY

We have already noted that the phenomenon of increased, institutionalized regional economic co-operation coincides with a new era of globalization. Highly developed economic relationships on a global scale are not new to the world economic system. During the latter part of the nineteenth century and ending in 1914 with the First World War, the world's major economic powers participated in a remarkable period of global trading and international financial flows under a fairly stable international monetary system based on sterling and the gold standard. None the less, each globalizing era has its own specific features and this era, the last three decades of the twentieth century, differs significantly from those of the past.

First, goods production has become integrated on a world scale. Multinational corporations earlier in the century relied principally on direct investment in branch plants to expand their operations in the world economy. Over the past three decades, global corporations have moved away from this model to one where plants are built wherever in the world the overall efficiencies and production costs seem the most favourable. The products of plants from a number of different countries are then brought together in still another country for final assembly of a finished good. Thus a Nissan Quest minivan might be built in Tennessee for a Japanese company but will include parts not only from the US and Japan, but also from Mexico, Canada and the UK, to name but a few countries. Associated with these processes is a move away from hierarchical firm structures to flexible production organized through subcontracting and other network relationships (Cerny 1995:613– 14; Hollingsworth *et al.* 1994). Information technology facilitates the creation and maintenance of such networks on a global scale.

Second, the present era has seen an unprecedented expansion of financial transactions on a global scale. Whereas in the past, financial transactions tended to follow and support expanding goods trade, in the present the movement of capital and financial products on the global plane outstrips by far goods trading.

Estimates put the volume of financial transactions to total twenty to forty times the value of merchandise trade (Cerny 1995:617). In fact, to the degree that the movement of capital and money reflects speculation about future investment possibilities, it can increasingly determine where future goods production might take place. This financial globalization includes several distinct phenomena: the rapid growth of international banking, securities, and equities markets, growing interdependence and linkages between domestic financial services markets, and the deepening and diversification of domestic markets (Coleman 1996:5–8). Each of these developments is again greatly facilitated by the availability of communications technology which enables information to be transferred almost instantly from one market or country to another.

The relationship between these changes in the structure of the world economy and the political institutions of the nation-state is remarkably complex. Nor can we expect this relationship to be the same for all states; some are more internally coherent, powerful, and higher in the world order than others. On the one hand, nation-states took the political decisions that reduced protectionism in goods trading, that liberalized capital movements, and that ended the segmentation of financial services markets (Pauly 1995). They did so, it is true, under significant economic and political pressure from powerful economic actors who stood to gain from hyper liberalization. But states have not been passive; they have created the new world order in tandem with the many private interests which are integrated into state policy-making institutions and processes (Underhill 1996a).

On the other hand, this new order is having a profound effect on states in return. They are becoming part of a larger and more complex political structure that is the counterpart of the production and financial systems (Cox 1987:253). Global interconnectedness is creating 'chains of interlocking political decisions and outcomes' which are transforming national political systems themselves (Held 1991:158). Cox (1987:253ff.) captures this set of changes with the concept of the 'internationalizing of the state' which comprises three elements. First, there have developed processes of interstate consensus formation regarding the needs or requirements of the world economy that take place aided by an increasingly shared ideological framework. Second, participation in this process of consensus formation is hierarchically structured, with the US, Japan and Germany playing the leading roles. Third, national governments have responded by reforming the internal structures of states so that they can best transform the 'global consensus into national policy and practice' (Cox 1987:254). As Cox concludes, the accountability structure of states changes from an accountability *within* to an accountability *without*. Their responsibilities are no longer to defend domestic interests against disturbances from the outside, but to facilitate the adjustment of domestic actors to the new global economic order.

Regional economic co-operation is a fundamental component of these political changes. Although this book details some of the very important institutional differences between the European Union, the North American Free Trade Agreement, and APEC, all represent attempts by states to engage in consensus formation on a supranational scale. All as well seek to ensure that their signatory states become more responsive to the world economy (they are more liberalizing than protectionist), all the while attempting to secure advantages for their members in this new order. These regional institutions also fit into global political connections. The EU negotiates for its member-states in the international trade regime, and its President now attends the G7 Economic summits. But EU states also participate directly in other global institutions organized under the auspices of the IMF, the World Bank, or the Bank for International Settlements.

These developments encompassed in the concept of globalization pose serious and difficult questions for democratic politics. Held (1991:139) points out the contradictions between democratic theory and recent economic and political changes. Democratic theory assumes that nation-states can be treated as self-contained units and that they can be clearly demarcated from one another. This demarcation is particularly important with regard to the fundamental socio-economic choices regarding the mechanisms of wealth generation, the scope of market institutions, and the distribution of 'national' product. According to democratic theory, the changes that take place within democracies can be understood largely with reference to the internal dynamics and structures of the nation-state only. Thus political leaders are assumed to have the capacity to implement policies they deem necessary to ensure their political legitimacy in a democratic context. Citizens can hold these leaders to account for these decisions. Through political parties or interest groups, citizens can also participate individually in attempting to influence the actions of political leaders. This participation assumes, in turn, that citizens have access to the information needed to understand and evaluate policy proposals. In short, democratic politics is assumed to be the expression of the interplay of 'forces operating within the nation-state' (Held 1991:139).

These assumptions have always been somewhat problematic given the persistence of socio-economic interdependencies across the borders of nation-states. With globalization, however, they become open to even more serious question. First, to varying degrees depending on their place in the hierarchy of nations, states are losing the capacity to control changes within their borders and to design and implement policies in various sectors. Cerny (1995: 608–9) distinguishes three kinds of public goods traditionally provided by the nation-state: regulatory public goods which establish a workable market framework for the economy, productive and distributive goods such as the provision of public infrastructure and public services, and redistributive goods including those associated with the social welfare state. He notes that under globalizing conditions, nation-states have difficulty supplying all three types. For example, the control over fiscal and monetary policies that was necessary for a Keynesian full-employment macroeconomic policy has weakened considerably (Scharpf 1991); in other respects, financial globalization has severely compromised the policy-making autonomy of states, whether Keynesian or not (Underhill 1995). In fact, effective implementation of macroeconomic policy objectives rests increasingly on co-ordination at the international level (Webb 1995). This loss of national control over macroeconomic policy also weakens the ability of nation-states to design and control social welfare policies. Under the rubric of ‘subversive liberalism’, Rhodes (Chapter 5) underlines these pressures while Moses (Chapter 6) details some of the broader economic factors that account for these changes.

Second, these questions about capabilities of nation-states point to increasingly serious problems with democratic accountability. As citizens of democracies, individuals still look to hold political leaders to account for policy changes (increases in interest rates, high unemployment) that they may no longer be able to influence. Or, even more troubling, for an increasing range of decisions, no accountability mechanisms are available to citizens. For example, the Bundesbank raises its discount rate which increases the attractiveness of the German Deutschemark. This move leads investors in Canadian government securities to think about switching from buying securities denominated in Deutschemarks rather than in Canadian dollars. In response, the Canadian central bank raises its interest rates to ensure that adequate funds remain available to Canadian governments. But this change in the cost of money triggers in its wake a further weakening of the jobs market in Canada. How do citizens of Canada worried about employment hold the Bundesbank accountable? Even German governments have difficulty in this task!

Once again, the problem is perhaps most acute in relation to the globalization of financial markets. Increasingly, the regulatory policy processes associated with global financial markets are escaping the traditional mechanisms of democratic accountability. Relatively closed policy communities with control over crucial knowledge and expertise (Coleman 1996) are involved in transnational policy processes which not only attend to ‘technical’ problems of safety, soundness, and systemic stability but also effectively promote financial globalization through the harmonization of domestic regulatory requirements and the promotion of the liberal market values of liquidity and efficiency (Underhill 1996b). The greater the transnational integration of capital markets, and the greater the mobility and volatility of capital, the more crucial choices concerning the mix of government macroeconomic policies depend on the responses of financial market actors (often foreign) for their success. These developments pose a fundamental problem of democratic accountability and indeed political legitimacy in general. States find it increasingly difficult to choose to be different, however important a particular policy stance may be for resolving a state’s individual problems of economic development and socio-economic stability.

Not surprisingly, during the public sector work disturbances of the autumn of 1995, some French labour leaders characterized their job action as a strike against globalization. This frustration highlights the consequences of a lack of democratic accountability structures for many of the newer international activities. If the global financial system is now commonly depicted as 'governing' important components of the lives of citizens, and this view is replete in the popular press, there is going to be a problem of legitimacy (Pauly 1995: 371; Held 1995a:102–3; Held 1995b:17–18). Democracy presumes that significant changes take place *after* political leaders secure the consent of their citizens. But political leaders have not normally sought the consent of citizens to their decisions to participate in the changed global system. In fact, some leaders may have consciously sought to restrict the powers of domestic state intervention by committing their governments to global liberalization (Helleiner 1996). With these decisions taken, and with the economic, political and legal interconnectedness among states that has resulted, mechanisms for securing consent are weak to non-existent.

The hierarchy of nations exacerbates these problems. Developing countries do not meaningfully participate in some of the most crucial international policy processes such as the G7, the OECD, and the Basle Committee. Wherever possible, powerful states like the US will often prefer to operate through bilateral agreements in international economic matters which allow it to maximize its own power. Smaller states can pool their power and sovereignty better in multilateral regimes. In the crucial world of international finance, the US Securities and Exchange Commission has often preferred the bilateral mode for these reasons (Porter forthcoming).

In short, in the absence of consent, the international financial system will lack legitimacy. Without legitimacy, Pauly (1995:388) cautions, global institutions and practices become useful targets for extreme right political movements who use them to promote other xenophobic goals.

Finally, the absence of accountability procedures in international institutions and regimes is accompanied by significant barriers to citizen participation. Participation depends on citizens' accessibility both to decision-makers and to information. But international institutions ranging from meetings of the G7, the IMF, the World Bank, and international regimes such as those governing banking at the Basle Committee, securities at IOSCO, and telecommunications all tend to restrict accessibility. They are highly secretive in their deliberations. Information is scarce and, where available, is often highly technical. Technical information and knowledge become sources of power and control. Only those with 'expertise' will normally have the knowledge necessary for codifying and interpreting the information. Too often this expertise remains in the hands of finance ministries, central banks, transnational corporations, and international corporate lawyers. Under such conditions, democratic politics is not possible.

The problems for citizen participation are exacerbated further by the frequent recourse to self-regulation in the international sphere (Porter forthcoming). Ironically, self-regulatory practices became increasingly subject to more intensive state oversight at the domestic level after 1960 (Moran 1991; Vogel 1986). As Streeck and Schmitter (1985) have argued, 'private interest governments' require a strong state watchdog if they are to realize their promised efficiencies and still work towards the public interest. Otherwise, they become robbers' coalitions conspiring to particularistic interests, only. Many of the international regimes that have emerged during the current globalizing era have taken the self-regulatory form (Porter 1993, forthcoming). Unfortunately, these regimes lack a global government partner to discipline self-interested behaviour. Just as they did on the domestic plane, therefore, these global self-regulatory structures become an affront to democracy.

One possible solution to these interrelated problems of legitimacy and democratic accountability lies at the intermediate or regional level. By pooling sovereignty and by developing quasi-federal institutional arrangements for co-operative regional economic management, regional integration can attenuate some of the democratic deficit at the same time as it helps individual states to confront the pressures of globalization. Historical experience should leave one with no illusions, however. Political integration and the formal abrogation of national prerogatives is the single most difficult hurdle in regional integration. There is indeed no smooth progression from integration on technical economic issues to political integration as the neo-functionalists once argued might be possible. Former EU Commission President Jacques Delors has expressed in vain the view that the implementation of Maastricht requires forthright attention to developing the political institutions of the EU.

At the very least, a legitimating balance between the regional/global on the one hand, and the domestic level on the other hand, must be struck. If not, an arrangement such as NAFTA is unlikely to endure should it emasculate the cultural identity of Canada and its welfare/labour market institutions, or if continental integration sparks a repeat of the 1995 peso crisis for Mexico. The APEC process is as yet in its infancy as Higgott argues (Chapter 2), but the debate on 'Asian values' is surely a premonition of the obstacles as Stubbs (Chapter 3) shows. The recent turmoil in Asian Currency and securties markets will also have an undoubted impact.

Certainly the experience of the EU, by far the most formalized and institutionalized of the major regional integration efforts, demonstrates this problem. Many such concerns about supranational economic integration and its impact on democratic politics were raised following the Single Market programme when worries about a 'democratic deficit' intensified. The Danish electorate initially rejected the Maastricht deal on precisely these grounds. Some, but not all, have also been articulated by developing countries as their position as 'policy-takers' has become more pronounced. Unless they are addressed soon, they may lead to frustration by citizens and add support to anti-democratic movements.

Certainly, the globalization process has not fostered a sense of common human purpose and values. If anything, it has been associated with a reinforcement of the significance of identity and difference (Held 1991:149).

Ethnic nationalism is resurgent in many parts of the globe and long dormant regional identities under the Westphalian nation-states system have surfaced with surprising force over the past three decades. Although some of these movements profess concern about democracy and the place of the citizen, many others have concluded that democracy is a failure and that stronger, sterner political arrangements are now necessary. The political stakes, it would seem, are high, and the lessons of the interwar period may yet have to be learned over again.

ORGANIZATION OF THE VOLUME

The volume is divided into three sections. The first section looks at contrasting patterns of regional economic co-operation in the global economy. Helen Milner's chapter leads off with a comparative explanation of the motivations for regional integration in the movement towards the EU's Maastricht agreement and the NAFTA. This chapter focuses on two related questions: why did the countries involved choose to co-operate economically, especially in the face of difficult domestic politics?, and why were they able to reach an agreement and to secure domestic ratification? Milner argues that more emphasis needs to be given to domestic politics than is normally found in realist or neo-liberal institutionalist theories in international relations.

Richard Higgott's chapter picks up on these same theoretical issues, and adds a consideration of constructivist theory and the role of ideas. His chapter examines the recent efforts at economic co-operation in the Asia-Pacific, with particular emphasis on the Asia-Pacific Economic Co-operation forum (APEC). He then compares APEC and other Asia-Pacific economic pacts with the approach to regional integration taken by the EU. The comparison is a fortunate one because it challenges some of the conventional wisdom about 'blocism' and raises the question whether regionalism follows different logics in different parts of the globe. Higgott suggests that the Asia-Pacific will follow quite a different path towards institutionalizing economic and political integration than the EU. Where the Europeans have *pooled* sovereignty, the Asians seek to *enhance* sovereignty through market-led regional integration. Globalization, it would appear, does not bring convergence at the regional level—at least not yet.

Richard Stubbs amplifies on the differences between regional integration in Asia and the patterns in North America and Europe. He argues that Asian governments have come together to try to forestall attempts by proselytizing Western government officials and academics to impose a neo-liberal version of globalization on the Asia-Pacific region. He underscores Higgott's analysis by adding that a distinctive form of capitalism is emerging in the Asia-Pacific which will not only encourage greater regional integration, but also may set the region apart from the other major economic regions of the world. His chapter sets out the characteristics of this particular form of capitalism and shows how it differs not only from the neo-liberal model that has become increasingly associated with globalization, but also from the corporatist, social market form of capitalism to be found in some member-states of the EU.

Diana Tussie brings the first section to a close with a consideration of the impact of regionalization on some developing countries in Latin America that are ‘outside the loop’. She notes the possible contradiction between the trend towards regional economic integration on the one side and the development of the multilateral trade regime on the other. While the latter may offer some advantages to developing countries, these advantages may be overturned by the behaviour of regional economic blocs such as NAFTA and the EU. She notes that this concern has helped trigger a growing regionalism of its own in Latin America. She adds that the new regionalism in Latin America and elsewhere in the global economy may carry with it the solution to a reinvigorated and updated multilateralism. These regional arrangements are not associated with the aspirations of US-led multilateralism. Rather, somewhat in line with Higgott’s and Stubbs’s arguments about Asian regionalism, the new regional deals are ‘bottom up’ integration processes based on the attraction of markets, not ‘top down’ government decisions. They are serving to integrate North and South in ways GATT never did, providing Latin America with the access to markets the WTO was never built to guarantee.

The second section of the volume examines the interaction between globalization, regionalism and domestic policy change with a series of policy case studies. Martin Rhodes begins by noting that the welfare states in Western Europe are extremely diverse and that each has responded in different ways to the problems of cost containment. He then argues that these choices are increasingly constrained by the need to avoid an excessive fiscal burden on the middle classes and by the growing interdependence that comes from market integration and liberalized capital movements. Consequently, European states experience a loss of control over many traditional policy instruments and are experiencing common pressures for convergence towards a reduced and more market-sensitive welfare state regime. The chapter by Jonathon Moses which follows continues the discussion introduced by Rhodes by focusing on whether the social democratic agenda of full employment and a full-service welfare state remains viable in the new global economic environment. Moses develops a formal analytical model to examine how increased capital mobility might affect the traditional policy matrix of social democratic regimes. He discusses this problem in relation to the difficult choices faced by Nordic states with respect to EU membership.

Andrew Wyatt-Walter observes that the European Community has tended to allow foreign-owned (i.e. non EU owned) firms substantial access to several of its key industrial policy programmes on technological research and development. Such access might seem surprising because one might have expected that Europe’s desire to compete effectively as a region with Japan and the United States would have led to a more protectionist policy. Wyatt-Walter fashions an explanation for this surprising outcome, noting that conventional accounts tend to leave out the important factor of corporate preferences, particularly those of global, transnational firms. Global alliances and connections between transnational firms will have an important impact on the industrial policies of Europe and perhaps on those of other regions as well.

Monika Sie Dhian Ho and Klaas Werkhorst examine a sometimes forgotten, but very important, instrument of industrial policy: export credits and export credit insurance. This policy instrument brings together in obvious ways the intricacies of interaction between domestic, regional and global policies. The authors show that nation-states are reluctant to give up export credit insurance as an industrial and trade policy tool. These strong domestic preferences come into opposition with the logic of European regional integration, rendering policy change slow to emerge. Regional concepts, in turn, must always be balanced by global relations. The authors show that EU decision-makers resist the logic of their own treaty if it means disadvantaging member-states *vis-à-vis* the US and Japan. But, they add, the existence of a global process at the OECD does allow a member-state like the UK to break ranks and use the global forum to place pressure on the EU policy process. Autonomous domestic industrial policy-making is an increasingly rare phenomenon it would appear.

Finally, Kenneth Dyson, Kevin Featherstone, and George Michalopoulos look at the questions of why central bank independence has become an integral dimension of the new European Union and what role central bankers will play in the new arrangement. They argue that central bank independence is a key institution for managing the contradictions between changes in global financial markets, the building of a regional economic union, and retaining a domestic presence. In explaining this development, the chapter opts for external factors including the structural power of the Deutschemark, the changes in the nature of capitalism, the policy style of the EU, and the particular relationship of central bankers to the state.

The third section of the volume focuses on some of the legal complexities that arise out of attempts to regulate markets on a regional and global scale. Here the interactions between domestic political styles, nascent regional governance systems, and global markets still lend themselves to big power politics. States remain important, but the domestic, the global, and the regional remain difficult to disentangle. Yves Dezalay observes these political struggles through the prism of the legal profession, a profession that has a place front and centre in emerging regional and global governance systems. His chapter argues that the globalization of the market for legal expertise has decoupled traditional professions from their historical milieu and identity, a process which takes place simultaneously at the global, regional, and national levels. The opening of borders means a reconversion/restructuring of national legal elites. Competition between styles of governance at the global level puts pressure on older forms of 'collegiality' and introduces a financial rationality born of the global market. His analysis reveals that this restructuring of professional hierarchies and corresponding discourses takes place across regional variants: the spread of the major (and multinational) US firms leads to the importation of the model of the American Lawyer. Leading global centres (New York, the City of London) push this restructuring into Europe. The French legal profession undergoes considerable change as it confronts US pressures.

The second chapter in this section by William D.Coleman and Geoffrey R.D.Underhill, examines the same confrontation between the US and Europe, and between globalization and regionalism, but from the perspective of changes in regulatory policies for securities markets. They investigate the interrelationships between the attempt of the EU to construct a common regulatory regime for securities through the Investment Services Directive and the related Capital Adequacy Directive and the initiative of global organizations to accomplish the same objective on a broader scale. The chapter notes that there is a measure of convergence between the two efforts somewhat consistent with a thesis developed by Michael Moran. None the less, convergence is by no means uni-directional or linear in this complex global/regional nexus. One must take into account the interests of the EU as a regional actor competing with the US and Japan and seeking to preserve and enhance the position of its financial markets in the world sphere. Such competition opens the door to the process of 'regulatory arbitrage' among political jurisdictions and pressure on the US to adapt to emerging EU and global standards.

The phenomenon of regulatory arbitrage is not new to policy studies; extensive investigations of the possibility of regulatory competition and its effects have occurred in federal states, particularly the US. In the field of public and social choice theory, alternative theories have been developed that argue in favour and against the value of assigning regulatory authority to lower level governing units in multi-level systems. Will such an assignment lead to the unwelcome phenomenon of a 'race to the bottom' or a more acceptable 'race to the top?' These questions have already been raised in the context of studies of legal regulation in the EU and have increasing relevance for institutional design in nascent global governance arrangements.

These observations bring us full circle back to the question of globalization and democracy. Assigning authority to higher or supranational level bodies does not necessarily enhance democracy. If the fundamental principles of democratic governance remain in operation only at the level of the nationstate, then governance becomes a matter of 'experts', lawyers, and technocrats. Only the global players will be heard in such arrangements. Citizens will be left with the options of filling the streets to register their concerns, or voting for parties opposing globalization and integration. These parties, of course, are too often the vehicles for xenophobia, racism, and exclusionary politics.

Democratic deficits at the regional and global levels pose dangers for citizens and governments everywhere.

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