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Chapter · November 2018

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Chapter # 3

Linking Economic Performance and Regional Institutionalization:

More Local, Less Global?

Yoram Z. Haftel and Daniel F. Wajner

The political and economic significance of international regions is undeniable, certainly since the end of the Cold War. Given their growing importance as a reference point to policymakers, the mass public, and other stakeholders, they have garnered the interest of scholars in both the humanities and the social sciences (Fine, Kacowicz, and Press-Barnathan, this volume). Regions are complex and multifaceted phenomena, however, and as such elude consensus with respect to their definition and conceptualization. This chapter examines one prominent aspect of regional politics: regional economic organizations (REOs), which we define as international governmental organizations that promote economic policy cooperation among their member-states and are geographically circumscribed (Haftel 2012).ⁱ It thus engages in a constructive dialogue with the chapters of Mansfield, who looks at the partially overlapping phenomenon of preferential trade agreements (PTAs),ⁱⁱ and Hartmann, who sheds light on African regional organizations.

Our point of departure is that REOs are ubiquitous. Almost all regions of the world have at least one such institution and several regions have multiple REOs (Hartmann, this volume). Even a cursory survey of these organizations indicates that the scope and depth of their objectives, tasks, and responsibilities are remarkably diverse. Some REOs, CAN and ASEAN for example, address a variety of economic and political

issues, while others, such as MRU and ECO, have a much narrower mandate.ⁱⁱⁱ Some organizations, such as WAEMU and the EU, have powerful corporate bodies, while in others, CEFTA and LAIA for example, member-states bestow them with little authority. We strive to account for this remarkable variation. This chapter thus follows the assumption, widely accepted in the social sciences that different REOs, and indeed different regions, can be fruitfully compared and contrasted (Börzel and Risse 2016). Moreover, we hope to demonstrate that such comparison can illuminate key regional dynamics, as well as linkages between regional, global, and local politics.

We explore these dynamics by zeroing in on one potentially important, but poorly understood, source of REO institutionalization: its member-states' economic growth (or lack thereof).^{iv} Economic cycles are most likely to affect regional cooperation through the domestic political game, as they shape the motivation of interest groups, which lobby their governments for particular policies (Mansfield, this volume). As we show in the next section, however, the nature of these relationships is far from obvious. Some existing studies, in particular by area experts, suggest that economic hard times push states towards protectionism, possibly weakening their commitment to regional institutions. Conversely, other studies claim that economic stagnation dwindles the power of protectionist groups and opens up opportunities for enhanced regional cooperation, ostensibly leading to more institutionalized REOs. Economics swings may also have ideational implications, as they affect the national mood. Possibly, hard times reinforce nationalistic sentiments at the expense of regional ones. Insofar as the REO embodies a regional identity, its institutionalization is likely to suffer.

The diverging expectations with respect to the links between economic performance and REO institutionalization points to the possibility that they are conditioned by other factors. This chapter investigates one such feature – highlighted by the editors in the introductory chapter – globalization. We contemplate the possibility that REOs in regions that are more porous and integrated into the global economy will be more resilient than their counterparts in more insulated regions with regard to economic fluctuations. We therefore conjecture that more globalized regions will have more institutionalized REOs, either in conjunction with changing economic conditions or independently. Considering that exposure to the vagaries of the global economy hinges, at least to an extent, on the member-states' political orientation (Solingen 1998); therefore, this framework brings the local, regional and global levels together.

Building on insights from research undertaken by humanities, area studies, and social science scholars, we develop these theoretical expectations more fully in the next section. In doing so, we heed the book's call for building intellectual bridges across these scholarly traditions in search for common regionalist patterns. We then evaluate them empirically with statistical tools. To do so, we use an original data set that contains detailed information on the economic scope and institutional features of close to thirty REOs worldwide from the 1980 to the 2000s. Hence, in the spirit of the Comparative Regionalism research program, the analysis ventures well beyond Europe and North America and brings African, Asian, and Latin American regional organizations into the fold.

The statistical analysis indicates that economic growth is conducive – and that economic hard times are detrimental – to more institutionalized REOs. Surprisingly,

perhaps, we do not find that the degree of integration into the world economy affects the level of regional institutionalization. Possibly, such global exposure is less consequential than local politics to regional cooperation through institutions. Members' decision-making process on regional policies seems to be more responsive to the political pressure of domestic societal groups affected by changing economic conditions. Thus, the analysis demonstrates the benefits of an open interdisciplinary dialogue across the Humanities and Social Sciences for conducting contemporary research on regions and regional dynamics. Moreover, given the possible positive effect of institutional ties on the commitment to liberal economic policies during hard times (Baccini and Kim 2012), the present chapter might have significant policy implications. This is true for developing regions, many of which experience frequent transitions from boom to bust. As exemplified by Brexit, it also applies to developed regions, some of which still struggle to recover from the 2008 economic crisis.

Theoretical Framework

Economic Hard Times Lead to Greater REO Institutionalization

The notion that poor economic performance results in greater institutionalization is consistent with studies that perceive economic crises as potential *catalyzers* to institutional change (Krapohl and Rempe 2012). According to this view, an economic crisis requires a regional response through greater coordination and cooperation. This, in turn, propels political elites to strengthen their REOs in order to cope with the economic crisis (Henning 2011; Gillespie 2015). For example, the need to jointly adjust to new globalized macro-economic conditions in the aftermath of the debt crisis may account for

the creation of MERCOSUR and the revitalization of CAN in the late 1980s and early 1990s (Kacowicz 2008; Pop-Eleches 2008).

Furthermore, economic difficulties may serve as an opportunity for the strengthening of regional institutions (Ryan 2015). In particular, domestic sectors and industries that suffer from adverse conditions may push their governments to promote liberalization and reforms at the regional level (Fioramonti 2012). Some scholars utilize this logic, for instance, to account for the regional impetus in Southeast Asia after the 1997 financial crisis, which included such initiatives as the ASEAN Plus Three and the Chiang Mai Initiative. They highlight the key role of market leaders in identifying opportunities and pushing for stronger regional relations and institutions (MacIntyre et al. 2008; Pempel 2012).

Mattli (1999) offers perhaps the most theoretically sophisticated version of this argument. According to him, an economic crisis is an important condition for the success of regional integration. Emphasizing the pivotal role of political leaders in building regional institutions, he maintains that they lack a strong incentive to pursue regional integration at the expense of national autonomy. Only in times of crisis, they will be willing to invest in regional institutions – presumably to obtain greater economic efficiency, which in turn increases their chances of political survival – setting aside more parochial considerations, and disregarding “entrenched interest groups’ resistance to integration.” He further contends that the experience of the EU, NAFTA, and Latin American REOs substantiate this line of reasoning. Thus, changing economic conditions provide regionally-minded local elites with greater room for maneuver.

In addition, poor economic performance could be linked to ideational, organizational and psychological effects, which in turn may have political implications. An economic crisis frequently constitutes a turning point that disrupts established orders and reshapes accepted knowledge and preferences. Such changes can lead to the realignment of national and regional political alliances committed to strong regional institutions as well as opening up space for policy innovation (Henning 2011, 5). For instance, several studies suggest that the financial and economic crisis between 1998 and 2002 led to the re-emergence and rise of leftist parties in Latin America. These new political forces have worked to lay the foundations for ALBA, UNASUR, and CELAC, while attempted to redesign MERCOSUR and CAN in a wave of “post-hegemonic” regionalism (Kacowicz 2008). Moreover, while the crisis led MERCOSUR members to move forward in its negotiations towards a Free-Trade Zone in the Americas (FTAA) and towards an Association Agreement with the EU, both processes were simultaneously frozen in 2004 once they started to stabilize their economies and to adopt more protectionist policies (Wajner and Labadie 2009). Along similar lines, economic crises can be understood as an historical moment that generates deep emotions both among the political elites and the public. Hence, attempting to reduce uncertainty, as part of other potential cognitive or psychological responses, political leaders may search for the development of greater regional institutionalization (Henning 2011; Saurugger and Terpan 2014). Taken together, these arguments lead to the following hypothesis:

H1: Lower levels of economic growth result in higher levels of REO Institutionalization.

Economic Growth Leads to Greater REO Institutionalization

This counterargument is grounded in the voluminous literature on the political consequences of the business cycle. Broadly speaking, this literature draws a straight line between hard economic times, domestic interest groups, and protectionism. That is, periods of economic contraction tend to shift the political balance in favor of protectionist sectors in order to insulate them from competition and ensure their viability. Conversely, periods of economic expansion tend to strengthen export-oriented interest groups that prefer free-trade policies. One might expect, then, that economic actors affected by the business cycle will attempt to access the domestic decision-making processes, mobilize mass media, and lobby for their preferred policies (Bagwell and Staiger 2003; Henisz and Mansfield 2006). Policy-makers who rely on the support of these economic groups will be affected by the changing balance of their political power and adopt corresponding policies (Gallarotti 1985).

While this framework is commonly applied to national trade policies, one can extend it to the institutionalization of REOs. Turning Mattli's argument on its head, one could argue that economic hard times strengthen those economic actors who prefer national autonomy to strong regional institutions. In contrast, economic growth and prosperity improve the position of those sectors that benefit from greater regional cooperation and integration. Thus, political leaders who are concerned with their political survival will adopt policies preferred by the more powerful interest groups. Vinokurov and Libman (2014) argue, for example, that post-Soviet regional integration in Eurasia was more dynamic during boom times compared to bust times, mostly because protectionist temptations were too strong in the latter.

A somewhat different, but related, argument emphasizes the importance of economic stability to the viability of regional institutions. In general, macroeconomic stability reduces uncertainty, encourages savings and enhances investments, three crucial elements for regional institutional-building (Solingen 2005). Conversely, economic crises produce instability that turns into impulses for disintegration from governments, given that a further delegation of authority to regional institutions is likely to undermine national decision-making autonomy. Thus, governments may reduce or shelve their commitment to regional bodies in order to ensure political flexibility in response to the economic crisis (Grieco 1997).

For example, Parsons and Matthijs (2015, 133) argue that the EU's response to the 2008 financial crisis was "reactive, slow, ad hoc and minimalist." They further claim (2015, 222) that "no major advance in European integration has ever occurred under crisis-driven conditions", and that reforms "rarely arise as technically necessary responses to crisis." Similarly, Henning (2011) points out that the 1992/93 crisis negatively affected British and Italian participation in the Exchange Rate Mechanism of the European Monetary System, and Webber (2001) highlights the weakening effect of the 1997 Asian financial crisis on APEC.

Finally, low levels of economic growth may contribute to the erosion of regional institutionalization by functioning as a driver of institutional de-legitimization, and thus weakening regional identity. Political leaders may be more sensitive to negative public opinion and populist attitudes towards existing regional cooperation schemes during times of an economic crisis (Saurugger and Terpan 2014). Due to the rise of nationalistic sentiments, perceptions that investment in REOs squanders scarce resources, or criticism

of the regional arrangement's poor performance, policymakers may be compelled to reduce their involvement in regional projects. Good economic performance, conversely, may help legitimize regional institutions and identity, thus making their strengthening less politically costly. Certainly, not only democracies are constrained by legitimacy mechanisms in their ability to develop regional economic institutions, but also more authoritarian regimes. This is exemplified by Southeast Asia during the 1997 financial crisis (Narine 2004), and Latin America during the debt crisis of the 1980s and since the explosion of the 2014 Venezuelan oil crisis (Wajner and Roniger 2019). We can thus hypothesize:

H2: Higher levels of economic growth result in higher levels of REO Institutionalization.

The Effect of Economic Growth on REO Institutionalization is Contingent

The previous two hypotheses consider the negative and positive effect of economic growth on REO institutionalization, respectively. A third possibility is that the effect of economic growth on institutionalization is conditioned upon other factors. That is, economic growth leads to greater REO institutionalization under some conditions but to lesser REO institutionalization under others.

One could imagine several factors that might interact with economic conditions to produce different regional institutional outcomes (Henisz and Mansfield 2006). Here, we consider one factor, namely the degree to which different regions are integrated into the world economy, thereby linking the regional to the global. The exposure of regions to the global forces may affect governments' response to changing economic conditions in a

number of different ways. In general, one might expect that those regions that are more open to the rest of the world to be more enthusiastic about regional cooperation than more inward-looking regions. For one thing, globalization and regionalism appear to go hand in hand, and the latter can be understood as a response to the former (Börzel 2016, 7; Kacowicz 2018).

In this context, Etel Solingen (1998) argues that countries more integrated to the global economy tend to have governments with a more liberal economic orientation, or what she had labeled “internationalizing coalitions.” Such governments will be more attuned to the interests of export-oriented sectors and will work to secure access to markets, cross-border flow of capital, and the like. They will therefore be less sensitive to counter-cyclical pressures during economic hard times and strive to advance regional institutions during good times. In other words, the global affects the local, which in turns affects the regional. In contrast, more “statist-nationalist” governments will be more vulnerable to protectionist pressures and may turn their back on regional institutions during difficult economic times. They will also be less enthusiastic about promoting REOs during periods of economic growth.

For example, the 1994 Mexican Peso “Tequila” Crisis strengthened the push for the implementation of NAFTA, which was perceived as an instrument to shield Mexico from another crisis. Similarly, the 2008 financial crisis resulted in calls for integration “beyond NAFTA” (Germain and Mohammed 2012:33-34). Another telling illustration is the reaction to the financial crisis in 1997. In Southeast Asia, a region tightly linked to the global economy, an initial weakening of ASEAN turned into a new impetus to strengthen existing and build new regional institutions. In South America, a region less integrated to

the rest of the world, the global economic crisis and its repercussions led to protectionism and a prolonged weakness of MERCOSUR (Kacowicz 2008). Similarly, in the aftermath of the 2008 financial crisis the GCC has exhibited institutional vulnerabilities as its rather inward-looking members found it difficult to sustain regional economic cooperation (Maroun et al. 2009). We can thus hypothesize:

H3: Lower levels of economic growth result in higher (lower) levels of REO Institutionalization in regions that are (not) well-integrated into the world economy.

Research Design

We use the regional level of analysis, defined by organizational membership, to test the hypothesized effects of economic growth on REO institutionalization. As already mentioned our definition of a region is state-centric and based on affiliation with regional international organizations. The data set utilized for this analysis includes twenty-eight REOs from around the world, listed in the Appendix, coded on the relevant variables in five-year intervals from 1982 to 2007. Given that the dependent variables (discussed next) are continuous, we employ an ordinary least squares (OLS) regression technique to estimate the various models. To minimize the risk of endogeneity and omitted variables bias, all models include cross-sectional random effects and five-year dummies.

Dependent Variables

The definition, operationalization, and measurement of the dependent variables are briefly described herein and discussed extensively elsewhere (Haftel 2012; 2013). We measure regional institutionalization with twenty-nine indicators that capture the

economic activities and institutional features of each REO. The first twenty-four indicators assess the economic scope of the organization. They take into account traditional integration schemes; i.e. free trade area, customs union, common market, and economic union. They also include other important areas of economic cooperation; namely, foreign investment, development, industrial cooperation, and joint bargaining with external actors. Taken together, these twenty-four indicators are general enough to “travel” across different regions and detailed enough not to miss essential economic issues that REOs typically address.

We measure every indicator along two dimensions. The first, labeled DESIGNED SCOPE, refers to approved agreements that specify the scope of the organization. Each indicator in this variable can obtain a value of 1, if present, or 0 if absent. The second dimension is implementation, which refers to the actual steps that member-states have taken to fulfill the agreements they have reached. In most instances, it involves the process by which governments translate their international obligations into domestic laws, regulations, and policies. It captures the notion that international cooperation involves not only agreements and rules, but also corresponding behavior. As such, it is a key component of international institutions (Gray 2014; Martin 2000). Notwithstanding the importance of this institutional feature, it is widely overlooked by scholars of international politics, so that measures of this concept are not readily available.

As a first cut into this institutional dimension, an ordinal scale: zero, one-half, and one is employed. If the REO did not implement the agreement regarding a specific indicator, or if implementation is low, the REO scores zero. If implementation is complete, or nearly complete, the REO scores one on the specific indicator. If

implementation is partial, the REO scores one-half. The multiplication of designed scope with the implementation value produces a second variable, IMPLEMENTED SCOPE.

Member-states may implement all the planned activities, thus this variable ranges from 0 to 24. If the agreements are not fully implemented the value on this variable will be lower than the one on institutional design alone.

The other five indicators account for the presence and depth of three institutional features: decision-making body, regional bureaucracy, and dispute settlement mechanisms. The combination of economic scope and these indicators produces two additional variables. The first, labeled DESIGNED INSTITUTIONALIZATION, merges DESIGNED SCOPE with the remaining five indicators. It captures the structure and the intended functions of the REO. The second variable, labeled IMPLEMENTED INSTITUTIONALIZATION, takes into account the actual functioning of the organization. It substitutes DESIGNED SCOPE with IMPLEMENTED SCOPE. Both variables range from zero to twenty-nine.

Independent Variables

The independent variables are operationalized in a manner that corresponds to the dependent variables' five-year set up. Unless noted otherwise, they reflect the average of the annual values of the five years prior to the year in which the institutional feature is observed. Independent variables that correspond to the level of regional institutionalization in 2002, for example, reflect the annual values of 1997-2001. This five-year set up smooths potential volatility over time. Lagging this five-year period further reduces the risk of endogeneity.

The main independent variable is ECONOMIC GROWTH. It serves as a proxy for economic performance: positive and high growth reflects times of economic boom as well as growing prosperity. Conversely, no growth, or even decline, commonly represents economic stagnation and difficulty. Presumably, economic growth (or lack thereof) affects the political viewpoint of local interest groups, public opinion and populist attitudes, and policy-makers. We use the difference in gross domestic product (GDP) per capita from one year to the next, averaged for all REO members to measure this variable. GDP per capita data from the Penn World Tables (PWT) 6.3 is used to calculate its value (Heston et al. 2009).

A second important variable, labeled GLOBALIZATION, accounts for the exposure of REOs members to the rest of the world. As discussed earlier, the degree of global integration might affect regional politics in significant ways. We measure this variable with the KOF Index of Globalization (Dreher 2006; Dreher et al. 2008). We employ the aggregate measure, namely the one that includes economic, social, and political indicators of globalization, which appears to be the most comprehensive. Here, too, the values for individual REO members are averaged to produce values for the entire REO. To test Hypothesis 3, which brings together the local and the global, we produce an interaction term of ECONOMIC GROWTH and GLOBALIZATION.

We include several economic and political variables in the statistical models presented in one of the authors' previous work (Haftel 2012; 2013). Economic variables include economic interdependence measured with TRADE SHARE, which is intra-regional trade as a percentage of the total regional trade as well as absolute levels of economic development, measured with the logged regional average of GDP per capita, and the

divergence of development within the region, measured with the logged standard deviation (STD) of GDP per capita. The latter two are labeled DEVELOPMENT and DEVELOPMENT STD.

Turning to political factors, we account for the existence of a regional hegemon with a measure of power asymmetry within the organization. The value of this variable, labeled CONCENTRATION, increases as asymmetry grows and is bounded between 0 and 1. We employ GDP data from the Penn World Tables (PWT) 6.3 to calculate this variable (Heston et al. 2009). Next, we consider regime type with DEMOCRACY DUMMY – a dichotomous variable that scores one if the average level of regional democracy is greater than six, and zero otherwise, based on the Polity IV scores and data (Jagers and Gurr 1995; Marshall and Jagers 2009). A third potentially important political factor is domestic violence. We measure this variable with the count of all the incidents of domestic armed conflicts occurred in any of the organization's member-states, reported in the Uppsala Conflict Data Program's (UCDP) Armed Conflict Dataset (Gleditsch et al. 2002). This variable, labeled CIVIL WAR MEMBERS aggregates the number of conflicts over a five-year period, which is then divided by the number of member-states.

The conventional wisdom holds that there is a tradeoff between the enlargement and deepening of REOs (Acharya and Johnston 2007). The implications of membership for institutional design are considered with MEMBERS, which is a five-year average count of the states that are members of an REO. Similarity of the organization's members is another oft-cited condition for cooperation through international institutions. The similarity of interests within the REO is captured with the average regional S score

measured with the similarity of voting in the United Nations General Assembly and is labeled AFFINITY (Gartzke and Jo 2002; Signorino and Ritter 1999).

Results

Tables 3.1 and 3.2 present the results of the empirical analysis. Table 3.1 reports four models that examine the effect of ECONOMIC GROWTH on the four dependent variables. Table 3.2 shows four models that include GLOBALIZATION and the interaction term of ECONOMIC GROWTH and GLOBALIZATION.

[Tables 3.1 & 3.2 here]

As Table 3.1 indicates, the findings provide strong empirical support for the view that economic growth is conducive to more institutionalized REOs (H2), and thus cast doubt on the idea that hard economic times spur greater investment in regional institutions (H1). Interestingly, it appears that economic growth fosters high levels of institutionalization and economic scope only when implementation is taken into account. As models 2 and 4 in Table 3.1 demonstrate, it is highly significant and substantively meaningful in the models accounting for the levels of both IMPLEMENTED INSTITUTIONALIZATION and IMPLEMENTED SCOPE.^v An increase from one STD below the mean to one STD above the mean of ECONOMIC GROWTH increases the former by about one point (on a 29-point scale) and the latter by about a 0.83 point (on a 24-point scale). Conversely, ECONOMIC GROWTH is statistically insignificant in the models that explain variables that capture only institutional design.

It seems, then, that the statistical analysis substantiates the positive link between economic growth and greater regional cooperation, and concomitantly, greater institutionalization. Presumably, governments in economically flourishing regions find it easier to invest in regional initiatives and delegate more authority to regional institutions. Existing theories suggest that policy-makers in such regions face less intense pressure from protectionist groups to adopt nationalistic policies and, perhaps, have more resources at their disposal. The flip-coin is that states that go through economic difficulties are less likely to devote human and physical capital to their REOs. In contrast to the expectations of several studies (e.g. Mattli 1999), it appears that governments follow the sentiment of domestic producers and the wider public during an economic slowdown and turn their focus to their home turf at the expense of regional projects, which may be perceived as a “luxury.”

As reported in Table 3.2, the statistical analysis does not support the idea that the effect of economic growth is contingent on the extent to which the region is integrated into the rest of the world. In all models, ECONOMIC GROWTH loses its statistical significance and neither GLOBALIZATION nor the interaction terms are statistically significant. This finding calls for further theoretical and empirical analysis of the conditional effect of economic growth. It is possible that even regions that depend on global ties become less enthusiastic about their REOs during hard economic times. In the context of our theoretical framework, this result suggests that local considerations trump global ones. Alternatively, it is possible that globalization affects regional institutions through other channels, such as local economic and political conditions. Either way

further research may be needed to recalibrate the measure of globalization or consider other variables that capture regional openness.

Turning to other independent variables, economic factors seem to perform rather well. Higher levels of development lead to more institutionalized REOs as well as wider economic scope. Like economic growth, DEVELOPMENT is statistically significant in the models that explain implemented institutionalization and scope but insignificant in the models that account for the variables that capture institutional design alone. Insofar as economic development raises the potential gains from regional cooperation and endows member-states with greater capacity (Gray 2014), this result is consistent with the finding on economic growth. When the prospects of substantial benefits are high, governments are more willing to commit to common rules in various issue areas, not only with words but also with deeds. Divergent levels of development within the region have a negative and statistically significant effect on implemented regional institutionalization and implemented economic scope, but not the variables that capture only design. These findings suggest that regional inequality tends to breed tensions and hamper institutionalized regional cooperation. Consistent with previous findings (Haftel 2013), economic interdependence fosters greater implemented economic scope and REO institutionalization.

The results regarding political variables are mixed. The estimates of regional concentration of power are statistically insignificant and switch signs across models, suggesting the power asymmetry is not an important determinant of regional institutionalization. Regime type is not an important determinant of regional institutionalization as well. Other internal characteristics of the member-states have a

more noticeable effect on regional institutionalization. Perhaps expectedly, civil wars exert a negative effect on the breadth and depth of regional cooperation. Domestic violence appears detrimental to the broader level of implemented institutionalization and the scope of regional economic activity. These findings suggest that governments that face internal resistance cannot afford to invest time and resources in regional projects.

The effect of the number of members on regional institutionalization is generally positive but statistically insignificant. This finding suggests that membership, in and of itself, has no noticeable effect on the functions and structure of regional economic organizations. In contrast, members' similarity of interests appears to play an important role in the institutionalization of their organizations. The estimates of regional affinity are positive and statistically significant in all models that account for the implemented levels of regional institutionalization and economic scope. Thus, states that share political interests and concerns may find regional cooperation through institutions less threatening than states that do not.

Conclusion

The implications of changing economic conditions for institutionalized regional cooperation have received little systematic scrutiny thus far. This is surprising given the prominence of these relationships in historical and journalistic accounts of regional integration. It is doubly puzzling considering the diametrically opposed expectations of scholars studying specific regions or the broad phenomenon of regionalism. While some argue that economic hard times strengthen regional institutions, others maintain that they are detrimental to them and that times of economic growth are more hospitable to deeper

regional institutional partnerships. This chapter takes a first cut into this debate and casts light on the empirical validity of these contrasting claims through a useful combination of different disciplinary approaches, while also contributing to the book's broad effort to examine the impact of local and global processes on the politics of regional organizations.

Employing an original data set that includes numerous REOs from around the world and measures of their level of institutionalization over three decades, we find strong support for the positive relationships between economic growth and REO institutionalization. In contrast, there is no empirical support to the idea that times of economic crisis are conducive to greater regional cooperation. It appears, then, that most governments find it easier to invest in regional initiatives and delegate more authority to regional institutions when their economies thrive; either because they face less intense protectionist pressures, they can devote more resources to regional projects, or they have more public support.

How can we reconcile these findings with the prominence of the positive association between economic crisis and regional integration in the extant literature? Insofar as greater economic openness and international cooperation are believed to be the “right” economic response to economic difficulties, the emphasis on the opportunities presented by these conditions may be prescriptive rather than descriptive. In other words, observers and experts may try to push for this policy response and persuade policy-makers to adopt liberal economic policies. Our results indicate that this position involves some “wishful thinking.” Under pressure, most governments will pursue policies that enhance their chances of political survival rather than embark on bold regional projects.

That being said, anecdotal evidence suggests that occasionally governments do promote the institutionalization of their REOs, even during less prosperous times. This in turn points to the need to identify the conditions under which economic factors might affect regional institutions. Our preliminary focus on globalization did not yield clear results. Our findings offer preliminary evidence that variation in the level of integration into the world does not affect regional institutionalization. As the title of this chapter hints, this phenomenon appears to be shaped more by local, and less by global considerations. This was only a first step, however, and more work on this matter is warranted. One ought to consider other measures of globalization and other economic, political, and ideational factors that might be relevant in this context. In addition, it may make sense to differentiate between short and long-term effects of changing economic conditions. In particular, an economic crisis may have a negative impact in its immediate aftermath but a more positive effect in the longer run.

Finally, with respect to the construction of regions and regional identity, the comparative approach adopted here shows that countries in some regions may have been more reluctant to support their REOs after economic crises than other member-states, due to historical, cultural or ideological determinants. Yet, even if regional identities are considered important and the different perspectives on regionalism advanced by REOs may affect the "different regional dynamic processes" (Fine, Kacowicz, and Press-Barnathan, this volume), this study reaffirms their dependence, at least to an extent, on economic performance.

ⁱ We do not suggest that REOs deal *only* with economic matters, however. In fact, many of these organizations have expanded to deal with other issue-areas, such as security (Haftel and Hofmann 2017).

ⁱⁱ Some trade agreements are signed under the broad umbrella of an REO, but many others are bilateral deals that lack a continuous institutional and/or regional framework. Conversely, most REOs have mandates that go well beyond trade liberalization.

ⁱⁱⁱ See the Appendix for the full name of these organizations.

^{iv} For a recent exception, see Mansfield and Milner (forthcoming).

^v Dropping the most institutionalized, and arguably unique, REO – the EU – from the sample does not change these results (not reported here).

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Table 3.1: Random Effects Estimates of the Effect of Economic Growth on Regional Institutionalization and Economic Scope, 1982-2007

	MODEL 1 DESIGNED INSTITUTIONALIZATION	MODEL 2 IMPLEMENTED INSTITUTIONALIZATION	MODEL 3 DESIGNED SCOPE	MODEL 4 IMPLEMENTED SCOPE
ECONOMIC GROWTH	10.530 (1.57)	14.944** (2.37)	6.424 (1.05)	12.674** (2.27)
TRADE SHARE	.024 (.37)	.164*** (3.13)	.064 (1.06)	.182*** (4.22)
DEVELOPMENT (LOGGED)	1.606 (1.45)	4.366*** (4.69)	1.408 (1.41)	3.826*** (4.85)
DEVELOPMENT STD (LOGGED)	-.313 (-.36)	-2.932*** (-3.84)	-.426 (-.54)	-2.464*** (-3.77)
CONCENTRATION	1.581 (.64)	-1.566 (-.73)	1.338 (.60)	-1.647 (-.90)
DEMOCRACY DUMMY	-1.393 (-1.60)	-.280 (-.35)	-1.447* (-1.82)	-.546 (-.79)
CIVIL WAR MEMBERS	-.511** (-2.20)	-.649*** (-3.10)	-.333 (-1.58)	-.409** (-2.27)
MEMBERS	.040 (.26)	.128 (1.04)	.003 (.02)	.071 (.70)
AFFINITY UN	8.398 (1.45)	10.691** (2.58)	7.036 (1.37)	8.612** (2.59)
CONSTANT	-8.469 (-.86)	-20.509*** (-2.86)	-7.185 (-.82)	-19.51*** (-3.38)
<i>Wald chi</i> ²	123.78***	165.32***	96.92***	156.78***
<i>R</i> ² (overall)	.17	.57	.20	.63
<i>NT</i>	137	137	137	137

Note: Figures in parentheses are *z* statistics. **p*<.1; ***p*<.05; ****p*<.01 (two-tailed). All models include year dummies.

Table 3.2: Random Effects Estimates of the Effect of Economic Growth and Globalization on Regional Institutionalization and Economic Scope, 1982-2007

	MODEL 1	MODEL 2	MODEL 3	MODEL 4
	DESIGNED INSTITUTIONALIZATION	IMPLEMENTED INSTITUTIONALIZATION	DESIGNED SCOPE	IMPLEMENTED SCOPE
ECONOMIC GROWTH	15.427 (.72)	32.477 (1.64)	8.265 (.42)	23.562 (1.34)
GLOBALIZATION	.000 (.01)	.058 (0.85)	.025 (.35)	.071 (1.23)
ECONOMIC GROWTH* GLOBALIZATION	-.111 (-.24)	-.425 (-.99)	-.051 (-.12)	-.279 (-.74)
TRADE SHARE	.024 (.37)	.136** (2.38)	.059 (.93)	.155** (3.26)
DEVELOPMENT (LOGGED)	1.633 (1.29)	4.109*** (3.68)	1.230 (1.07)	3.311*** (3.42)
DEVELOPMENT STD (LOGGED)	-.349 (-.39)	-3.070*** (-3.96)	-.450 (-.56)	-2.538*** (-3.81)
CONCENTRATION	1.579 (.63)	-1.415 (-.66)	1.376 (.61)	-1.466 (-.79)
DEMOCRACY DUMMY	-1.375 (-1.52)	-.373 (-.46)	-1.504* (-1.83)	-.717 (-1.00)
CIVIL WAR MEMBERS	-.510** (-2.13)	-.623*** (-2.95)	-.321 (-1.48)	-.380** (-2.08)
MEMBERS	.046 (.29)	.161 (1.23)	.019 (.89)	.102 (.95)
AFFINITY UN	8.356 (1.43)	10.030** (2.31)	6.809 (1.31)	8.011** (2.29)
CONSTANT	-8.448 (-.82)	-18.743** (-2.36)	-6.280 (-.68)	-16.622** (-2.55)
<i>Wald chi</i> ²	121.21***	166.90***	95.22***	156.62***
<i>R</i> ² (overall)	.17	.56	.21	.62
<i>NT</i>	137	137	137	137

Note: Figures in parentheses are *z* statistics. **p*<.1; ***p*<.05; ****p*<.01 (two-tailed). All models include year dummies.

Appendix

List of Twenty-Eight REOs

Arab Maghreb Union (AMU), Community of Andean Nations (CAN), Association of Southeast Asian Nations (ASEAN), Asia-Pacific Trade Agreement (APTA), Central American Common Market (CACM), Caribbean Community (CARICOM), Monetary and Economic Community of Central Africa (CEMAC), Economic Community of the Countries of the Great Lakes (CEPGL), Central European Free Trade Agreement (CEFTA), Common Market for Eastern and Southern Africa (COMESA), East African Community (EAC), Eurasian Economic Community (EAEC), Economic Community of Central African States (ECCAS), Economic Cooperation Organization (ECO), Economic Community of West African States (ECOWAS), European Free Trade Association (EFTA), European Union (EU), Gulf Cooperation Council (GCC), Indian Ocean Commission (IOC), Latin American Integration Association (LAIA), Mercado Comun del Sur (MERCOSUR), Mano River Union (MRU), North American Free Trade Agreement (NAFTA), Organization of Eastern Caribbean States (OECS), South Asian Association for Regional Cooperation (SAARC), South African Customs Union (SACU), Southern African Development Community (SADC), and West African Economic and Monetary Union (WAEMU).