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## CHAPTER 2

### **ANALYZING INSTITUTIONAL TRANSFORMATION IN THE ASIA-PACIFIC**

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#### **I. INTRODUCTION<sup>1</sup>**

The development of the Asia Pacific Economic Cooperation forum (APEC) in 1989 has been greeted with a combination of hope and skepticism. Unlike many regions of the world, regional institutions in Asia, and particularly the Asia-Pacific, have been scarce. With East Asian economic success, the end of the Cold War, and shifts in power among Asian states, many see APEC as a much-needed institution that will facilitate economic cooperation in the region. For some analysts, this institution will provide a mechanism to increase economic liberalization in the region and bolster the World Trade Organization's (WTO) efforts to reduce impediments to trade. A few have suggested that this forum could provide a means to go beyond economic issues, and foster security cooperation in the region as well.

A more skeptical group of analysts views APEC as unnecessary or even as positively harmful. Some note that the Asia-Pacific region has been the most dynamic region in the world economy--in the absence of a formalized institution. For them, APEC will do little to facilitate economic growth in the region. More pessimistically, others argue that by encouraging further

regionalization of the world economy, APEC will undermine global economic institutions, leading to regional-based competition and conflict.

The introductory chapter by Charles Morrison in this volume provided an overview of APEC and an update on its current status. The task of this chapter is to provide an analytical framework to analyze exemplars for APEC as well to consider APEC's future prospects. Although APEC has continued to widen and deepen as an institution, many obstacles remain in achieving the organization's stated goal of "free trade and investment in the region" by the year 2020. The framework presented in this chapter, together with the empirical chapters in the book, provide a basis for conceptually and analytically examining APEC's likely evolution.

One of the key original concerns of APEC members was to reconcile this group's formation with the broader world trade organization of the General Agreement on Tariffs and Trade (GATT). Members states have continued to maintain this as a key objective with the conclusion of the Uruguay Round and creation of the World Trade Organization (WTO) to replace GATT. This specific reconciliation effort, or what I term "nesting," could be accomplished in several ways. One option would be for member states to simply nest APEC in the WTO based on Article 24 of the GATT, which permits the formation of free trade areas and customs unions, but members have chosen a different route, and proclaimed an interest in nesting APEC by pursuing "open regionalism." Still, the interpretation of "open regionalism" continues to be contested, although the idea behind this concept was to reduce barriers to goods and services in a GATT-consistent manner. This avenue thus raises the possibility of pursuing nesting in three additional ways: First, APEC could simply pursue unilateral liberalization measures that would be open to all GATT signatories-- whether or not they are members of APEC.<sup>2</sup> Second, APEC members might simply liberalize in areas that are not currently covered by the WTO, thus "conforming" to the strictures of the WTO.

Third, some type of conditional liberalization could be pursued, as suggested by the Eminent Persons Group. It remains unclear if this latter strategy would actually be consistent with efforts to pursue "open regionalism" because of the real possibility of discrimination against non-members. In this context, the further nesting of subregional groupings such as AFTA or NAFTA within APEC has also generated considerable controversy.<sup>3</sup>

A second key issue concerns APEC's appropriate mandate. The debate over how APEC might be restructured to formalize it further and increase its strength in regulating national behaviors has been hotly contested, with some preferring a looser, informal organization. Another dimension with respect to institutional restructuring relates to APEC's appropriate issue scope: should it deal with only trade and investment issues, or should it also address environmental issues, labor concerns, and even security problems?

In short, these and other debates on APEC's future pose interesting research and policy questions. In particular, as noted by Morrison, this volume begins with a focus on the changes that have stimulated the formation of APEC. We then go on to consider the role of national actors in the evolution of APEC and the impact of both broader and narrower institutions on its evolution. Finally, we are interested in possible exemplars for APEC, with the EU and the OECD being two extremes on the continuum of institutional formalization.

The literature on institutional formation, particularly the body of work focusing on "international regimes," has been applied to examine institutional development in specific issue-areas such as trade, the monetary system, the environment, and security. Regime theory has also recently been used to understand the formation of regional institutions as well, both in the Asia-Pacific and in other areas of the world.<sup>4</sup> Because it goes beyond the analysis of formal organizations to examine the development of internationally negotiated principles, norms, rules, and procedures,

international regime theory is particularly suited to examine the evolution of underinstitutionalized institutions such as APEC.

To preview the analytical approach pursued here, my focus in this chapter is to understand the problem of institutional reconciliation and institutional restructuring. These topics have been relatively ignored in the existing international regime literature, but are central to understanding APEC's evolution. To analyze these questions, I develop the notion of an "institutional bargaining game," based on three elements: (1) the types of goods or externalities that are involved in the issue area of concern; (2) the "individual situation" of actors--defined by their international power position, domestic coalitions, and politicians' beliefs, all of which combine to influence actors' national positions;<sup>5</sup> and (3) the presence or absence of institutions within which bargaining takes place. Together, these elements help us to understand how actors will respond to stimuli that set bargaining games in motion.

Institutional bargaining games generally lead to differing payoffs for actors. If actors are displeased with their payoffs, they may attempt to modify the bargaining game by using various resources to manipulate the three elements of goods, individual situations, and institutions that define the game. In this book, our primary focus is on understanding actors' efforts to use institutional approaches to game change, rather than on changes in goods or individual situations.

If actors choose to create new institutions, they must decide on their specific characteristics, which include the strength, nature (in the sense of what objectives are being promoted), and institutional scope of the arrangements. They must also decide on an appropriate bargaining route to develop the institutions. Moreover, and critical to the questions posed in this study, how will APEC be linked to other existing arrangements? Specifically, will linkages be nested or parallel, and will they be substantive or tactical in nature? To preview these concepts, "nested" linkages point to a

hierarchical, goal ordered arrangement; by contrast, "parallel" linkages among institutions refer to a division of labor among them. Issues are "substantively" linked when both the linker and target actor of the linkage agree on the causal connection between issues; by contrast, "tactical" linkages are based on power or exchange without a causal affinity. Based on these categories, this chapter presents a typology of outcomes that focuses specifically on linkages and concludes with hypotheses about institutional modification.

Section II begins with an overview of the literature on institutional formation and discusses the basic analytical framework that relates governance structures and economic interactions. In Section III, I focus on the concept and factors that define an institutional bargaining game as well as the changes in interactions that set the game "in play." Section IV discusses the notion of how "institutional bargaining games" might be modified and examines the possible outcomes that might result from such institutional change efforts. Finally, Section V turns to the causal factors that might explain actors choices in their decision to promote game change through institutional manipulation strategies.

## **II. ANALYZING INTERNATIONAL INSTITUTIONS**

### **Research on Institutional Change**

Research on institutions has proceeded in a number of areas, with recent concerted attention being paid to the examination of "international regimes." These arrangements have been defined by a group of scholars as principles, norms, rules, and procedures around which actors' expectations converge.<sup>6</sup> Rather than focusing on international organizations, as was common in the literature in the 1950s and 1960s, this literature on institutions has concentrated on less formal arrangements which may or may not be further institutionalized through the formation of formal organizations.<sup>7</sup>

In examining the evolution of regimes, five different approaches in international relations have been brought to bear on this problem: Neorealism, Neorealist institutionalism,<sup>8</sup> Neoliberal institutionalism, Cognitivists, and Radical Constructivists.<sup>9</sup> Neorealist scholars from this tradition find regimes to be of little interest. For them, regimes and international institutions have no significant role in international relations because power considerations are predominant in an anarchic world.<sup>10</sup>

Within a power-based tradition, some scholars have examined changes in international institutions--a tradition that I label Neorealist institutionalism. The central concern in this literature is on how regimes affect the distribution of costs and benefits of state interaction. For analysts in this school, institutions have distributional consequences (benefits may be unequal).<sup>11</sup> In previous work, I suggested that regimes can be seen as a device by which central decisionmakers control actors' behavior, both that of other countries and/or domestic pressure groups.<sup>12</sup> From a domestic perspective, state elites can argue that their hands are tied and thus attempt to diminish pressure for particular actions from domestic actors. Examples of this include the Mexican government signing onto NAFTA or the American use of the MFA to prevent textile and apparel interests from pressing for excessive protection. With respect to the creation of regimes, a central theme in this literature has been the role of hegemonic powers in fostering the development of institutions through both positives and negative incentives.<sup>13</sup> Benevolent hegemons, for example, may provide "public goods" because their large size makes it worthwhile for them to take action on their own to overcome collective action problems. But while suggesting that regimes may form when powerful states desire them, this approach does not tell us much about the nature of regimes, and does not adequately account for new issue packagings because of the focus on tactical, power-based linkages. Moreover, scholars in this school overemphasize relative gains at the expense of understanding

cooperative efforts that might lead to joint gains for all parties. And finally, this approach has little to say about actors' desire to pursue multilateral versus bilateral solutions to accomplish their ends.

Building on this critique, Neoliberal institutionalists have examined the specific incentives for states to create regimes--as opposed to simply engaging in ad hoc bargaining. This body of work, building on seminal research by Oliver Williamson, examines the role of regimes in lowering transaction costs, and has garnered a considerable following.<sup>14</sup> The inertial implications of regimes in constraining future regime change or construction has also been a theme in this work.<sup>15</sup> One aspect of this constraint is the possibility that existing institutions in broader areas will affect the negotiation of more specific institutions, or the "nesting" of regimes.<sup>16</sup> Thus, while the notion of transaction costs and sunk costs are central elements in this thinking, the role of regimes in providing states with information and reducing organizational costs can be distinguished from the role of existing institutions in constraining future actions.

A fourth approach to examining institutional innovation and change has been an emphasis on the role of expert consensus and the interplay of experts and politicians.<sup>17</sup> New knowledge and cognitive understandings may lead decisionmakers to calculate their interests differently. For example, work by Ernst Haas has focused on the efforts of politicians to use linkages to create new issue packages in international negotiations to form international regimes.<sup>18</sup> His specific focus on the use of substantive versus tactical linkages in the formation of regimes is a theme that I pursue in this chapter in developing my notion of institutional bargaining games.

Lastly, "Radical constructivists," while focusing on the role of ideas, argue that reality is in fact constructed in the minds of decisionmakers. These scholars, while drawing from Ernst Haas's work, go much further than him in suggesting that "power and interest do not have effects apart from the shared knowledge that constitutes them as such."<sup>19</sup> Analysts in this school see norms and values

as being dominant and ascribe considerable power to institutions in not only constraining actors, but in fundamentally altering their basic interests. In summarizing their view, Peter Haas notes that this school contends "there is no "objective" basis for identifying material reality and all claims for objectivity are therefore suspect."<sup>20</sup>

Because of my belief and empirical observation that institutions can constrain state behavior--combined with skepticism about the claim that reality is completely constructed, I emphasize variables only from the schools of Neorealist institutionalism, neoliberal institutionalism, and the cognitive approach. Thus, I do not develop either a pure realist or radical constructivist account in examining institutional transformation.

It is worth noting that economists have also focused on the evolution of international institutions, in particular the relationship between regional and international trade arrangements. One prominent example of this approach is an essay by Robert Lawrence on regional trading arrangements entitled "Building Blocks or Stumbling Blocks?"<sup>21</sup> Yet this literature has primarily examined trade diversion and creation, and has slighted the political aspects of institutional formation both in the trading system and in other issue areas.

As this brief sketch illustrates, the literature on the evolution of international institutions is very rich. Yet on the whole, these theories are underspecified and unable to adequately account for two significant types of institutional adaptation that are crucial to understand the evolution of APEC: the reconciliation of old and new institutions and the restructuring of existing institutions.<sup>22</sup> To examine these institutional changes--which APEC has faced and is likely to face in the future--I develop an approach that goes beyond the existing literature, but which still draws on the variables identified by these approaches.

## A Framework to Examine Institutional Bargaining

We begin with an overview of the institutional bargaining process. For discussion purposes, Figure 1 depicts the strategic bargaining problem--prior to APEC's creation.

### FIGURE 1 HERE

Starting with the center of the chart, we can distinguish between two aspects of institutions: meta-regimes and regimes.<sup>23</sup> Whereas meta-regimes represent the principles and norms underlying international arrangements, international regimes refer specifically to rules and procedures. Regimes can be examined in terms of their strength, nature, and scope: Strength refers to the stringency of the multilateral rules that regulate national behavior, while nature (in an economic context) refers to the degree of openness promoted by the accord. Scope can be divided into two parts: issue scope refers to the number of issues incorporated in the regime; institutional scope points to the number of actors involved.

Prior to APEC's formation, the GATT was the major institution that regulated trade activities. Its underlying meta-regime has been an encouragement of trade liberalization. The GATT regime has included rules on tariffication, anti-dumping, the use of quotas, and also includes a set of procedures for handling both trade negotiations and trade disputes. By and large, the GATT regime has been quite strong and specific in its rules and procedures, although countries have often breached these directives. With respect to nature, GATT and its successor organization have generally continued to encourage liberalization. Finally, with respect to scope, the GATT and its successor organization, the WTO, have expanded in terms of the issues that it covers.

Other institutions, such as the Association of South East Asian Nations (ASEAN) and the Australia-New Zealand Closer Economic Relations Trade Agreement (ANZCERTA) have also existed among a subset of members in the Asia-Pacific region. Each organization has its own meta-

regime and regime, with varying characteristics. In creating APEC, the member states had to concern themselves with two types of institutional reconciliation: (1) reconciling APEC with the broader institution of GATT; and (2) reconciling APEC with narrower institutions such as ASEAN and ANZCERTA. To date, the avenue to achieve institutional reconciliation has been through nested rather than parallel connections. More recently, the development of the North American Free Trade Agreement (NAFTA) as another subregional institution within APEC, and the movement toward a free trade agreement among ASEAN members (AFTA), has further complicated this nesting problem.

International regimes, whether multilateral or bilateral, are developed to regulate the actions of states. National actions can include unilateral actions or ad hoc bilateral or multilateral accords. Examples of these include the use of Super 301 by the U.S. or bilateral discussions on specific issues between Japan and the United States.

These measures in turn affect the types and levels of interactions that we observe in particular issue areas, such as trade, investment, or short-term capital flows.<sup>24</sup> In an apolitical world, we could imagine a closed loop with societal actors engaging in interactions without any governance structures--be they national controls, ad hoc agreements, or institutions--to influence these activities. But in the Asia Pacific context, national regulatory efforts will influence the flow of interactions. National policies that affect trade and financial flows include policies that specify rules of origin, intellectual property, and competition policy.

### **III. THE INSTITUTIONAL BARGAINING GAME**

The process depicted in Figure 1 of Pre-APEC Trade Bargaining helps to set the stage for understanding the institutional environment prior to APEC's formation. We now consider some

theoretical elements that might help us to account for APEC's development. We begin by describing the elements of goods, individual situations, and institutions that constitute an institutional bargaining game and show how they fit together to yield game payoffs. Figure 2 depicts the elements of the initial bargaining game, starting with an initial impetus that sets the game in motion.

## **FIGURE 2 HERE**

### **The Initial Impetus**

In general, an initial impetus significantly alters the preexisting bargaining context. Examples include the oil shock of 1973, the breakdown of the Bretton Woods system in 1971, and the end of the Cold War following the collapse of the Soviet Union. An impetus to change can also come from both endogenous and exogenous changes that are less dramatic, such as actions by currency speculators, or electoral victories that shift actors' individual situations. These changes will generally create differing incentives for actors.

### **Goods and Externalities**

Initial shocks may create either a positive or negative externality on actors who are not immediate participants in the precipitating event. Alternatively, economic or political changes may stimulate or impede the provision of some type of "good", namely public goods, common pool resources (CPRs), inclusive club goods ("patented goods"), or private goods.<sup>25</sup> Differences among goods can be characterized along two dimensions: jointness, which refers to the extent to which goods are affected by consumption; and by the possibility of exclusion, which refers to whether noncontributors to the provision of the good can be kept from consuming it.<sup>26</sup>

In the case of public goods, actors face a collective action dilemma because all can benefit from the joint nature of the good (e.g., national defense). However, because exclusion is not

possible, beneficiaries need not contribute to its creation or maintenance. In such cases, analysts have focused on the incentives for differently situated states to provide public goods. The classic representation of the provision problems for public good is the n-person prisoners' dilemma (PD): in such cases, cooperation can potentially help all players, but actors have a dominant strategy to defect and the good may not be provided.<sup>27</sup>

CPR goods include global commons concerns such as fishery resources or goods where exclusion of noncontributors from consumption of the good is not feasible.<sup>28</sup> In such cases, providers of goods risk being exploited since they will not only end up paying for the cost of the good, but will also suffer from free riding that will diminish the good due to its lack of jointness. Thus, at least in principle, the game that reflects the problem of provision of such goods will be a more severe form of a PD.

Inclusive club goods, or "patented goods," refer to the case of goods that exhibit jointness (not diminished by use), but where exclusion is possible (e.g., satellite transmission of television with scrambling technology to prevent noncontributors from accessing the good). Because of the benefits of having additional consumers of the good that one produces, we might expect that in the case of international institutions, actors will compete to have their institutional approach adopted as the standard by all participants to maximize their revenue possibilities.

Finally, private goods, which reflect the possibility of exclusion but not jointness, include the consumption of goods diminished by use. Individual actors will have an incentive to produce these goods and to charge according to their marginal cost of extension of these goods.

To better understand the implications of this basic characterization of the "type of goods" involved in an issue area, we need to also consider the effects of actors' individual situations and institutional context within which interaction takes place. Goods only give us a first cut into

understanding the type of problems that actors face and their incentives: knowledge of the types of goods involved in the bargaining does not allow us to adequately determine specific payoffs of games because the position of national actors or the institutional setting may alter the bargaining problem. We now turn to these two elements.

### **Individual Bargaining Situations**

States or other actors are likely to have varying interests in the issue area within which bargaining takes place. The most significant factors that will influence their payoffs include: (1) an actor's international capabilities; (2) its domestic coalitional stability; and (3) elite beliefs and ideologies. The first of these elements refers to both the actors' position in the overall international system as well as its relative capabilities in the specific issue-area under discussion. These factors will influence a state's objectives as well as its ability to secure its desired outcomes. The second element, a state's domestic coalitional stability, focuses on the incumbency expectations of government decisionmakers. This variable taps into decisionmakers' discount rates. For example, in debt rescheduling negotiations, domestically unstable governments will be reluctant to undertake sharp economic adjustment measures for fear that they will be ousted. Finally, elite beliefs and ideologies about the causal connections among issues and the need to handle problems on a multilateral basis will also influence the payoffs and actors' responses.

### **The Institutional Context**

As states attempt to secure their optimal outcomes, they will interact strategically, possibly in the context of one or more institutions. Institutions should influence how actors interact, and may provide either focal point solutions for coordination games or may help states to overcome collective

action problems.<sup>29</sup> For example, neoliberal institutionalists argue that regimes help to provide information and lower organizational costs, thus helping to allow actors to come to bargains and solve collective action problems. Institutions are also likely to have important distributive consequences, and may influence actors' bargaining behavior by tying the hands of both other international and domestic actors.<sup>30</sup> And analysts from the cognitive school argue that international institutions may lead to fundamental changes in actors' basic interests and possibly facilitate greater cooperation.

### **The Institutional Bargaining Game and APEC**

We can now attempt to consider the combined effect of the initial impetus with the three elements of goods, individual situations, and institutions to gain insight into different types of institutional bargaining games. Understanding these games gives us insight into the strategies that actors might subsequently pursue in an attempt to change the games in which they find themselves. It is worth noting that an exact specification a priori of the effect of the three elements on game payoffs--absent a specific empirical issue--is a difficult if not impossible task: instead, the discussion below focuses on some general considerations of the effect of different elements.

The neorealist institutionalist school hypothesizes that hegemonic powers will be willing to provide public goods and will allow free riding because of purely economic calculations (as when an owner of a large number of ships pays for a lighthouse). Put differently, we should expect actors' payoffs to vary as a result of their differing positions, possibly changing the nature of the game as initially suggested by the goods involved. Lisa Martin presents an example of this and shows how a prisoner's dilemma game turns into what she terms a "suasion" game when a hegemon is present.<sup>31</sup> Because of this transformation, resulting from differing individual situations in my terminology, the

outcome of the game will be unilateral provision of public goods by the hegemon. Alternatively, rather than a benevolent hegemon which provides public goods, we might also see aggressive powers that form institutions to monitor potentially shirking actors, or simply use power directly by threatening free riders. Public good provision might also be possible with small numbers of actors, rather than only in cases of hegemony.<sup>32</sup> What might the public good provision game look like with two players? While one might argue that the game still remains a PD, given the jointness of the good, it seems more reasonable to consider the game as one of Chicken: each would like the other to pay for the good, but the joint nature of the good means that free riders will not impair one's own consumption of the good. The exact form of the game in this case will depend on the size of each of the two players as compared to the overall cost of providing the public good.<sup>33</sup>

In the case of common pool resources, the problem of provision and maintenance is more severe than for public goods because of the lack of jointness. Following the logic of the relationship between individual situations and public goods, we would expect the resulting games for hegemonic and bipolar provision in the CPR case to mimic the games involved with provision of public goods. However, in view of the lack of jointness, both the suasion and chicken games will have worse payoffs both for cooperation and defection, thus potentially making it more difficult for actors to come to agreement on the development of such goods. Yet this pessimism on the likelihood of provision may not be fully warranted.<sup>34</sup> While the lack of jointness inherent in CPRs make it less likely that a hegemon would be willing to provide the good, this very "crowding" may actually stimulate the provision of CPRs as compared to public goods. Hegemons in CPR cases will be more likely to encourage joint provision of goods through coercive means. Thus, possible free riders may be brought into the fold since their nonparticipation in provision has direct consequences for the supply of the good. If they are then forced to pay for the good in question, the hegemon's initial

investment and maintenance costs will be lower. Drawing on neoliberal factors, I would also argue that CPRs should clearly stimulate group activity in monitoring and possible sanctioning in an institutionally thick context because of the negative implications involved in free riding. Thus, there is likely to be more active participation by all members, and the good may therefore be less likely to be eroded over time.

With respect to private vs. patented goods, I would hypothesize that the strong benefits that accrue to actors from the provision of patented goods will stimulate competition to provide the good. Thus, if benefits can be gained by "selling" the good to possible new adherents to an institution, we should see competition among groups of states to encourage nonparticipants to join their arrangement. The game in this case would look much like a coordination game, with each party vying to have its own institutional form adopted. In the technology standards area in a private setting, attempting to set up one's own standard as the national or global standard to subsequently reap benefits from this choice parallels this institutional hypothesis.

In sum, bargaining among actors--based on the games defined by goods, individual situations, and institutions--yields payoffs that are likely to differ for the actors involved in the initial negotiating game. We can briefly illustrate these points in the case of APEC's formation. The problems in the Uruguay Round and changes in the European Community provided a key impetus. With the Europeans moving forward to a unified market and the impasse in GATT negotiations, Australia and other likeminded countries were concerned about the externalities resulting from European integration and GATT's potential demise as a public good. For many state and nonstate actors in the region, the discussions about trade liberalization under GATT auspices (see Figure 1), resulted in unsatisfying payoffs for many actors. This provided the stimulus for the APEC's formation. Thus, faced with the payoffs that result from their initial strategic interaction, as we have

seen, states did not simply accept the outcome of their bargaining. Thus the game did not simply "end" at this point: indeed, actors often make efforts to alter the bargaining game in which they find themselves to improve their payoffs in a new game structure.<sup>35</sup> It is to this latter possibility that we now turn.

#### **IV. GAME CHANGE EFFORTS AND OUTCOMES**

When will actors make efforts to promote game change? Logically, they consider their existing payoffs in the current bargaining game and compare these with their projected payoffs from instituting some form of game change. To make this calculation, states evaluate their ability to secure more favorable outcomes by assessing their own power resources in light of their own individual situation and that of their opponent or opponents.

In APEC's case, potential members were motivated to change the existing bargaining game. Figure 3 provides a schematic overview of APEC's creation and the strategic institutional bargaining game.

#### **FIGURE 3 HERE**

As noted before, a key consideration for the participants in APEC was the desire to be consistent with the GATT while also encompassing existing subregional agreements (ASEAN, the Canada-U.S. Trade Agreement (CUSTA), and ANZCERTA). Although the outcome in this instance was the formation of a new nested regional institution, this choice was only one of a number of possible outcomes.

To understand this particular choice, we must address the following points: (1) What institutional or noninstitutional options are available to actors? (2) Where do the different paths lead in terms of institutional and noninstitutional outcomes? and (3) What factors explain the choice of

different bargaining paths? Together, the answers to these questions will help us anticipate future developments in APEC and its relationship to other institutions. Figure 4 provides a flowchart of decisions that actors must make. I first discuss the nature of each of these choices. Subsequently, we will turn to a more detailed consideration of the logic underlying their selection.

#### **FIGURE 4 HERE**

#### **The Choices Available to Actors**

As this figure illustrates, actors have three options. First, they can attempt to directly manipulate the types of goods involved in negotiations, say by an exclusive alliance. Second, they can alter either their own or their opponent(s)' individual situations. These could include such efforts as overthrowing governments, building up one's own capabilities in specific issue areas, or attempting to influence foreign decisionmakers. Third--and the primary focus of this book--they can change the institutional context within which actors are operating. Note that such institutional change strategies may indirectly influence the goods involved in the negotiations and may well change actors' individual situations.

In line with our emphasis on institutional strategies to alter games and influence bargaining outcomes, actors following such strategies must make several additional decisions. Specifically, they must (1) decide if they would be better off by creating a new institution or modifying the existing one(s); (2) choose the type of institution they prefer if they create a new one; (3) select the bargaining route they want to follow; and (4) decide whether to engage in issue linkages, and if so, the type and nature of these connections.

### **Creating New or Modifying Existing Institution(s)**

When faced with unsatisfactory payoffs, and depending on their individual situations, states may develop new institutions. For example, since several states in the Asia-Pacific questioned the efficacy of the Uruguay Round but believed in GATT principles and norms, they decided to pursue the formation of APEC, within the existing institution of GATT.

### **Institutional Characteristics**

If a state decides to pursue the formation of a new institution, it must decide if such an accord should be bilateral (such as the CUSTA) or multilateral (e.g., APEC), and also decide on its strength, nature, and scope. But if a state opposes a new institution, it could still work to modify it, possibly by changing its institutional scope (as with the expansion of the CUSTA to include Mexico). The next stage in the process is to decide on an appropriate bargaining route.

In the APEC case, the actual membership of this multilateral arrangement has been open to considerable debate. For example, there was some initial debate over inclusion of the U.S. Prime Minister Mahathir of Malaysia has attempted to press for an organization such as the East Asia Economic Group (now Caucus) as an alternative to APEC. The question of regime strength has been of particular significance. Whereas the U.S. has pushed for binding rules and procedures, most Asian countries have shown considerable reluctance to move in this direction. The issue of regime nature has been an issue of much less contention, with all countries supporting (at least formally) an open liberal arrangement. Issue scope has been open to more debate, with some fear of U.S agenda setting.

### **Bargaining Route**

As indicated in Figure 4, states may choose to bargain multilaterally, bilaterally, or to take unilateral actions to achieve their ends.<sup>36</sup> Turning first to the bargaining route within an existing institution, although multilateral negotiations in a multilateral institution are common, states can also pursue bilateral and unilateral strategies. For example, even though the U.S. was involved in Uruguay Round trade negotiations, it discussed specific issues with Japan on a bilateral basis (under GATT auspices) and took unilateral action with respect to other states using specific GATT provisions.

What about the use of different bargaining routes for the creation of a new institution? In the case of multilateral arrangements, multilateral strategies can include coalition building efforts. States can also use bilateral and unilateral strategies by "imposing" agreements on other states through either bipolar cooperation or hegemonic imposition. If the institution in question is a bilateral one, the case of a multilateral bargaining route to secure such an outcome is less obvious than the use of bilateral or unilateral strategies. An example of this could be where actors engage in multilateral negotiations, and then decide on an appropriate bilateral regime for a subset of the states involved. The emerging regime guiding relations between the PLO and Israel, resulting from negotiations in a multilateral forum would seem to fit this notion.

In APEC's case, we have seen a multilateral approach to the creation of this institution. In contrast to the most common path of hegemonic leadership by the United States in the post-WW II era, in this case, Australia, supported by Japan and encouraged by the U.S., worked to develop APEC. Since then, although the major powers have had more say in the evolution of APEC, middle level powers continue to play a key role. The development of APEC can thus be best characterized as a multi-country joint effort.

## **Issue Linkages and Institutional Reconciliation**

The final decision node in Figure 4 concerns an actor's decision to link issues or institutions in negotiations. In addition to choosing whether or not to make linkages, actors must also make two other choices when they link issues: the type of linkage (parallel or nested); and the nature of the linkage (tactical or substantive).<sup>37</sup>

Turning first to types of linkages, we can think of two types in the context of reconciling institutions: (1) nested arrangements, which draw on elements from the framework of broader institutions to make them compatible while providing an element of hierarchical goal ordering; or (2) parallel arrangements, which are compatible with other arrangements because of an institutional division of labor. Nested arrangements are well illustrated by APEC's efforts to be consistent with the GATT. "Parallel" institutions deal with separate but related activities. In the case of the development of the European Economic Coal and Steel Community and the Western European Union, we had parallel organizations. The first was oriented toward strengthening European cooperation in economic matters while the WEU sought to develop a coordinated European defense effort.

The second consideration, the nature of the linkage, refers to the intellectual basis for the issue connection. If two issues are seen to be unrelated but are tied together in negotiations, this can be considered a power based connection or tactical link. By contrast, if the issues exhibit some intellectual coherence, then the linkage can be labeled substantive. Figure 5 presents the alternatives under different conditions.

### **FIGURE 5 HERE**

In the first case in this chart, we have a case of substantive linkage, which is likely to result in the creation of a stable issue-area. This outcome arises from bargaining whereby one actor

convinces the other (the "target") of the impact of externalities surrounding a particular set of negotiations, and the coherent packaging of the issues (e.g, APEC discussions of financial and trade policies). As we shall see in the case of the formation of institutions, substantive linkages should lead to more stable agreements and institutions because actors are more likely to accept this type of issue packaging.

More complicated is the second type of manipulated linkage--"failed substantive linkage." Here, even though experts agree that two issues are interconnected (such as access to markets for trade and the ability to service debt), policymakers in the target country do not recognize the issues as substantively linked but perceive the issues as only tactically related. Without changes, even though the target actor treats the issues as connected, this will prove to be only a temporary solution to the externalities problem. Such a situation may provide hope for the actor trying to establish the link (the "linker"). When the policymaker's initial reaction is a rejection of substantive connections among issues, experts in both countries may play a prominent role in swaying decisionmakers' opinions.

The third type of link, tactical linkage, may foster even greater conflict. This method of connecting issues is a pure power play. If used as a carrot, it can diminish conflict. But if used as a stick, tactical linkages will create sharp conflict in negotiations and most likely lead to unstable agreements or institutions.<sup>38</sup> Many Asian countries see U.S. efforts to discuss democratization or human rights as being a linkage of this sort.

Finally, in the last case, misperceived tactical linkages, policymakers in the target country see the issues as substantively linked--even though they are only linked tactically. Although the target decisionmakers' own experts will attempt to dissuade their policymakers from accepting the linkage, target decisionmakers may agree to some type of joint agreement and consider the issues in

question as a package. Clever manipulation by the linker could produce much more favorable outcomes than might otherwise be the case. But because it is based on a misunderstanding, this is an unstable situation and will lead to unstable institutional formation. Indeed, if and when the target comes to realize that the connection was tactical in nature, the bargaining connection will shift to a potentially unstable tactical one that relies on its superior power.

### **Institutional Outcomes**

We can now look at the possible outcomes resulting from efforts to either modify or create and reconcile institutions on the one hand, and the types and nature of linkages on the other.<sup>39</sup> In each of the two rows of Figure 6, the top and bottom entries (separated by dotted lines) reflect a convergence and divergence of perceptions on linkages, respectively.

#### **FIGURE 6 HERE**

Modifying Existing Institution(s). There are two possible types of linkages that we must consider, in addition to the possibility of no linkages. The first example (1) reflects a case of nested substantive linkages. The relationship of issues in the IMF under the Bretton Woods system were clearly ordered. Fixed exchange rates were central and gold provided the basis for backing the dollar. The dollar played several key roles including the numeraire, the intervention currency, and the like and there was widespread agreement on this structuring. By contrast, in the second case, the EMU convergence targets for debt, government spending, interest rates, and inflation, have proved controversial. The Germans and some others see this as a natural economic connection between the higher level objective of monetary union and the subordinate goals necessary to achieve smooth progress toward fixed exchange rates in the Union. But some Southern European members of the

EU have exhibited considerable skepticism about this claim (2), viewing the connection as a tactical effort by the Germans and other Northern Europeans to control their economic policies.

The next case (3) provides an example of a tactical linkage. Almost all states recognized that the decisionmaking structure with the dominance of the Security Council over the General Assembly in the United Nations was a tactical consideration based on the power of the major players in the system. The fourth case of nested linkages (4) contains an example of aid to Lomé convention members for commodity price stabilization. From the perspective of the poorer members of this agreement, this is a substantive connection to stabilize markets. But from the perspective of many EC members, this was simply a tactical exchange tied to political and economic interests in maintaining the Lomé agreements.

Moving across the chart to the case of parallel linkages, the relationship between the IMF and World Bank (1) provides a good example of parallel substantive connections with respect to financial assistance. In the Bretton Woods system, the IMF was to engage in short-term lending to help countries facing balance of payments difficulties to adjust. Meanwhile, the World Bank would provide longer term loans to help improve the functioning of countries' economies. The connection between services and manufactures in the Uruguay Round (2), provides an example of differing views involving negotiations within an existing institution. Whereas the U.S. saw this connection as a substantive one, many developing countries argued that this was merely a tactical ploy, and that services had no place in GATT negotiations. In the end, the negotiation proceeded on two separate tracks, but with an implicit connection between the two.

Moving to tactical parallel linkages, the notion of weighted voting is clearly seen as a power based decision (3). In the IMF, countries are allocated voting shares based on economic criteria. While the indicators of economic wealth have come under increasing challenge, there is little

question that this linkage is tactical in nature. Finally, calls for special and differential treatment for developing countries have been seen as a tactical concession to facilitate trade liberalization (4). Thus, developed countries have repeatedly made special provisions in negotiating rounds--dating back to the Kennedy Round and now in the Uruguay Round--that allows for delays in the implementation of WTO provisions. By contrast, this effort has been viewed by many developing countries as a substantive logical connection deriving from their relatively uncompetitive position.

In this row, the last example reflects a case of no linkage. The GATT dispute settlement body provides a forum for the resolution of issues without linkages to other concerns. In an ideal setting, these institutional mechanisms are to deal with the specific issue brought up for resolution by member states without connections to other issues.

Reconciling New and Old Institutions. We next turn to the second half of Figure 6. I have already discussed the WTO and APEC connection (1) as one that explicitly argued for a new arrangement in the Asia-Pacific that would be consistent with actors' higher level concerns about continuing trade liberalization through the GATT. The claim by developed countries of the nesting of the MFA within the GATT (2) was seen by developing countries to be a tactical ploy to restrict their imports, and GATT consistency was seen as a sham.

Moving to the next column, we have a case of tactical linkages. In this example, the connection between APEC and the East Asian Economic Caucus (EAEC) (3), all parties recognize that this linkage exists because of pressure by Malaysia to create a separate grouping that would exclude North Americans and Oceania. Although some lip service is paid to the notion that this grouping is substantively connected, no one views this as credible.

Finally, as an example of a tactical link being perceived as substantive, we can consider the case of the Global Environmental Fund and its connection to the World Bank following the Rio environmental summit (3). From the developing countries' point of view, the promise of aid was a natural logical connection to broader financial aid organizations such as the World Bank. But developed countries have a more jaundiced view of this linkage, and generally see it as a tactical payoff to get developing countries to reduce harmful emissions.

Now we turn to parallel substantive linkages. When the IMF was created in 1944, there was initially seen to be conflict with the BIS (1). But within a few years, the relationship between the two stabilized in a division of labor that actors have accepted as logical. In the next case, GATT's interest in trade liberalization was compatible with UNCTAD's focus on promoting exports--at least in the minds of decisionmakers in developed countries (3). These two institutions have been partially reconciled through the formation of a Trade Development Center,<sup>40</sup> although developing countries remain more skeptical about this connection and perceive it more as a tactical linkage.

The decision to create UNCTAD and its relationship to the GATT (3) in the various trade rounds has been seen by all countries as a tactical development resulting from developing countries pressure to create a forum for their interests. While GATT negotiations continue, UNCTAD often serves as a forum in which developing countries can get advice on how to improve their bargaining skills and obtain information. Finally, when the U.S. proposed the Financial Support Fund as a tactical linkage to encourage development of the International Energy Agency, the French saw this as a substantive link connected to helping countries facing balance of payments difficulties (4).

Finally, the last column presents an example where no effort is made to reconcile institutions. This is a case of the persistence of independent institutions with no effort to make them

compatible. An example would be the World Health Organization and the International Telecommunication Union, which traditionally have dealt with quite disparate issues.

#### **IV. HYPOTHESES ON GAME CHANGE EFFORTS AND INSTITUTIONAL RECONCILIATION**

What factors will determine decisionmakers' choices on whether to pursue institutional change strategies to influence bargaining games? And how will they decide if institutions should be reconciled? Because of the considerable overlap between the arguments about modifying vs. creating new institutions, I discuss the hypotheses by group with respect to institutional innovation, institutional scope, bargaining strategies, and reconciliation through different forms of linkages.

##### **Modifying Existing versus Creating New Institutions**

One of the key issues in choosing whether to alter existing or create new institutions relates to the goods that are involved in the negotiations. For example, to prevent free riding that might take place with public and CPR goods, neorealist institutionalists point to the possible role of institutional strategies in altering the nature of the good (e.g., the decision by major powers to prevent developing countries from free riding due to the MFN norm of the GATT). Thus, in the Tokyo Round, only those countries who signed onto specific codes (e.g., subsidies) were given the benefits of liberalization entailed by these codes.<sup>41</sup>

Focusing on transaction costs, if an existing institution is providing valued goods, it might be possible for actors to link the provision of goods in one arena with the provision of goods in another

arena. Thus, given the organizational and informational benefits of an existing institution, actors may be reluctant to "free ride" in another area for fear of undermining the existing institution. With respect to new institutional creation and reconciliation, particularly in a nested context where goals in the new institution are subordinate to higher level concerns in a broader institution, a similar incentive for actors to work together to provide public goods or CPRs may exist. That is, in view of their higher level objectives, actors may be willing to risk cooperation in light of possible defection because of their concerns for meeting these goals.

Cognitive perspectives do not directly address the problem of overcoming collective action problems to secure provision of public goods or CPRs. Instead, cognitivists point to the possibility that as a result of learning, it may be possible to achieve some convergence of interests. Of course, such convergence is hardly guaranteed; states might simply better understand that their interests are in conflict! But we might extend cognitive thinking on how institutions might be used to deal with the provision of goods. How might growing cognitive convergence overcome the problem of free riding that is inherent in the provision of public goods--even when actors have common interests? I would argue that we can think of this problem in the context of thick interactions among states. In such a case, the convergence of interest would likely facilitate cooperation among states along standard neoliberal lines. A second cognitive effect on the provision of goods is the possibility that changes in knowledge may lead to changed understanding of the goods involved: this might mean that states could better understand how to exclude free riders, or that their initial estimate of the type of good involved in the negotiations was not really of the type that they initially thought. Such changes do not a priori point to a greater likelihood of cooperation in the provision of goods. As noted above, actors may simply realize that the supply problem was more difficult than they had initially estimated, and be less likely to cooperate.

Excluding the creation of an institution de novo and noninstitutional bargaining, actors can either use or modify existing institutions or develop new ones and reconcile them with existing arrangements. From a simple inertia perspective, we would expect that actors' first instinct will be to utilize or modify an existing institution to their advantage, rather than to pursue development of a new institution--both from a neorealist and neoliberal institutionalist perspective.<sup>42</sup> New institutions are expensive to create. Thus, if actors can achieve their objectives by simply modifying an institution, this will likely be the preferred course. Of course, if the institution has repeatedly failed to "deliver the goods"--even with modifications, then institutional innovation will be the logical option.

Beyond these standard arguments, we can hypothesize that an important constraint on the innovation of new institutions will be the degree to which existing institutions in which an issue might be resolved are deeply embedded among other institutions. Thus, if actors see existing arrangements in which negotiations might take place as substantively connected to other arrangements, either in nested or parallel fashion, this will influence prospects for new institutional creation.

### **Institutional Characteristics: Institutional Scope**

Institutional characteristics will be affected by several factors.<sup>43</sup> With specific respect to our interest in examining the issue of multilateralism vs. bilateralism, we would expect different predictions from neoliberals vs. neorealists. Neoliberals would expect that multilateralism would be the preferred avenue to reduce transaction costs and provide the widest dissemination of information. By contrast, from a neorealist perspective, unless an actor is exceptionally strong, it might prefer bilateral over multilateral arrangements to maximize its leverage.<sup>44</sup>

Second, the choice of a multilateral versus a bilateral institution will be affected by pre-existing institutions. Thus, for example, I have argued that the norm of multilateralism in the GATT strongly constrained the formation of the Short and Long Term Cotton Textile Agreements in 1961-2. This outcome can be explained as the result of actor concerns about institutional nesting, and fear that bilateral and unilateral actions would undermine this GATT norm--independent of the benefits of reducing transaction costs through a multilateral arrangement.<sup>45</sup> By contrast, without strong substantive linkages among issues, the decision between a multilateral or bilateral institution will be more influenced by transaction and control considerations.

Third, the question of the choice between a multilateral or bilateral approach to institutional formation can be considered from a more cognitive perspective. In a volume edited by John Ruggie,<sup>46</sup> a number of scholars argue that this choice derives from the preferences of states who fundamentally believe in the value of organizing the world system on a multilateral basis. Thus, they are not concerned with the number of states involved in an activity, but rather with examining state commitments to norms of collective action. In doing so, these analysts go beyond the neoliberal institutionalist view of multilateralism as simply a means for reducing transaction costs.

### **Bargaining Route**

To achieve their ends, actors can pursue either a unilateral, bilateral, or multilateral route. The classic argument in this regard is a neorealist institutionalist one, with the view that hegemonic states will be tempted to develop regimes. Other work in this genre has shown that like-minded states may be able to cooperate on a bilateral or multilateral basis to secure regimes, and need not always fall victim to collective action dilemmas.<sup>47</sup>

Less has been directly written about reconciling international institutions. Although we would expect power considerations to still be important, material power usage in this case will be constrained by existing institutional power resources. Appeals to norms and rules could play a significant role in this instance, particularly when actors agree upon the substantive nesting of issues. In addition, I would suggest that the presence of a highly institutionalized regime will also constrain actors efforts to develop a new institution for bureaucratic reasons. The bureaucracy and secretariat of extant organizations will be likely to oppose the formation of a new institution. In addition to direct resistance from the bureaucracy, it is likely that states will have vested interest groups that are also likely to resist institutional innovation.

### **Linkages and Institutional Reconciliation**

With respect to linkages, specifically parallel versus nested connections, I propose several hypotheses. Within an existing institution, from a cognitive perspective, decisionmakers' choices will depend on their understandings of the relationships among issues. For example, if they perceive inherent spillovers and connections among issues, and believe that there is a hierarchical relationships among issues, they will seek to make nested connections. Otherwise, it would be easier to cope with spillovers through a division of labor--through parallel connections.

In reconciling new and old institutions, or significantly modifying old ones, the choice of whether to support parallel or nested institutions will depend on the existing institutional environment. If institutions already exist, actors contemplating institutional innovation must decide how important it is to reconcile institutions. If one is developing narrow issue-area or regional-based accords, and the issue's salience is low relative to broader issue-area or regional arrangements, actors will make strong efforts to nest the new institution within the broader one--even if there is no

clear substantive connection among issues. Thus, we should also expect to see consistent goal ordering, and hence nested institutions, when threat is high. By contrast, if issue area or regional institutions are crucial to actors, they may be willing to risk conflict with other institutions by developing parallel arrangements.

Turning to substantive versus tactical linkage issues, when actors do not share a cognitive consensus on the relationships among issues, tactical linkages will be related to power based efforts to assert the superiority of some issues or to deny the hierarchical ordering of connections proposed by other actors. On the specific question of differences between modifying existing institutions versus wholly new institutional reconciliation, we should expect it to be more difficult to achieve a clear cognitive consensus in the latter case. Whereas the question of cognitive consensus will apply to connections between individual issues in the case of minor institutional modification, in the case of new or significantly modified institutions, actors must actually agree on the relationship between different large packages of linked issues in an institutionalized form. This is likely to be a more difficult problem because of the number of issues involved, and would suggest that the nesting of wholly new and old institutions will be more difficult than simply modifying old arrangements.<sup>48</sup>

## **Summary**

This section has presented several hypotheses on the evolution of institutional bargaining games. In drawing on existing approaches to understand institutions, as well as elaborating on undeveloped strands of thinking, my objective has been to allow us to explore choices about creating new institutions, institutional scope, and bargaining routes. Ultimately, our focus is on trying to better understand the calculations of actors in the APEC process. Taken together with the ideas on

construction of institutional bargaining games presented earlier in this chapter, the empirical chapters explore facets of APEC's development and evolution.

## **VI. CONCLUSION**

The creation and evolution of APEC will have important implications for the Asia-Pacific. This chapter has presented an approach to analyze the evolution of APEC by focusing on the notion of an institutional bargaining game. I have suggested that this concept is helpful in understanding both the reconciliation of new and old institutions as well as the modification or restructuring of existing ones.

The central effort in this chapter has been to draw upon research on institutional formation--particularly the literature on the formation and evolution of international regimes--to gain insight about APEC. I suggested that regime theory can be usefully applied to the analysis of regional arrangements. Because there is no single approach to understand the evolution of international regimes, however, Section II discussed five competing schools--Neorealism, Neorealist institutionalism, Neoliberal institutionalism, Cognitivists, and Radical constructivists, each of which generates expectations about the formation and implications of international institutions.

Building on portions of this work, the core of the chapter developed what I termed "institutional bargaining games" in the third and fourth sections. Based on some change in the external environment which may generate externalities or affect the provision of various types of goods, actors respond to this change through negotiations in an "initial" bargaining game. Their interests and choices will be affected both by what I have termed their "individual situations" as well as by the presence or absence of institutions. Subsequently, depending on the payoffs to actors

generated by their interaction, actors may respond to possibly poor payoffs in the initial bargaining game through institutional innovation and the use of linkages.

Sections V of this chapter focused on the causal factors that influence actors' choices in the institutional bargaining process. The central objective of this effort has been to consider factors that have led to the "nested substantive" reconciliation of APEC with the GATT and WTO. A second objective has been to provide a basis for understanding the institutional innovation process more generally with an eye to considering the development of other institutions that APEC might follow as exemplars.

The unified theoretical framework presented here provides a basis for the empirical analyses that follows in this volume. In particular, the first empirical section of this work considers several issue-areas that have influenced the formation of APEC and will continue to do so: trade, investment, and intellectual property. The second section then turns to national policies toward APEC, focusing in particular on the policies of Australia, the United States, Japan, and China. Section III then considers the question of nested institutions through an examination of the relationship between the WTO and APEC. It also focuses on "subregional" arrangements within APEC with a specific focus on NAFTA, ASEAN, and the EAEC. Finally, the concluding section examines two possible exemplars for APEC, the OECD and the EU with an eye to gleaning lessons on institutional development for APEC.

The concluding chapter by the co-editors of this volume examines the findings and implications of the analysis in this work and the utility of the analytical framework in helping us to improve our grasp of the likely evolution of APEC. By drawing on a unified set of analytical concepts, I hope that this volume will help us to better gauge the future of institutional developments in the Asia-Pacific.



## NOTES

1. For comments on earlier drafts of this chapter, I am indebted to Charles Morrison and Cédric Dupont.
2. These options are discussed in Aggarwal (1994).
3. It is worth noting that nesting is not the only form of institutional reconciliation that might be possible. For example, APEC could develop as a "parallel" institution to the WTO, and simply deal with non-GATT issues. This idea is developed below. Empirically, some have suggested that such an institutional division of labor might be a means of pursuing institutionalization in the Asia-Pacific without challenging the authority of the WTO in the trade area.
4. See Aggarwal (1994) for a comparison of APEC and NAFTA based on international regime theory.
5. See Aggarwal (1989) and (1996) on both the concepts of individual situations as well as parallel and nested linkages (discussed below).
6. See Krasner (1983).
7. For a recent discussion of formal organizations, see Abbott and Snidal (1995).
8. I have not seen this term used before, and will discuss my reason for using this label below. Moravcsik (1992) does note the difference between realist and liberal conceptions of institutions, but does not use this specific term to refer to the school as I describe it below.

9. Peter Haas (1992, p. 21) uses the term "Radical constructivists."
10. See, for example, Waltz (1979). This view is most sharply represented by the work of John Mearsheimer (1990). Ironically, the most useful purpose of regimes for such analysts would be to simply reduce transaction costs along the lines of the neoliberal institutionalist model discussed below.
11. See Krasner (1983), Aggarwal (1985), Krasner (1991), and Knight (1992) for examples of this line of reasoning.
12. See Aggarwal (1985) for this discussion of "control."
13. Kindleberger (1973), Gilpin (1975), and Krasner (1976). Keohane (1984) provides a valuable critique and discussion of hegemonic stability theory.
14. Keohane (1984). This work draws on Coase (1960) and Williamson (1975). Grieco (1990) uses this term to describe the adherents to this school.
15. See Keohane and Nye (1977) and Keohane (1984).
16. This theme is developed at length in Aggarwal (1985).
17. See E. Haas (1980) and P. Haas (1989), among others.
18. E. Haas (1980).
19. Wendt (1995), p. 74.

20. P. Haas (1992), p. 21.
21. 1991. See also Krugman (1991). For recent references to this literature, see Frankel, Stein, and Wei (1995).
22. For analytical completeness, it is worth noting that one can also examine the creation of an institution in an issue-area where none existed before, or a decision to pursue bargaining without the use of institutions. While the approach developed here can be used to consider such questions, the focus of this volume is on bargaining within the context of existing institutions.
23. See Aggarwal (1985). Zacher (1987) and (1996) uses the distinction developed in this work in his analysis of regimes.
24. In security matters, we could examine weapons flows, the movement of fissionable materials, and so on.
25. For a discussion of these four types of goods and actors' motivations to provide them, see Aggarwal (1996). On common pool resources in particular, see Ostrom (1990). For an earlier insightful discussion of types of goods see Snidal (1979). The best summary of the literature on goods is by Cornes and Sandler (1986).
26. The best discussion on these issues is by Snidal (1979).
27. Hardin (1982).

28. For a good discussion of CPRs and international institutions, see Keohane and Ostrom (1994).
29. See Stein (1983), Snidal (1985a), Axelrod and Keohane (1985), and Martin (1992), among others.
30. See Aggarwal (1985) and below on the use of institutions to control other actors. For additional discussions, see Krasner (1991) and Knight (1992).
31. Martin (1992).
32. See, for example, Snidal (1985b).
33. See Aggarwal and Dupont (forthcoming) on a more formal treatment of the relationship between goods, individual situations, and institutions.
34. I myself have contributed to this pessimistic view in Aggarwal (1996).
35. See Aggarwal (1996) for a discussion of game change efforts in debt rescheduling. While from a game theoretic standpoint, the choices that actors make in subsequent bargaining rounds are simply choice points in an elaborate extensive form bargaining game, the notion of "game change" efforts provides a useful metaphor. This idea allows us to distinguish between the repeated play of the game within existing constraints, and efforts to improve one's payoffs by modifying the constraints themselves.
36. On the use of unilateral, bilateral, and multilateral approaches, see Diebold (1952), p. 36.

37. For a discussion of tactical and substantive linkages, see Oye (1979), Stein (1980), and Haas (1980), among others. The distinction between nested and parallel linkages can be found in Aggarwal (1996). I also elaborate on the nature of linkages in this work (Chapter 4), from which a portion of the following discussion is drawn.
38. See Haas (1980) for a discussion of this type of outcome.
39. For ease of presentation, I have left out the type of institution and the bargaining strategy that actors might pursue to accomplish their ends.
40. Another example, mentioned earlier in this chapter, is the parallel substantive link between the IMF and World Bank.
41. See Krasner (1979) and Grieco (1990) on this issue.
42. On this issue, see Keohane (1984) and Haggard, Levy, Moravcsik, and Nicolaïdis (1993), p. 181.
43. For a discussion of the factors that influence the strength and nature of regimes, see Aggarwal (1985).
44. For a discussion of these ideas, see among others Diebold (1952), Keohane (1984), and Gilpin (1987).
45. Aggarwal (1985).
46. See Ruggie (1992).

47. See Snidal (1985b).
48. One could argue that institutions may contribute to tight and accepted packaging of issues. If this is the case, then the problem should be no more difficult than in new institution creation.