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**COMPARING REGIONAL COOPERATION EFFORTS
IN THE ASIA-PACIFIC AND NORTH AMERICA**

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COMPARING REGIONAL COOPERATION EFFORTS IN THE ASIA-PACIFIC AND NORTH AMERICA

John Maynard Keynes once said that "Madmen in authority, who hear voices in the air, are distilling their frenzy from some academic scribbler of a few years back." His observation notwithstanding, it is difficult to convince policymakers of the relevance of theoretical musing. Academics often assume that the reluctance of decisionmakers to embrace theoretical arguments reflects their simple ignorance or inability to appreciate academia's valuable contributions. Practitioners, by contrast, observing scholars reveling in endless debate of often minor issues, might be forgiven for taking Keynes literally: only madmen would wish to draw on academic scribbling.

If we consider the contributions of the extensive literature on international regimes, one cannot help being struck by the obsession with so-called hegemonic stability theory.¹ This approach, which argues that one needs a single major power to foster and maintain international institutions, has been the subject of considerable dispute. No doubt this perspective has important insights to offer. Question: Why are there no strong multilateral institutions in Asia-Pacific? Answer: Because there is no single hegemon. Fortunately the contributions of regime theory go beyond such powerful (but possibly incorrect) insight. In more recent incarnations, regime theory had taken into account the importance of transaction costs in encouraging countries to sustain international regimes. From this perspective, regimes disseminate information to participants, reduce the costs associated with bilateral negotiations, and help to organize actors' economic

¹ Kindleberger (1973), Gilpin (1975) and Krasner (1976). Crone (1993) applies these ideas to the Pacific region.

activities.² But while this view provides some novel insight, its relatively narrow economic focus detracts from many other reasons why regimes might be formed or maintained. This paper provides a systematic method to analyze the development of NAFTA and APEC. My approach allows me to show that hegemonic stability theory by itself provides only part of the explanation. In particular, I hope to demonstrate that while single-factor explanations may be initially productive, they may also be misleading and may even constrain one's ability to move beyond the initial insights provided by a parsimonious perspective. In criticizing academics' fondness for uncausal explanations, I must note that I do not find the alternative view -- that everything matters, and thus that theorizing is a waste of time -- particularly illuminating. Yes, everything matters to some extent. However, our task as theoreticians should be to assess what matters when, and to consider how different elements might fit together in providing a relatively parsimonious but comprehensive explanation.

In this paper, I suggest (and hopefully demonstrate) that when used with care, theoretical arguments can be valuable policy tools. Section I presents a framework, based on my earlier work on sectoral trading arrangements, to compare and contrast institutional developments that have occurred in the Asia-Pacific region and North America. Paying particular attention to factors affecting policy developments as indicated by the framework, Section II examines APEC while Section III focuses on NAFTA. These sections examine the interrelationship between governance structures and economic interactions that we see in these regions. Section IV then takes up the difficult task of anticipating future developments in both regions and examines the implications of the institutional nesting of NAFTA within APEC, and of APEC within the GATT.

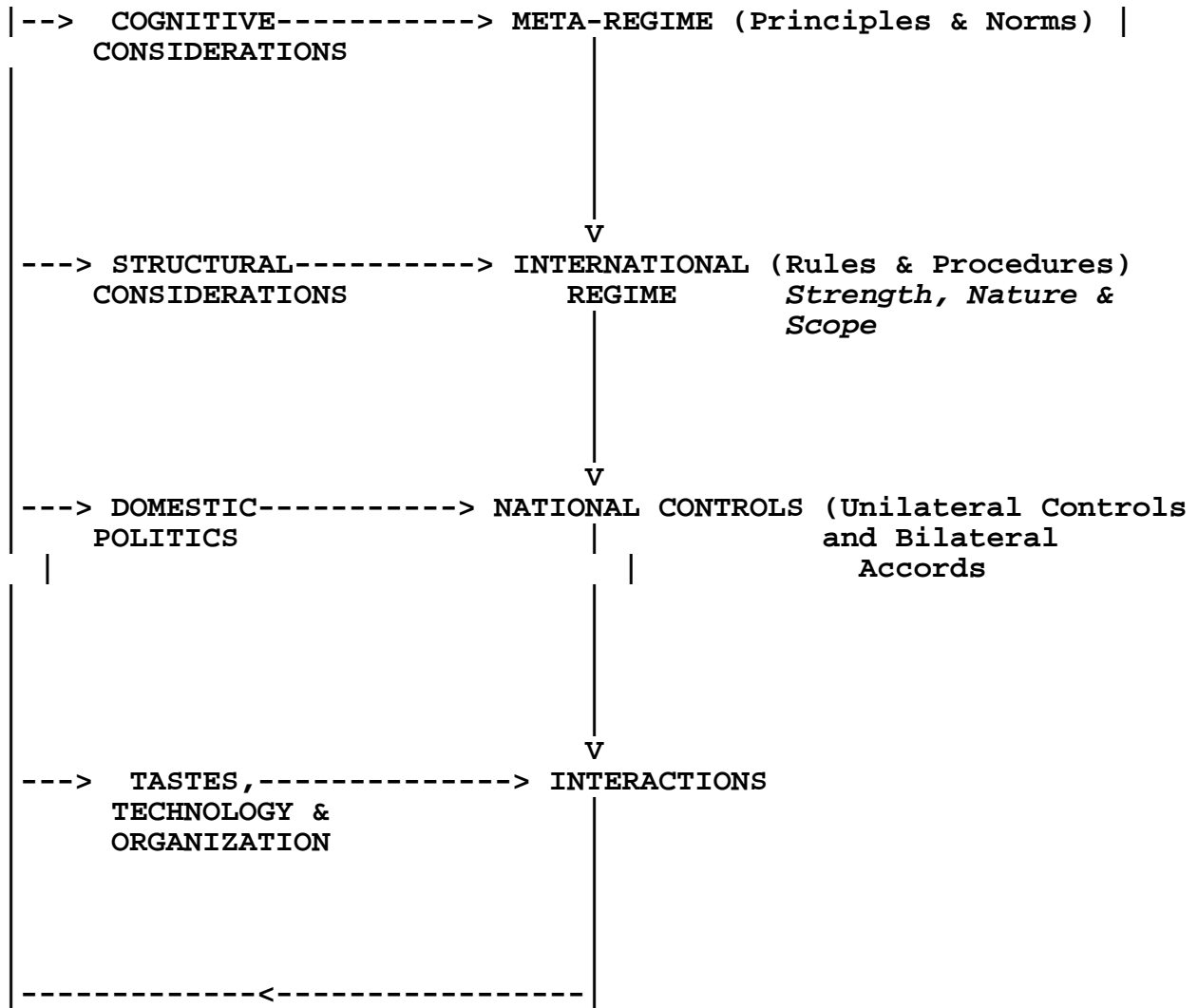
² Keohane (1984).

I. A FRAMEWORK TO ANALYZE GOVERNANCE STRUCTURES AND INTERACTIONS

To compare NAFTA and APEC, it is useful to have a single framework from which to examine both types of accords. Figure 1 provides a way of considering the relationship among several constitutive elements that bear upon the economic order.³

³ This section draws heavily on Aggarwal (1993) which is partially adapted from Aggarwal (1985).

FIGURE 1: A FRAMEWORK TO ANALYZE TRADING ARRANGEMENTS



Source: Adapted from Aggarwal 1985, p. 20.

I begin by considering the general logic of the elements and relationships postulated in Figure 1. Starting with the right-hand side, I distinguish between various types of governance structures (meta-regimes, regimes, and national actions) and interactions. Meta-regimes represent the principles and norms underlying international arrangements, whereas international regimes refer specifically to rules and procedures. Regimes can be examined in terms of their strength, nature, and

scope.⁴ Strength refers to the stringency of the multilateral rules that regulate national behavior; nature (in an economic context) refers to the degree of openness promoted by the accord;⁵ and lastly, scope refers to the number of issues incorporated in the regime and specifies the number of actors involved.

Although international regimes have previously been described as "governing arrangements that affect relationships of interdependence,"⁶ I think it is useful to be more specific. I define regimes as arrangements that regulate the imposition of unilateral controls and negotiation of bilateral accords. Hence, I examine national actions as a third type of governance structure. Of course, these national actions are of course only partially regulated by regimes; we need to investigate questions of compliance separately from formal prescriptions and proscriptions. In turn, bilateral or unilateral controls affect the types and levels of interactions that we see in particular issue areas. These may include any types of flows, be they trade, investment, or short-term capital movements.⁷

Turning now to the left-hand side of Figure 1, the framework specifies the theoretical

⁴ These distinctions are discussed in Aggarwal 1983, p. 618 and elaborated on in Aggarwal 1985, pp. 16-22. This classification contrasts with the commonly used definition of regimes as "implicit or explicit principles, norms, rules, and decision-making procedures around which actors' expectations converge in a given area of international relations" (Krasner 1983, p. 2).

⁵ One could of course speak about the nature or objects promoted by a security regime such as the non-proliferation treaty.

⁶ Keohane and Nye, 1977, p. 19.

⁷ In security matters, we could examine weapons flows, the movement of fissionable materials, and so on.

elements that account for governance structures and interactions. The cognitive approach, which focuses on the supply of consensual knowledge and political demands by policymakers, has a direct impact on the development of the meta-regime.⁸ According to this view, actors are more likely to come to agreement on a set of principles and norms if a consensus exists among experts on the costs and benefits, as well as the implications of activities in a particular issue-area. When demands on politicians from various interest groups can be met through international collaboration, politicians will be motivated to draw on a cognitive consensus among experts to promote a meta-regime, and possibly a regime.

The next element I discuss are the factors that are likely to influence regime development at the level of rules and procedures. Traditionally, the supply side focus has been on the presence of a hegemon, that is, a single major power in the international system.⁹ But when making their calculations on whether to "supply" regimes, actors will be particularly concerned with maintaining compatibility with existing security and economic systems, and not solely with economic hegemony.

On the demand side, Keohane (1984) has focused on the benefits of regimes in reducing transactions costs, particularly in providing information to participants and lowering the costs associated with negotiating individual accords. From my perspective, although these functions of regimes are clearly important, an exclusive focus on transaction costs provides a partial explanation

⁸ Although not all theorists would agree with this effort to restrict cognitive theory to a focus on the development of meta-regimes rather than on regimes, this approach helps to clarify the apparent conflict between structural and cognitive approaches.

⁹ More recent work, however, suggests that a collection of states might also serve such a structural purpose (Snidal 1985).

at best. Actors might also desire regimes for two other reasons. First, decisionmakers may try to bring lower level arrangements, that is, more specific arrangements into conformity with broader institutions. This constraint, which I term institutional nesting, discourages actors from participating in arrangements that might undermine broader accords because of their more significant concerns at the level of these higher level systems.¹⁰ Second, actors may wish to control the behavior of others, both internationally and domestically, through rule-based systems rather than through the employment of power capabilities (Aggarwal 1983 and 1985). Actors, in this instance, can be either governments or private actors, and both types of actors may try to control other private or governmental actors. For me, these factors of institutional nesting and control provide a more complete account of cooperation "after hegemony" than does a simple focus on information diffusion or reducing the costs of sending out negotiators to conclude large numbers of bilateral accords.

The next level examines domestic political factors that help explain why states decide whether or not to comply with regime injunctions. Choices in this respect will depend on the degree to which state decisionmakers are insulated from interest group pressure, as well as on the dominant ideology motivating the policymakers themselves. Thus, it is not hard to imagine that even in the absence of protectionist pressures from interest groups, some states may attempt to evade regime restrictions or "free-ride," thus reaping the benefits of liberal international accords without complying with these arrangements themselves.

Interactions are obviously not simply affected by governance structures but by changing

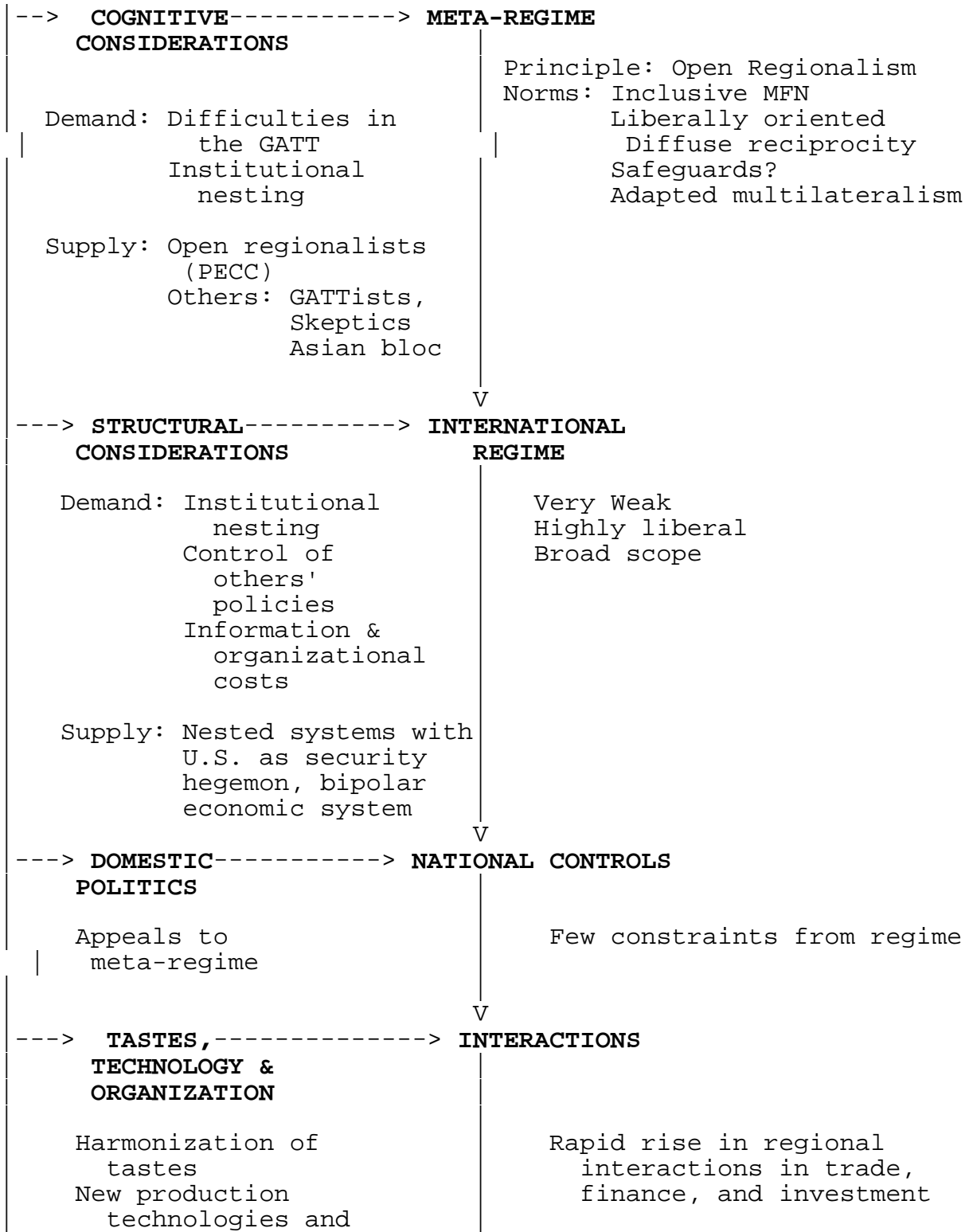
¹⁰ This institutional nesting argument may also account for demands for collaboration at the cognitive level.

types of technology, organization, and tastes (among other significant factors), which influence the supply and demand for goods and services. For example, as new forms of technology encourage a movement toward trade in services, or as changing corporate organization strategies affect locational decisions, interactions may change accordingly. Finally, as indicated by the feedback loop in Figure 1, these interactions may then drive changes in the basic causal factors that influence both governance structures and interactions.

II. TOWARD REGIME FORMATION IN THE PACIFIC: APEC

No single regionally-based regime governs economic activities in the Asia-Pacific region. Rather, there are a number of associations that influence interactions in the region ranging from PECC (Pacific Economic Cooperation Council), a tri-partite business, academic, and government forum covering most states in the region, to more formal but limited intergovernmental groupings such as ASEAN (Association of South East Asian Nations). In 1989, a pan-Asia Pacific group called APEC (Asia Pacific Economic Cooperation) came into being. This organization, created in partial response to problems in the Uruguay Round of the GATT (General Agreement on Tariffs and Trade), held a meeting with heads of states in Seattle in November 1993. Given APEC's well known history, I will focus directly on examining its elements, rather than recounting its development. My arguments about APEC are summarized in Figure 2.

FIGURE 2: APEC



| corporate organization |
|-----<-----|

Meta-Regime Formation

The most central principle endorsed by APEC has been the idea of open regionalism, a notion promoted by PECC. This combination of two apparently contradictory notions calls for regional liberalization while maintaining consistency with the GATT. Owing to this basic principle of open regionalism, APEC members have continued to express their strong concern for maintaining consistency with GATT norms.¹¹ Hence, we can usefully examine the underlying norms being promoted by its members by examining their relationship to GATT norms.¹²

Turning first to substantive norms, the APEC view on most favored nation is clearly a central tenet of open regionalism. Although APEC restricts membership,¹³ in principle all countries are considered eligible for APEC "most favored nation" status -- or what we might call the norm of "inclusive MFN."¹⁴ Also, in line with APEC's open regional focus, the members have advocated a

¹¹ I discuss the notion of nested regimes below.

¹² For an excellent discussion of GATT norms, see Finlayson and Zacher (1981). They consider five so-called substantive norms (most favored nation, liberalism, reciprocity, safeguards, and development) and two procedural norms (multilateralism and major supplier) in examining the evolution of the GATT.

¹³ In addition to the minimum criterion for membership, a border on the Pacific Ocean, the members have restricted entry without a clear explicit rationale. At the Seattle meeting in November 1993, the members decided to freeze membership for three years and develop explicit criteria for states wishing to join APEC in the meantime. In practice, membership in PECC has been an entree for membership of APEC.

¹⁴ Note that this is an adaptation of the MFN norm. Under the GATT, MFN is required only for its members, as opposed to APEC where non-members can obtain the same benefits. GATT MFN, in this respect, should properly be referred to as "exclusive MFN."

policy of diffuse rather than specific reciprocity.¹⁵ In GATT negotiations, members exchange concessions on directly reciprocal terms. As I shall argue, APEC's diffuse reciprocity approach to negotiations may undermine the efficacy of a more institutionalized APEC regime.

Two important norms that do not appear significant in Asia-Pacific discussions, but which have been integral to the GATT, are those of safeguard and economic development. Safeguards involve restrictions under specific cases of actual or perceived damage to one's market. This norm may not have found its way into APEC at this point simply because of the nascent character of the APEC regime. However, given the high degree of government intervention that has often affected trading patterns in the region, we might expect this norm to gain prominence as attempts are made to further institutionalize APEC. Also conspicuously lacking in the current APEC accords is the norm of economic development. Although it does feature in the Seoul declaration as a call for "due consideration to the needs of developing countries," actual preferences for poorer nations, as advocated in Part IV of the GATT, have failed to garner support. Still, the Seattle summit Joint Statement continues to call for liberalization "with full recognition of members' differences in levels of economic development."

With respect to procedural norms, multilateralism figures quite explicitly; the notion of "principal supplier" -- that major exporters of a good should initiate negotiations -- does not. On the one hand, multilateralism in APEC, while regionally focused, rejects unilateral restrictive approaches. On the other hand, the meta-regime allows for bilateral negotiations as long as they can be eventually integrated into the arrangement. This ambiguity can be seen in APEC's provisions for

¹⁵ Specific reciprocity involves the direct balancing of benefits; diffuse reciprocity entails more general give and take. See Keohane (1986) on this issue.

integrating the Australian-New Zealand Closer Economic Relationship (CER). In addition to drawing on GATT norms, in line with current concerns about the relationship between the environment and trade, the APEC Working Groups have recognized the link of energy and marine resource usage to environmental issues.

Ironically, considering all of the norms together, although APEC is a regional accord, in its present embryonic state it is more oriented toward openness than the GATT itself. In particular, the emphasis on diffuse reciprocity and inclusive MFN has served to underpin the liberal character of open regionalism. As we shall see below, however, the tension between APEC's highly liberal nature and the political reality of possible free-riding by non-members may prove to be a significant obstacle in efforts to develop a strong regime.

What factors account for the development of APEC's meta-regime? I argue that within the broad category of cognitive considerations, we need to focus on changes in both demand and supply factors over time. On the demand side, policymakers call for some type of arrangement in the Asia-Pacific region in a manner directly related to the success or difficulties encountered in the GATT based on the fear that regional blocs might develop if GATT collapses. On the supply side, the PECC grouping has attempted to provide the intellectual rationale for developing an intergovernmental agreement on APEC's lines. Noting the success stories of most members' export oriented policies, some analysts in PECC argued that these Western Pacific countries see trade liberalization as a "Prisoner's delight," with unilateral liberalization being a dominant strategy having the highest payoffs.¹⁶ Currently, the idea of an "open regional" meta-regime has gained ascendancy, but as we shall see, a stable cognitive consensus with respect to arrangements in the Pacific Rim

¹⁶ Drysdale and Garnaut (1992b), pp. 4-5.

remains elusive.

On the demand side, concern for consistency with the GATT, or better, economists' vision of what the GATT should be, has been the dominant theme in the Asia-Pacific region. In view of the high dependence of Asian countries on non-Asia-Pacific markets, and GATT's role in fostering an open world trading system, we would expect policymakers to be concerned about securing an APEC that is "institutionally nested" within the GATT. As problems in concluding the Uruguay Round became more apparent in the late 1980s, however, regional arrangements in the Pacific (and elsewhere) were given new impetus.

On the supply side, we can identify at least four schools of thought with respect to institutions in the Asia-Pacific area: (1) pure GATTists; (2) the currently dominant PECC-led GATT-consistent school of open regionalism; (3) skeptics of open regionalism; and (4) advocates of an Asian bloc.

The pure GATTists argue that GATT will be undermined by APEC, and that such arrangements will only foster a break-up of the world economy into competing economic blocs. From their perspective, such a movement will be deleterious, not only to non-Asia-Pacific states, but to countries in the region as well. In addition, they point out that the Asia-Pacific region has done quite well without having formal institutional arrangements. Thus, from this perspective, institutionalization is a dangerous recipe for impeding the dynamic growth of the region.¹⁷

The second group, led primarily by academics and business groups in PECC, has advanced several mutually compatible arguments in promoting open regionalism. First, some argue that

¹⁷ Kahler (1988) reviews the arguments that others have made in this respect.

APEC-type arrangements will help GATT's cause by providing impetus from a committed group of countries to advance liberalization. This "building block" approach to the GATT can be seen as encouraging like-minded liberally-oriented states in different regions to use their political pull to come together into a larger pro-GATT coalition.¹⁸ A second perspective suggests that GATT-inconsistency can be avoided by simply dealing with issues that are not on its agenda, thus preventing conflict with other non-participating GATT members. Thus, issues such as investment, environmental concerns, technology transfer, and standards in communications would be fair game in a forum such as APEC. A third perspective calls for liberalizing on a non-discriminatory basis, rather than seeking concessions from trading partners who are not party to an agreement. The economic logic underlying this approach is that APEC members can tolerate free riding because of their dynamic growth and proximity. According to this view, the benefits of trade barrier reductions will most probably accrue to the participants in the region. For example, arguing along these lines, Elek notes that from 1980 to 1990, 76% of trade growth took place among APEC countries and argues that future liberalization will have similarly positive local effects.¹⁹ Finally, support for an Asian-Pacific regime also draws on the currently popular notion of "natural" blocs, which argues that arrangements based on regional trading patterns do little to harm the multilateral economic system.²⁰

The proponents of the open regional concept have not been without their critics. In this

¹⁸ This perspective views smaller coalitions of states as a potential replacement for the lack of a hegemonic power in the international system to drive negotiations in the GATT forward. For a discussion of this idea, see Snidal (1985).

¹⁹ See Elek (1992), p. 9.

²⁰ See Lawrence (1991) and Krugman (1991).

group, several scholars have argued that permitting diffuse instead of specific reciprocity allows potential free-riders to benefit from APEC liberalization, and reflects a politically naive perspective.²¹ For example, Kahler warns that "the deeply engrained norm of reciprocity makes it unlikely that the states of the region would extend any liberalization on a most-favored national basis to others outside."²² Even the most ardent proponents of open regionalism, Peter Drysdale and Ross Garnaut, admit that "The building of support for non-discriminatory APEC-based liberalization may make it necessary to limit European free riding on multilateral liberalization in some commodities -- perhaps agriculture."²³

Finally, a fourth view has found expression in Malaysia's 1990 proposal to create an East Asian Economic Group that would include ASEAN, Burma, Hong Kong, China, Taiwan, South Korea, and Japan, and exclude Australia, New Zealand, and the North American countries. In essence, this view reflects the concern that the world is splitting up into regional blocs as the U.S. presses ahead with NAFTA and the European Community admits new members. Thus, proponents of this approach argue that the time has come for Asians to develop their own grouping.²⁴ In

²¹ Ravenhill (1992) makes this point and also attacks the notion of unilateral liberalization in the Australian context in a co-authored work (Matthews and Ravenhill, 1991).

²² 1988, p. 343. See also the arguments by Matthews and Ravenhill (1990) on unilateral liberalization from the perspective of Australian trade policy.

²³ 1992a, p. 18. They do, however, go on to note that only measures aimed at export subsidies in the form of some anti-dumping tools would be appropriate as a response.

²⁴ Additional arguments include the need for a forum for interest aggregation, the inability of the GATT to address issues of specific concern to Asia-Pacific countries, and the more complex idea of strategic trade policy as a rationale for bloc formation. On the latter and its implications for the liberal

practice, however, this approach has failed to garner much support from Asian states, and has been sharply criticized by the United States. Although Malaysia did not attend the Seattle summit to demonstrate its displeasure with lack of support for some type of Asian caucus group, it was not joined in this boycott by other states. If successful, an Asian-only approach would clearly undermine the principle of open regionalism and would threaten the interests of many Asian countries that are highly reliant on the U.S. market.²⁵

Regime Formation

As we might expect from the above discussion, the absence of a strong and stable commitment to the institutionalization of cooperation in the Asia-Pacific area has contributed to the extreme weakness of the APEC "regime." At this point, APEC's rules and procedures deal mainly with issues such as accepting new members, voting rights, observer status, and the composition of working group committees. More recently, however, members have created an APEC secretariat in Singapore to foster the institutionalization process.

Beyond these basics, the scope of APEC has expanded to include the creation of the APEC Electronic Information Network, which links Singapore's trade and industry database to computer systems of other participants; promotion of a Partnership for Education, comprising thirteen region-wide universities; and the promotion of clean coal technology to meet rapidly growing energy needs

trading order, see Aggarwal (1993).

²⁵ In 1989, the U.S. accounted for \$94 billion of East Asian developing countries' exports as opposed to \$56 billion purchased by Japan. Far Eastern Economic Review, 25 July 1991 p. 53.

while protecting the regional environment.²⁶ With respect to membership scope, APEC will expand from the current 17 to a projected 18 members by 1994, and considerable discussion has taken place on the possible inclusion of Russia, Latin American countries, and South Asian countries. At this point, however, broadening the activities of members is of greater concern than broadening the membership. This approach has been a source of tension, particularly with Latin American countries. It is clear that many prospective members view membership in PECC (with its larger membership of twenty countries including significantly, Chile, Mexico, Peru, and Russia) as a gateway to APEC.

The proposed nature of the regime, as driven by meta-regime concerns, focuses on arrangements in existing areas covered by the GATT as well as new ones, with an emphasis on regional liberalization. In all cases, the emphasis has been on ensuring consistency with the GATT to avoid any direct challenges to its authority.

Aside from the absence of an established meta-regime, the most obvious candidate to explain the weakness of the APEC regime is hegemonic stability theory. I argue, however, that a nested systems approach on the supply side, when combined with the demand side factors of institutional nesting, control of other actors, and transaction costs, provides a much more powerful explanation.

The absence of a hegemon in the region, which counts both the U.S. and Japan as key economic players, provides a ready explanation for the lack of a strong regime.²⁷ Unfortunately, however, the literature has treated the concept of hegemony too simplistically to provide much

²⁶ Elek (1992), p. 6.

²⁷ See Kahler (1988), pp. 333-335 for the hegemonic stability argument applied to the Asia-Pacific region.

analytic leverage. For example, scholars have often chosen to focus on one or the other dimension of hegemony -- either military or economic -- rather than to systematically analyze the interaction of the two. Yet in the current period, and even under a stable bipolar system, the interaction of these two dimensions clearly affects U.S. choices regarding regimes.²⁸ A "nested systems approach," which considers how the changing structure of the security system interacts with economic changes, provides a more precise tool to understand institutional evolution. Thus, to advance our understanding of structural constraints on state behavior in the Pacific Rim region, we need to examine the implications of the combination of American military preponderance and economic bipolarity -- and not simply the economic distribution of power. As applied to the overall trading system, the demise of the Soviet Union, in conjunction with relative American decline, has led to a diminished American to provide sustained leadership in the Uruguay Round. Although we clearly need further research on this issue in the APEC context, it strikes me that at a minimum we can say that this structural situation is not conducive for the U.S. to make the short-run economic sacrifices often necessary to promote a strong regime.²⁹ At the same time, the U.S. appears to be attempting to

²⁸ Keohane (1984) discusses both economic and military hegemony. However, he chooses to focus on economic hegemony, and considers military power as "a background condition for postwar hegemony rather than as a variable." I disagree. I argue that the lack of attention to the interaction of military power with economic power is indeed a problem for an adequate explanation of regime change and creation -- and not only in the Asia-Pacific region. Although shifts in the military balance of power during the 1950-1984 period may not have had much impact on regimes, a model that incorporates military power explicitly rather than simply as a "background condition" is better than one that does not.

²⁹ Thus, I am suggesting that a nested approach helps to account for the demands of politicians for particular types of institutions at the meta-regime level (and regime level) as well as of the willingness of particular states to "supply" regimes.

use APEC for broader political purposes in the region, such as promoting human rights and democratic norms, albeit unsuccessfully. This tactical linkage has been explicitly rejected by most Asian states led by the PRC, its most vocal critic. As China's Foreign Minister Qian Qichen put it at the Seattle meeting, "We do not approve of the practice of linking things which have nothing to do with trade issues."³⁰

There are also a host of "control" related issues that apply to both state and non-state actors. For example, many smaller states wish to draw their key markets, the United States and Japan, into a larger organization that will prevent the smaller states' isolation if the trend turns toward discriminatory trading blocs. For example, this consideration appears to be the central driving force behind Australia's promotion of APEC: it is highly concerned about both an Asian and a North American bloc that would exclude it. In Australia's case, both the government and internationally competitive firms also have an interest in binding Australian foreign policy to an open market system that helps bolster its domestic liberalization policies.³¹ Here, then, the interests of smaller states in this case coincide with the interests of the two larger powers in the region, the U.S. and Japan, since both are interested in APEC for mutual control purposes as well. But we should keep in mind that a desire for mutual control is not sufficient to produce an agreement: obviously, as long as parties sharply disagree as to who will control what, regime formation is not a simple matter.

More broadly, control questions shed some light on the issue of GATT-consistency. It is unlikely that APEC members will be able to secure a strong liberal-oriented regime in APEC dealing

³⁰ The New York Times, November 21, 1993, p. 10.

³¹ Ravenhill (1992), p. 2.

with issues currently covered under the GATT.³² Both APEC and non-APEC states have encountered major difficulties in the Uruguay Round in convincing member states to lower trade barriers in several sectors. Thus, we can hardly expect APEC to conclude agreements amongst themselves that would permit free riding by non-APEC members. In sum, with respect to scope, a control-based argument would suggest that due to APEC's open regional focus, member states are more likely to agree on non-GATT issues than on issues currently being addressed in the GATT.³³

Finally, information sharing, and other means of reducing transaction costs, has been a particularly significant factor driving regime evolution in the region.³⁴

National Controls

In light of APEC's weakness, at least presently, it is not surprising that this grouping has not constrained national actions. Few national policy decisions have been directly affected by the proto-regime. On the other hand, the meta-regime does have some influence on state policies. The Australian government, for one, has argued that domestic trade policy must be consistent with the APEC meta-regime of trade liberalization to justify its policy of tariff reductions.

³² See the suggestions of possible issues that APEC might address in Elek (1992).

³³ Collective action arguments might suggest that the relatively smaller numbers of actors in APEC might facilitate agreement. Yet given the great political and economic disparity among countries in this grouping, the benefits of smaller numbers appears to be limited in this respect.

³⁴ See Higgot (1992) on this issue.

Interactions

In the case of the Pacific Rim, it is quite clear that market forces have been a primary driving force behind APEC. At this point, the interactions we see in the region, be they investment choices, trade patterns, or capital flows, are not being significantly affected by a regionally-based regime. Some have gone so far as to argue that institutions in the region will retard, rather than enhance growing economic activity. Still, these interactions -- and decision-makers' perceptions of the trends in these activities -- have driven the intellectual agenda leading to the formation of the meta-regime in the region. Thus, we need to understand the true nature of economic interactions in the region to predict the likely evolution (or transformation) of the meta-regime.

As it turns out, there has been growing disagreement over the nature and implications of economic interaction patterns in the region. Until recently, it has argued by some that (1) increasing regionalization of economic activities has been proceeding apace in the Asian region and possibly in North America; (2) this pattern has been driven primarily by Japanese state and corporate strategies, as well as American responses to cope with these developments by an increasing U.S. focus on the Americas; and (3) these developments point to a need for Asian Pacific states to try to secure access to at least one, and preferably two, of these blocs through institutional arrangements.

In fact, the evidence on these issues is clearly more complex. As Frankel (1992) and others have noted, the strongest trade bias turns out to be for the APEC region taken as a whole and not simply an Asian grouping. In addition, he argues that the rapid growth of intra-regional trade in Asia is something we should expect given the high levels of growth in the region. Similar arguments apply to investment and financial flows.

Yet Frankel's arguments are also open to challenge. Even if rapid growth in the region

accounts for the high degree of intra-regional trade, it may be of little solace for those who fear bloc formation. A highly regionally-oriented trading area may bolster the position of advocates of an Asian bloc. In addition, Frankel's analysis ignores intra-industry trade. Japan, for example, has engaged in significantly less intra-industry trade than others. From a political standpoint, this may have significant implications for the type of interdependence we see in the region. States outside the region, particularly other industrialized countries, may well perceive Japan's lower level of intra-industry trade as an indicator of its closed markets in many sectors.

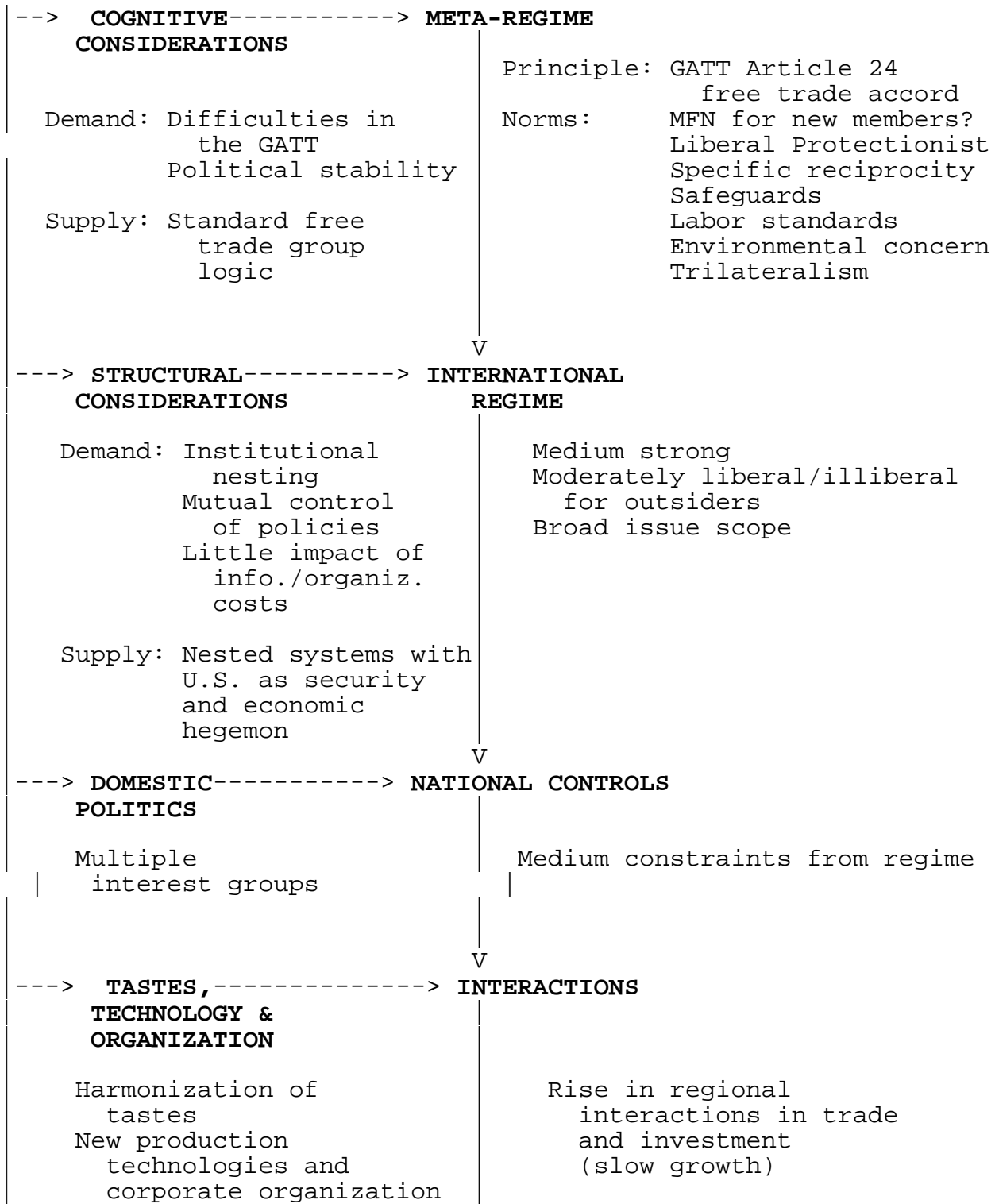
If we look at what might be driving a potential regionalization of the market in Asia, some point to a coherent Japanese strategy of aid, direct foreign investment and trading patterns. The notion here is that Japanese corporations, with the aid of the government, are attempting to replicate their close-knit domestic supplier relations and production patterns on a region-wide basis. As technological changes permit rapid responses to the market, organizational changes are needed as well. By contrast, others argue that the Japanese strategy is not different in the region than that of American firms, and that the rapid rise in direct foreign investment by the Japanese is a temporary phenomenon, driven by their large balance of payments surpluses that are beginning to dissipate over time.

III. TOWARD A REGIONAL ACCORD IN THE AMERICAS: NAFTA AND BEYOND?

Building on the U.S.-Canada free trade agreement (CUFTA) of 1989, the United States has negotiated a North American Free Trade Agreement that includes both Mexico and Canada. Negotiators signed an accord by the end of 1992, but new side agreements were added by the Clinton Administration in 1993. Ratification by the U.S. Congress occurred in November 1993 after an intense lobbying effort on both sides. Based on NAFTA's narrow victory, the proposed arrangement for a Pan-American Enterprise for the Americas Initiative now seems to be a more distant prospect. Because all three NAFTA members are also part of APEC, the need to reconcile potentially conflicting imperatives will become a more sensitive issue over the next few years. I will return to this question after discussing NAFTA in terms of the framework presented in Section I (see Figure 3).³⁵

³⁵ This section draws heavily on two excellent sources for an evaluation of NAFTA: Hufbauer and Schott (1993) and Grinspun and Cameron (1993).

FIGURE 3: NAFTA



(flexible production)
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Meta-Regime

The broad principle underlying NAFTA is a classic free trade agreement -- the standard exception to the most favored nation norm of the GATT. Specifically, Article 24 of the GATT allows free trade agreements if (1) they do not create barriers that are higher than prior to the accord; and (2) barriers to trade among the countries involved are reduced on substantially all products. Thus, given this consistency with the GATT, we should expect the NAFTA to draw strongly from the other GATT norms. Although consistency with Article 24 might in principle provide an approach that is just as "liberal" as open regionalism, in practice, as we shall see, the use of domestic content requirements as well as many other provisions for possible restrictive measures brings this agreement closer to "liberal protectionism."³⁶

As a regional free trade arrangement, the NAFTA obviously deviates from the MFN norm, although the NAFTA is formally consistent with a norm of non-discrimination with respect to new entrants. Yet terms of accession for new members are vague. Although NAFTA allows for the possibility of additional states if current members agree unanimously, former Ambassador Carla Hills has noted that prospective entrants should have sound macroeconomic policy and a commitment to liberalization in the GATT. Although most Asian and many other countries are more likely than several Latin American states to meet these latter conditions, in practice, countries other than those in the Western Hemisphere are unlikely to be accepted into the NAFTA in the near

³⁶ See Aggarwal (1985) for a discussion of this idea of a mix of protectionist and liberal measures in trade.

future.³⁷

The norm of liberalization meets GATT requirements for substantial removal of barriers. However, provision for a long phase-in period, safeguard clauses -- and most importantly for non-members -- strict domestic content requirements, make the accord more protectionist. In particular, domestic content rules have a stronger impact in the areas of textiles and apparel, and automobile trade. Such rules create trade diversion for non-NAFTA members. An example of the rejection of pure unilateral liberalism is NAFTA's treatment of the norm of reciprocity. Consistent with the GATT, NAFTA negotiations have been marked by strict specific reciprocity with sector by sector negotiations tariff reductions and the elimination of non-tariff barriers over specific time periods. This focus on specific rather than diffuse reciprocity can clearly be seen in the separate agreements on agricultural goods between the U.S. and Mexico and the U.S. and Canada. In addition, as in the GATT, safeguard norms are an essential part of the NAFTA. Finally, with respect to substantive norms, the agreement clearly omits a development norm. Thus, ideas such as debt relief or special trade provisions to help Mexico are not included, but are left instead to the free market.³⁸ In addition to these GATT norms, however, the NAFTA explicitly concerns itself with norms on environmental and labor standards. On the environment, the agreement links trade in goods with health, safety, and environmental issues -- something that the GATT has explicitly rejected. And on labor issues, the accord deals with union representation and labor adjustment -- issues that the GATT has assiduously avoided. Like GATT, however, NAFTA does not permit free mobility for unskilled labor. Given

³⁷ I discuss future prospects for NAFTA at greater length in section III.

³⁸ See Grinspun and Cameron (1993), pp. 24-25.

U.S. interests on using the NAFTA to decrease immigration pressures, this omission is not surprising.

Turning to procedural norms, the major supplier norm does not apply in the NAFTA context. There is, however, emphasis on multilateralism as reflected in calls for trilateral efforts to deal with disputes.

In sum, while liberalizing in issues such as intellectual property and investment (issues also that have been on the Uruguay Round's agenda), NAFTA's meta-regime permits a number of exceptions that nonetheless remain in line with the GATT. In addition to standard safeguard measures, the new introduction of environmental and labor issues, as well as the emphasis on domestic content, moves the meta-regime toward a less liberally-oriented arrangement.

What cognitive considerations and political demands have been driving the creation of NAFTA? From a demand perspective, as with APEC, the clearest pressure NAFTA in the U.S. has risen from frustration with the Uruguay Round, especially on the part of transnational business interests. Impatient with the very slow movement in the round throughout the late 1980s, the U.S. turned to regional liberalization to encourage continued forward movement in trade negotiations. In addition, concern about growing Mexican immigration, driven by the debt-induced recession in Mexico has been a largely unstated motivation.³⁹

At the level of expert consensus, free trade agreements have been the traditional exception to MFN. The underlying rationale for such accords has been the notion that if sufficient liberalization takes place in a region, the process could lead to trade creation rather than trade diversion. In

³⁹ Most of the other reasons in this connection relate to structural concerns dealing with bargaining leverage and control issues and are discussed below with respect to regime creation.

addition, NAFTA has been driven by strong ideological support for Mexican economic liberalization, both inside and outside of Mexico. The result has been a growing consensus -- although clearly not shared by all experts -- that some forward momentum is needed in trade negotiations and that liberalizing on a piecemeal basis provides a second best alternative to global liberalization.

International Regime

The NAFTA regime is broad in scope, liberalizing for the participants in most aspects, and of moderate strength. The issues covered include changes in restrictions on energy, automotive goods, steel, textiles and apparel, agriculture, transportation, financial services, investment, intellectual property, government procurement, technical standards, and the environment.⁴⁰ In most cases, the agreement calls for reduction of restrictions in these areas. With respect to energy, however, most Mexican controls on investment and the PEMEX monopoly will be allowed to continue. The environmental accords are of particular concern, both for those interested in further trade openness and for those concerned specifically about the environmental impact of the agreement. Thus, the accord discourages the use of environmental concern as a "cover" for protection, and does not allow restrictions on the import of goods based on the undesirability of their production process. At the same time, however, it does call for commissions to review restrictions on trade in this connection.

The most relevant indicator of regime strength in NAFTA is the dispute settlement

⁴⁰ For an overview, see The Journal of Commerce, August 13, 1992. An evaluation of the agreement can be found in Hufbauer and Schott (1993).

mechanism. NAFTA follows the U.S.-Canadian free trade agreement in most respects, and calls for a trilateral Trade Commission to deal with disputes over interpretations of the agreement as well as provisions such as anti-dumping and countervailing duties. Although on paper the agreement somewhat improves on the CUFTA, cases of trade disputes that have been taken up under the CUFTA call the actual strength of the proposed agreement into question. For example, after reviewing dispute settlement procedures under the CUFTA, one scholar argues that "NAFTA's dispute settlement procedures are not stronger than those in CUFTA" and predicts that they "will prove as ineffectual for Mexican exporters as they have for Canadian [exporters]."⁴¹

The interplay between supply and demand factors strongly influence regime formation. On the supply side, the changing configuration of power in the international system has clearly been crucial. With regard to the nested systems of security, overall economic power, and trade power, we have seen the development of movement toward unipolarity in security matters, and multipolarity in both overall economic and trade matters. This change has motivated the U.S. to pursue either sectoral or regional accords -- that is, establish restricted arenas where it might be better able to exert its capabilities to achieve its preferred ends. As Treasury Secretary James Baker put it:

If possible we hope ... liberalization will occur in the Uruguay Round. If not, we might be willing to explore a market liberalizing club approach through minilateral arrangements or a series of bilateral agreements. While we associate a liberal trading system with multilateralism, bilateral or minilateral regimes may also help move the world toward a more open system.⁴²

In this connection, given the nested nature of trade agreements, regional accords also provide the

⁴¹ Sinclair (1993), p. 228.

⁴² April 21, 1988, Ottawa: Reuters Wire Service, quoted in Lundgren (1990), p. 4.

U.S. with leverage *vis-à-vis* the Europeans and others in the GATT round.

On the demand side, the most important motivation for all countries and non-state actors in the NAFTA has been the opportunity to achieve control of other actors (both subnational and national) through rule-based systems. By contrast, with both power and control issues so prominent, concern about reducing information and organizational costs have taken a theoretical back seat.

Concerned about U.S. use of countervailing duties and antidumping actions, the Canadians saw the CUFTA as an opportunity to prevent the U.S. from unilaterally taking measures that impede Canada's market access. As Prime Minister Mulroney put it in 1987, "Our biggest priority is to have an agreement that ends the threat to Canadian industry from U.S. protectionists who harass and restrict exports through the misuse of trade laws."⁴³ Once the CUFTA became operative, U.S. interest in negotiations with Mexico forced Canada to join the negotiations in an effort to prevent a "hub and spoke" type arrangement with the U.S at the center. To prevent this type of accord with the Mexicans as well as other countries, the Canadians sought a broader regime to control U.S. actions.

Similarly, the Americans have been interested in locking in Mexican economic reforms and securing access to its market for investment and trade purposes. In addition, from a political perspective, the U.S. wishes to support the Mexican government in an effort to stem immigration pressure. Within the U.S., environmental interests called for changes in the agreement in an effort to control Mexican environmental policy, and labor groups hoped to decrease the threat of increased imports by trying to bind Mexico to stronger labor standards.

The Mexicans have clearly been interested in both international and domestic control of

⁴³ See Sinclair (1993), p. 226, citing Clark (1990).

actors. The Salinas government, faced with slow movement in the Uruguay Round, worried about retaining market access to its major market. By binding the U.S. into an agreement, Mexico hopes to ensure that protectionist measures will not stymie its newly outward-oriented focus. In terms of domestic control, the government wished to firmly lock-in economic reforms, particularly those related to investment to attract capital.

National Controls

Because NAFTA passed only recently, it is unclear how the regime will affect the use of national controls. On paper, the provisions of the NAFTA provide for a host of regulatory measures that should affect the ability of the participants to take unilateral and bilateral actions. At this point, however, experience with the CUFTA suggests that in practice the regime may not be as effective in regulating the use of bilateral and unilateral measures as some expect.

We can speculate about the interaction between domestic political factors and regime constraints on the use of national controls. Given strong domestic political pressures in all three countries in different sectors, it seems likely that these groups will fully exploit any ambiguity in NAFTA to block unfavorable changes. Each country's political process will naturally affect this phenomenon. Recognition of these differences, particularly regarding Mexican implementation of trade and environmental regulations, have thus been a key focus of American negotiators as indicated by their attempts to alter domestic procedures in Mexico.⁴⁴

⁴⁴ Undoubtedly, Mexico and many other countries would be pleased if they could succeed in altering how the U.S. government ratifies treaties and the input of different branches of government in this process!

Interactions

As with national controls, the implications of the regime on interactions remains speculative. At this point, much liberalization has already taken place in North America, with Mexico bringing its previously high levels of import barriers into conformity with the average for industrialized states. In addition, Mexico has liberalized its direct foreign investment rules considerably during the last few years. Thus, beyond NAFTA's passage, the real challenges are promoting confidence among potential investors and encouraging Mexicans to repatriate their capital.

The process of integrating the Mexican economy into that of the rest of North America has been driven by changes in Mexican policy as well as corporate strategies. The relative success of the *maquiladora* program has encouraged the continued use of transnational production sharing as an organizational strategy, in Mexico and other countries. Some have criticized this strategy of flexible production systems and the rejection of the classic Fordist production systems as detrimental to labor interests and harmful in terms of other social issues.⁴⁵ But even without a NAFTA, continued continent-wide economic integration would have continued.⁴⁶

⁴⁵ Kreklewich (1993).

⁴⁶ See Eden and Molot (1993) for a discussion of the automobile industry in North America.

IV. IS NAFTA APEC'S FUTURE?⁴⁷

We can compare developments in NAFTA and APEC by examining differences in the governance structures and interactions in each region. In addition, by contrasting the factors that have led to each accord, and that may subsequently affect their evolution, we may glean some insight into future prospects for these arrangements. Finally, because all three members of NAFTA are members of APEC and GATT (and most members of APEC are GATT members), I consider the implications of this nested institutional arrangement on both NAFTA and APEC's future.

In terms of governance structures, at the meta-regime level, while both APEC and NAFTA expressly strive to maintain GATT-consistency, the logic of open regionalism underlying the APEC is sharply distinct from the Article 24 exception that justifies the NAFTA. On the whole, APEC norms promote liberalization as a positive phenomenon without little formal concern for possible domestic or international political repercussions. This is most striking in APEC's apparent willingness to tolerate free-riding by non-members through the absence of specific reciprocity provisions. By contrast, the NAFTA takes a more traditional line -- one consistent with the liberal protectionist nature of GATT. It recognizes the political realities involved in building coalitional support for liberalization by permitting specific reciprocity and allowing for the use of intervention measures to provide relief to industries suffering real or imagined difficulties. In sum, if we focus on GATT norms as a whole, APEC is less GATT-consistent than NAFTA because of its highly liberal nature.

The differing natures of the two meta-regimes reflect differences that we see at the regime

⁴⁷ This heading has been inspired by Crawford's (1992) title, "Is Europe Asia's Future?"

level. APEC's open regional nature makes it difficult to negotiate binding accords and thus reduces the prospects for developing a strong regime. By contrast, the NAFTA, at least on paper, provides a firmer degree of control over member state actions, in line with traditional reciprocal bargaining accords. Although it is too early to judge the impact of NAFTA on national actions and interactions, in view of APEC's relative weakness, we should expect NAFTA to exert more influence in this regard.

Significantly different cognitive and structural motivations underlie APEC and NAFTA regime formation efforts. Both arrangements originate largely from frustration by policymakers and business groups with lack of progress in GATT negotiations. But the highly diverse nature of the participants in APEC, and members' worries about their potential exclusion from non-Asia-Pacific markets, has led to the development of a strongly liberally oriented cognitive perspective in APEC. By contrast, more traditional concerns such as trade diversion and trade creation, as well as equity in bargaining concessions, undergird NAFTA. At the structural level, the absence of a single economic hegemon in the Pacific Rim area, combined with the diversity of state interests, makes information and organizational concerns a more relevant driving force in APEC than for NAFTA. In NAFTA, nested political and economic systems and the structure's resulting implications has motivated all three states (and non-state actors within these countries) to focus on controlling each others' behavior on a variety of dimensions.

In terms of interactions, we see some similarities in the two regions. The Asia-Pacific region has had a particularly dynamic pattern of economic growth, which has in turn contributed to the development of regional patterns of trade. Regionalism has also taken place within North America, but the three participating economies have grown at a considerably slower rate. In both cases,

corporate organizational strategies, combined with technological changes, have prompted a high rate of transnational economic activity -- a phenomenon that has bolstered calls for reducing economic barriers to trade and investment. But because most corporations have a strong interest in global sourcing and sales, they have tread cautiously in promoting arrangements that might undermine the GATT.

Can the three nested institutions of NAFTA, APEC, and GATT -- each containing a larger circle of countries, respectively -- be a basis for a stable institutional order in trade? Responding to criticisms of regional accords such as NAFTA and APEC, the U.S. and other APEC members have argued that the accords can be building blocks that reinforce the GATT. To what extent is this true? Although this question could be addressed at length due to space considerations, I will raise some points in this paper but will defer detailed discussion to future research.

There appear to be three means to achieve GATT-consistency, which both NAFTA and APEC hold claim to. First, one could pursue a free trade agreement or customs union under Article 24, the strategy pursued by NAFTA members. Second, states could freely extend any concessions within a grouping to all GATT members -- the APEC idea of open regionalism. Third, only non-GATT issues might be discussed in a particular forum, thus also ensuring GATT consistency.

The first notion, of pursuing a free trade agreement in APEC, was raised at the Seattle meetings by the Group of Eminent Persons' report. Yet most APEC states were reluctant to commit themselves to forming a free trade arrangement, despite apparent U.S. backing for the idea. Given the difficulty that the Clinton administration had in passing NAFTA, it would also appear that U.S. support for this idea is more rhetorical than real. The second approach, of extending APEC concessions freely to other states, does not appear to be likely from either an international or

domestic political standpoint. In short, for APEC, it strikes me that the third approach -- dealing exclusively with non-GATT issues -- is considerably more feasible as an institutional development strategy than the other two options.

How does NAFTA fit into APEC? The APEC grouping already contains other free trade groupings including the CER (Australia and New Zealand) and the ASEAN group. Thus, in this sense, NAFTA does not pose a significant obstacle to participating in APEC discussions. However, a number of issues will come to the fore depending on the direction that NAFTA takes. First, the inclusion of an economic superpower, the United States, in a free trade agreement creates considerably more concern about trade diversion than do groupings of smaller less powerful countries. The NAFTA was initially criticized quite heavily by other APEC states and is likely to be scrutinized quite closely in its implementation by non-NAFTA states. Second, if the U.S. chooses to pursue an expansion of NAFTA with other Latin American countries that are not APEC members, U.S. commitment to Asia will come under question, and fears of trade diversion will increase rapidly. As it stands, however, only 6% of U.S. exports went to Latin America in 1991, and such an American strategy of bloc-building in the Americas to the exclusion of Asia does not seem very likely. Third, as the NAFTA members pursue negotiations with other APEC states, I expect considerable pressure for development of common policy or similar position among these three states in a number of areas. Each of the countries in NAFTA will worry that APEC agreements might adversely affect the NAFTA accords, particularly in connection with "rules of origin" and other content restrictions that affect production in these countries. At this point, the U.S. and the other NAFTA members do not appear to have fully worked through the implications of participation in both NAFTA and APEC.

Finally, in the context of nested institutions, the future of both APEC and NAFTA is highly dependent on the evolution of the GATT. Given the great difficulty in negotiating the Uruguay Round thus far, the success of future negotiations in the GATT has been thrown somewhat into doubt. This factor is likely to stimulate all APEC members (including the NAFTA sub-group) to pursue negotiations amongst themselves. Unless significant progress takes place in a new round, I expect the APEC states to become considerably less committed to pursuing agreements that are GATT-consistent, which could lead to the formation of a more bloc-type set of Asia-Pacific institutions, to the detriment of the multilateral trading system.

V. CONCLUSION

This paper has presented a theoretical framework to examine the evolution of economic arrangements in the Asia-Pacific area and North America. I have shown that we can gain significant insight into the factors driving changing governance structures and interactions in the region by moving beyond uncausal explanations. The approach proposed here provides an entree into the complex problem of assessing the impact of different causal factors. I should note that, as it stands, the framework points to the causal factors that possibly lead to the institutional and economic developments and provides a preliminary examination of the interconnections among the different components. At this point, however, it would be difficult to specify the weights of the different components in the framework -- the most crucial step in moving toward an integrated theoretical approach to regime evolution in these regions.⁴⁸ This could be done deductively, but in this paper I have concentrated my efforts on showing that we can clearly benefit from comparative empirical analysis of APEC and NAFTA, as well as from an understanding of the institutional nesting of different arrangements in the international economic system.

Based on the factors I have identified, for example, it appears that APEC's relatively more open nature will constrain regime development in the Pacific. By contrast, the well-accepted and politically realistic approach to the NAFTA, combined with considerably more favorable structural factors, has led to a significantly stronger regime in North America. Still, the implications for

⁴⁸ The problem of weighting different variables in constructing a causal explanation and an example of how this might be done can be found in Aggarwal (1989) for economic issues and Aggarwal and Allan (1992) for examining bilateral negotiations on security issues. For an interesting application of this weighting method to NAFTA that focuses on bilateral negotiations between the U.S. and Mexico, see Cameron (1992).

NAFTA members of also belonging to APEC do not appear to have been fully worked through by policy-makers.

Analytical reasoning, combined with additional empirical research, will allow us to better understand the trajectories of each institution, as well as the interconnections between them. As always, one must be modest in attempting to predict the future. But I hope that the integrated approach to understand regional arrangements proposed here will provide decisionmakers with an additional policy tool.

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