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Transnational Globalization and Regional Governance:
On the Reasons for Regional Cooperation in Europe and the Americas

by Stefan A. Schirm

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Abstract

Since the end of the 1980s, international relations has experienced a resurgence of regionalism in Europe (Single Market, Maastricht) and the Americas (NAFTA, MERCOSUR). Why did regional economic cooperation gain momentum? Theoretical approaches have proved the relevance of institutions, intergovernmental bargains, and national interest formation for the emergence of cooperation, but fall short in explaining why new cooperative moves happened in the late 1980s and early 1990s and not earlier. This paper argues that the simultaneous convergence of interests favoring regional organization of states was stimulated by transnational globalization. Since the early 1980s, states had to adapt to the pressures from transnational globalization, from actors and systems which are not shaped by national territories and interests, and which undermined traditional national economic policy and domestic coalitions. Under the new circumstances, joint regional governance on specific policy areas became an attractive option to respond to new constraints. With the conceptualization of transnational globalization as an explanatory factor for regional cooperation this paper does not dismiss other approaches, but rather attempts to complement the research agenda by shedding light on a crucial—but often neglected—aspect of international relations.

Transnational Globalization and Regional Governance

On the Reasons for Regional Cooperation in Europe and the Americas

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I. Introduction

New treaties on regional economic cooperation are among the most prominent characteristics of international relations since the end of the 1980s. The Single Market and the Treaty of Maastricht revitalized European integration. The North American Free Trade Agreement (NAFTA) created the second largest economic area in the world. With the Common Market of the South (MERCOSUR) traditional rivalry was overcome and new market-oriented economic policies were strengthened in South America. Other initiatives such as the ASEAN Free Trade Association are still *in statu nascendi.* Models of economic regulation in international regions influence the actions of state actors as well as private actors and shape the structure of international politics (see Czempiel 1991: 47-85; de Melo/Panagariya 1993; Hettne/Inotai 1994). Political practitioners as well as political scientists assume that politics and economics will be increasingly organized in regional frameworks. The former French foreign minister François-Poncet sees regional associations as "centers for political and economic development" in a new world structure (Süddeutsche Zeitung: June 14, 1994). Peter Katzenstein observes a process towards a "world of regions" and asks for more political science research in this area (Katzenstein 1995: 14-16). The new regionalism raises several questions. Does it divide the world into new blocs? Do nation-states gain influence or are they absorbed in regional entities? Why did states decide to reduce their freedom of action vis à vis other states through treaties?

An evaluation of the new regionalism requires foremost a theoretical understanding as well as an empirical analysis of the *reasons* for regional cooperation. These reasons need explanation especially because the timing of recent initiatives was surprising: Previous cooperation processes failed in the 1980s (Latin America, Africa) or came to a standstill ("Eurosclerosis"). Thus, preceeding institutional developments did not lead to expect new regionalist dynamic. Furthermore, the end of the Cold War led some observers to expect a fragmentation of the state-world, new nationalism and new conflicts even in Western Europe (Mearsheimer 1990). In addition, the globalization of economics and communication suggested rather a worldwide organization of interactions ("global village"). Why did states decide to cooperate in the late 1980s and early 1990s but not before? Which factors led states to regulate specific policy-areas through binding cooperation with other states at a specific time?

This paper is organized as follows. In a first step, the empirical puzzle is developed further. Which cases of the new regionalism are to be considered? Why is it necessary to explain the reasons? To answer these questions we have recourse to divergent theoretical approaches, whose explanatory power is discussed in the second part. These approaches cannot explain in a satisfying way *why* the new initiatives were created in the late 1980s and early 1990s. Therefore a complementary approach is proposed in the third part of the paper, focusing on the influence of transnational globalization on state action. The argument is that transnational actors and systems (which are not determined by national interests and frontiers) undermine the ability of national governments to shape politics and make national regulations less attractive and viable. Therefore transnational globalization stimulates regional governance. In the fourth part of the paper, these hypotheses are briefly tested by confronting them with regional cooperation in Europe and the Americas.

II. The Emipiric-Analytical Puzzle: Regional Cooperation in Europe and the Americas

Examples of regionalism abound since the end of the 1980s. In nearly every world region groups of states agreed on treaties for regional associations. But if one defines regional cooperation as a *binding partial devolution of unilateral capacity to act in specific policy areas and towards specific partners*,[1] only a few cases remain - the EC Single Market of 1992, the Monetary Union of the Maastricht Treaty, the North American Free Trade Agreement NAFTA, and the Common Market of the South MERCOSUR. In addition to the above mentioned global trends, regional specificities also contribute to the unexpected nature of the new regionalism (see Mols 1993, Smith 1993) and reinforce the empirical puzzle: Why did cooperation occur in the end of the 1980s?

1 Activities comprised by this definition are understood here as "regional cooperation" and "integration".

The Single Market and the signing of the Maastricht Treaty raise the question as to why these projects were possible now, after being discussed since the 1960s without ever leaving the planning level. The stand-still of European integration in the 1970s, the increasing heterogeneity of national interests after several enlargements, and the disappearance of the unifying force of the Cold War did not lead one to expect the development towards "1992" and Maastricht as obvious (see Anderson 1995, Rosamond 1995). The substantial constraints on national sovereignty by the Single Market and the Maastricht Treaty imply a clear reduction of manoeuvering capacity of national governments vis à vis their partner states. Why did EC members not stay with existing regulations in the respective fields? Why did national interests converge in the 1980s and not before?

With the MERCOSUR the astonishing *rapprochement* of its two leading members, Argentina and Brazil[2], reached a peak which was not to be expected regarding preceeding developments in the region. Until the beginning of the 1980s, relations between these two countries were shaped by their traditional rivalry for dominance on the subcontinent (see Schirm 1994b). In addition, attempts at regional integration encompassing all Latin American countries failed in the 1970s and 1980s. Furthermore, the economies were fixated on the world markets and bilateral commerce was practically nonexistent well into the 1980s. Since the creation of MERCOSUR in 1991 nearly all measures for a full customs union have been realized, and intra-regional trade expanded dramatically (Schirm 1996a). Why did the member countries agree on neoliberal rules in MERCOSUR that contradict longstanding developmentalist strategies? What stimulated the MERCOSUR-states to create a cooperative approach, whose binding character and regulatory scope is second only to the EC/EU?

Encompassing Canada, Mexico and the US, the North American Free Trade Association formalizes a North American economic area.[3] With NAFTA, Mexico basically adapts to the US economic model and further merges into the economy of its neighbour. But also the US tied itself to de-

2 Paraguay and Uruguay are the other members.

3 NAFTA does not only include regulations on commerce, but also on other areas such as competition policy, standarts, services etc. Canada and the US formed a free trade association in 1987 (CUSFTA).

velopments in Mexico - sometimes at great cost, as the bail-out after the peso crisis in 1995 showed. The binding commitments through NAFTA were undertaken after decade-long political conflicts between Mexico and the US and after Mexican attempts to "free" itself from economic dependence on the US (see Weintraub 1990, Schirm 1995). With NAFTA, Mexico put a definite end to its traditional developmentalist model of import-substituting industrialization (ISI). Also in this case, regional cooperation departs from former traditions and policies and raises the question of its reasons and timing.

III. Why Theories of Regional Cooperation Must be Complemented

Before any discussion of the state of the theoretical art, it has to be acknowledged that regional integration theory only partially refers to *reasons* for cooperation - to the process leading to cooperation at a specific time. Instead, theories focus on the questions about *how* cooperation works (decision making, institutions etc.) and *which* character it posesses (supranational, intergovernmental, regime etc.).[4] In addition, theories concentrate almost exclusively on the *European* case. With the analysis and the theoretical conceptualization of regional cooperation in Europe and the Americas, this paper also responds to the critique of Bellers and Häckel, not to take the European experience as the only point of reference (Bellers/Häckel 1990: 307). This course is based on the assumption that social interaction and therefore also international relations follow generally applicable rules. Thus, it is assumed that European integration is not *per se* a unique case, but is instead comparable to other examples of regional cooperation.

Until the interruption of the theoretical debate on regional integration in the mid-70s, functionalism (Mitrany 1943), neofunctionalism (Haas 1958), and its extensions (Lindberg/Scheingold 1971, Nye 1971) were the dominant paradigm: cooperation occurs because it is functionally efficient. All variations of functionalism focus on explaining the deepening of coopera-

4 Recent critical discussions of regional integration/cooperation theories were undertaken by Anderson (1995), Bellers/Häckel (1990), Cornett/Caporaso (1992), Risse-Kappen (1996), Rosamond (1995), Welz/Engel (1993), and Zimmerling (1991).

tion with factors inherent to the integrative process. Regarding the reasons for cooperation, it is assumed that interaction in certain (technical-economic) issue areas leads necessarily (functionalism) or probably (neofunctionalism) through spill-over effects to cooperation in new (political) issue areas. In 1975, however, the intellectual "father" of this theoretical line, Ernst B. Haas, proclaimed the "Obsolescence of Regional Integration Theory". The different versions of functionalism did not explain sufficiently the *de facto* development of the EC - not even through an inflation of variables (Nye 1971). In particular, the continuing centrality of the nation state (in determining the stop and gos of integration), and not its functional transcendence, shaped the EC and weakened the validity of neofunctionalism. But recent works on functionalism (i.e. Zellentin 1992) show that it posesses interpretative power through highlighting the relevance of regional non-national dynamics for the deepening of cooperation: communitarized policy areas, supranational institutions (Commission, ECJ, European Parliament), and regional interest groups are identified as driving forces for the recent developments.

The "New Institutionalism" follows the functionalist tradition of assuming that common institutions decisively influence the integrative process. As Pierson (1996) and Gehring (1994) argue, institutions shape member states' expectations (see also Keohane 1989) and posess a certain independence in specific situations. According to this line of thought, European integration is primarily explained by the influence of the European Court of Justice and the Commission. The latter acts as a supranational political *entrepreneur*, which conducts regional policies in its own (comunitarian) interest while enjoying relative autonomy from member states.

This approach does not suffice to explain regional cooperation in the 1980s and 1990s. First, it cannot explain the shaping role of nation states at the creation of the new regionalism. Second, while the EC Commission could have played an important part at the formation of the Single Market or Maastricht, NAFTA and MERCOSUR cannot be traced back to activities of supranational institutions as they did not exist in these cases. In the European case the Commission served as catalyst rather than cause (see Moravcsik 1991, Cameron 1992: 51f). Most important, neofunctional institutionalism cannot explain why the Commission could promote cooperation in the mid-80s, but not in the decades before.

Neofunctional-institutionalist assumptions were criticized since in the 1960s with arguments from a general theory of international relations, neorealism. From its assumptions derived the second school of thought on regional cooperation. It focused on the continuing centrality of the nation state to the integration process in Europe. Starting with the dominant role of member states (which became obvious in the EC-crisis in the 1960s) it was argued that national activities, more than other factors, initiate and shape cooperation (Hoffmann 1966). Following the neorealist paradigm, states are the decisive driving force in international relations and act according to their national interests (power, security) in an anarchical international system, in which non-state actors, domestic politics, international organizations, and economic issues matter only at a secondary level. According to the neorealist paradigm, sovereign nation-states "decide" on regional cooperation when their "national interests" prove to be compatible (for a critical discussion see Keohane 1986).

In the 1970s neorealism was modified - "liberalized" - by the concept of interdependence among states, by non-state actors and international interconnectedness (Keohane/Nye 1977). Interdependence of states, together with the assumption of their basic willingness to cooperate, are the underlying features of the conception of international regimes for the regulation of specific policy issues (see Krasner 1983, Rittberger 1993).[5] Transfered to regional cooperation, this line of thought explains cooperation by managerial requirements among states. Regional cooperation is considered an "intergovernmental regime designed to manage economic interdependence" (Moravcsik 1994: 474). While the traditional interdependence-regime literature took "national interests" largely as given, recent works became more differentiated. In publications *inter alia* from Moravcsik (1994) and Zürn (1993), domestic politics (societal coalitions, political system etc.) are used to explain foreign policy behavior of governments. It is assumed that regional cooperation reflects domestic coalition building and the

5 Regime theory is considered as a contribution to peace and conflict resolution theory (see Efinger et.al. 1990).

desire of governments to strengthen their power vis à vis domestic interest groups (Moravcsik 1994: 485). National interests are formed according to domestic policy requirements and then introduced in an intergovernmental bargain process on the regional level (e.g. EU-Council). The latter proceeds according to neorealist assumptions along the distribution of national power. State sovereignity is thus not weakened, but is expressed jointly in order to establish regional regulations through a "pooling of sovereignty" (Keohane/Hoffmann 1990: 277).

The intergovernmental-realist approach, enlarged by the domestic politics and the interdependence dimensions ("liberal"), is considered to be the dominant explanatory model for the European Union today (Rosamond 1995: 396). Nonetheless, the use of this approach for our purposes would be problematic because it cannot sufficiently explain why domestic coalitions and national governments favored cooperation in the 1980s but not before. It does not offer a sufficient explanation for the simultaneous convergence of interests of several states necessary for regional cooperation: If the preferences of governments are shaped by domestic interest formation, what caused domestic interests to form in a way that stimulated governments to favor regional cooperation?

An explanation might be found in those policy-dimensions neglected both by liberal intergovernmentalism and by neofunctional institutionalism - in the global context. Both neglect globalization and networking processes, which have undermined the territoriality and sovereignty of national entities in the past two decades as *inter alia* Ruggie (1993a) and Zürn (1995) have shown. Therefore, any explanation of state actions should take into account the international and the transnational context in which the activities develop.

In the case of regional cooperation in the Americas the concentration on "domestic politics" seems especially deficient. Countries like Mexico, Brazil, and Argentina are heavily integrated into the world economy, as the debt crisis and the dominant role of foreign investment in production indicate. As I will show below, NAFTA and MERCOSUR were explicitly created as an answer to developments in the world economy (see Schirm 1996a). An approaches which restrict themselves largely to institutional dynamics or to national interest formation and intergovernmental bargains clearly lack enough scope to explain these cases.

It is assumed here that the growing perforation of sovereignty and territoriality makes domestic politics, as a level of analysis, increasingly problematic, because external demarcation no longer seems to accord with reality. The examination of "domestic politics" without explicitly including its penetration by international-global actors and systems thus reduces the explanatory value of the domestic-intergovernmental line of thought. These approaches briefly mention the existence of international ties, but do not address the question of *which* developments have *which* impacts on state action and *when*. The reference to "Interdependence" basically describes a situation without showing causal links.[6]

Considering the trends of de-territorialization (Ruggie 1993a, Neyer 1995, Brock/Albert 1995) and of globalization, which exceed mere interdependence among national economies, intergovernmental "structural realist" approaches need to be complemented - also with regard to Europe, as Zürn (1995) has showed. As mentioned, the main drawback of domestic interest- and bargain-focused arguments is their weakness in explaining why domestic interest formation at the end of the 1980s led to a deepening of cooperation, while it did not in the decades before. A logical possibility would be the coincidental simultaneous formation of convergent national interests. But "coincidence" as an explanatory factor in international relations does not satisfy. Can factors be identified that could have led to a simultaneous formation of convergent interests? Such factors should be valid for all affected states and therefore should have an international-global reach. In the following chapter I focus on the international-global context of regional cooperation because its development could have influenced several states at the same time.

6 Kohler-Koch concludes an analysis of the Interdependence-literature by stating that "(...) [the interdependence argument] does not identify causal links, but only describes phenomena of international politics in a context shaped by interdependence. (...) It becomes evident, that an actual theory of interdependence is missing" (Kohler Koch 1990: 119).

IV. Conceptualizing Transnational Globalization as an Explanatory Factor for Regional Governance

The explanation of regional cooperation requires the identification of those causal factors which lead states to develop simultaneously convergent preferences for a binding regulation of policy areas at a regional level. Summing up, the theoretical approaches discussed above explain regional cooperation as a result of adaptation pressures that are attributed to different levels of analysis. The determinants derive from the dynamics of existing institutional cooperation (neofunctional institutionalism). The factors are a result from challenges to the state from "within", from the domestic politics level, which form the "national interest" (liberal intergovernmentalism). Or the reasons are seen in the situation of mutual interdependence among states, that makes cooperation necessary (regime theory).

Common to all three approaches is that they cannot explain sufficiently why cooperation occurs at specific moments and not at others. They fall short in explaining why several states might develop simultaneously convergent preferences for regional cooperation - in our case at the end of the 1980s. Common to the three approaches is also their neglect of actors and systems whose worldwide activities are not shaped by national interests and territories or by state-run institutions. Therefore, elements of the global context common to all nation-state action might deliver an answer to the question of the timing of the new regionalism. Considering

- the growing relevance of non-state transnational developments in global economy (see Stubbs/Underhill 1994, Schmidt 1995),
- the increasing perforation of territoriality in the state-centric world (see Brock/Albert 1995, Ruggie 1993a), and
- the growing antagonism between the "global market and the territorial state" (Neyer 1995, see also Keohane/Milner 1996),

I will propose a conceptualization of the creation and the deepening of regional cooperation with regard to its possible causation by the *transnational globalization of the world economy since the 1970s.*

For this purpose I shall proceed from the following assumptions, which are compatible with existing approaches. Regional cooperation is the result of new pressures and challenges which lead the state to perceive regional regulations as better policy choices than national ones. With regional cooperation states create or reinforce a regulatory level, which provides them with new instruments and legitimacy via à vis actors and developments in the domestic and the international policy realm. Therefore, the attractivenes and necessity of a common regional capacity to act is a result of national capacities' being less adequate towards new challenges and pressures than towards former ones.

Building upon these assumptions, the following hypothesis is suggested, which complements existing theories: New influences and regulatory pressures, which constrain the capacity of national policy in the strongest way and simultaneously towards all states, are factors which elude state policy the most, and which have a global reach. Such factors are transnational and global actors (corporations, international organizations) and systems (world finance and production systems, competition) but also phenomena like migration and environmental problems.

If transnational globalization contributes decisively to those pressures and challenges which cannot be addressed adequately by the state with national regulations, but better with regional governance, then regional cooperation is caused decisively by the effects of transnational globalization. Regional governance is thus also an answer to transnational globalization, which influences the decision-making context of states in a way that stimulates groups of states to cooperate closer.

Transnational globalization is defined here as a *set of actors and systems which are not shaped by specific national interests, territories, and standards, and which operate globally.* Due to these characteristics, transnational globalization (1) constrains the capacity of nation-states to pursue economic policies oriented at their national level (territory, interests) and (2) pressures nation-states to adapt to the expectations and requirements of transnational actors and systems.

The notion of "transnational globalization" is not a tautology, but expresses
(1) that the included actors and systems are organized and act increasingly on a *global* scale and are thus able to influence several states simultaneously, and

(2) that these actors and systems posess a *transnational* character (interests, methods) and thus evade state regulations increasingly.

Global, but not transnational, examples include the military influence of the US or the monetary power of the German Bundesbank. Systems and actors that are transnational do not follow specific national interests and have effects that are not directed or shaped by a specific national dimension (territory, norms).

With the suggestion to establish transnational globalization as a crucial explanatory element, a causal factor is considered, that has been neglected by existing theories but does not contradict them. Transnational globalization does not lead directly to regional cooperation but stimulates change in "national interests", in "interdependence among states", and in the "supranational-institutionalist dynamics". These changes then lead to new or renewed cooperation.[7] To this extend the proposed hypothesis also tries to meet the challenge of Müller and Risse-Kappen, to look for a model "which incorporates the three levels of analysis - society, political system, and international relations" (Müller/Risse-Kappen 1990: 379).

Transnational factors are "Sovereignty-Free-Actors" and -Systems and thus *by definition* difficult to regulate by nation states as "Sovereignty-Bound-Actors".[8] Through regional governance the state loses autonomy vis à vis its partners (other states), but hopes to gain regulatory capacity vis à vis domestic-societal and external pressures, which were shaped by transnational globalization. Thus, the suggested level of analysis complements existing theoretical approaches by focusing on the relationship between state regulatory capacity and transnational actors and systems. If the latter undermine state regulatory capacity, then regional governance offers *one* possibility for policy-regulation that is not attainable by national means: "The

7 With the hypothesis of transnational globalization (TG) a process is assumed, in which the discussed theoretical approaches are levels of analysis between TG and new cooperative initiatives. On these intermediary levels the effects of TG can be modified and redirected.

8 Rosenau and Durfee offer suggestions for a conceptualization, like the above-mentioned "SFAs" and "SBAs". They observe a weakening of the "state-centric-world" through a strengthening of the "multi-centric-world" inter alia through the proliferation of technologies and actors, the shifting of loyalities, and the globalization of national economies (Rosenau/Durfee 1995: 42-56).

concept of regionalism offers a way out of the discrepancy between the globality of the problems requiring solution and the national capacity to deliver solutions" (Tudyka 1990: 147).

Developments in the world political economy such as the globalization of production and finance, worldwide competition and trade, private *global players* and international organizations weaken the traditional circumstances for state action like territoriality and sovereignity. Global competition for shares in world trade, production sites, investment and technology require the reallocation of resources. An example is the deregulation and opening of markets in Europe and Latin America in the 1980s, for which regional cooperation offered better instruments and legitimacy than national regulation due to higher economic efficiency and increased political acceptability.[9] It must be noted, however, that the connection "transnational globalization - state regulatory capacity - regional governance" is not to be seen as deterministic. States do not *have* to cooperate regionally. Instead, their decision-making *context* is influenced by transnational globalization in a way, that puts specific pressures on states and *stimulates* regional cooperation.

Transnational globalization leads to a growing inefficiency of traditional policy instruments of nation states (see Narr/Schubert 1994 and Keohane/Milner 1996b). This applies especially to the economic areas of production, trade, and finance, whose transnationalization is supported by global communication networks, easier transportation, and worldwide accessible technologies (see Zürn 1995: 149-154 and Stubbs/Underhill 1994). An example is the growing inability of states to control trade flows, which leads to an evaporation of demand-stimulating national economic policy to other countries' economies. This is *inter alia* the result of the proliferation of subsidiaries and company-alliances in the 1970s and 1980s. Actors were created, that operate from several territorial bases and can not be directed by the "sovereign" of any *one* territory. Politically "invisible" intra-company

9 Rieger writes that increasing globalization, especially pressures from competition, forces internal adaptation through a reallocation of resources, which creates societal opposition. Rieger assumes "that changes in the domestic-societal balance of power and institutional structure are made possible by supranational politics which legitimizes and politically protects the new distribution of life- and power-chances" (Rieger 1995: 351f).

trade, for example, accounts by now for 60% of world trade in industrialized products.[10] The globalization of trade and stronger competition also leads to pressures from economic sectors oriented towards world markets on governments to improve their competitiveness through selective trade liberalization and through regional agreements (Rogowski 1989, Busch/Milner 1994).

In addition to the capacity of transnational firms to import and export, invest, and transfer technology in a politically almost uncontrollable way through their subsidiaries, the global competition for production sites often forces states to lower trade barriers and thus to reduce possibilities for control. Goods are increasingly produced by division of labour in different countries - according to the relative attractiveness of wage, capital, and technology conditions (see Bernard 1994, Junne 1996: 516). As a result, states find themselves in competition over transnationally and globally acting investors and producers, to whose expectations governments have to respond increasingly (see Neyer 1995: 299f). Therefore states determine their economic policy (social-, industrial-, fiscal-policy) in a less and less autonomous way. This loss in traditional policy-making capacity is magnified through the global finance system, which yearly trades sums exceeding the value of international trade by a hundredfold (Maull 1995: 309). These financial flows influence currency rates as well as national interest rates and inflation.

These developments exert pressures on states to adapt to the demands and pressures of transnational globalization, e.g. via market reforms. Furthermore they constrain the ability of individual states to secure economic growth and welfare. Wessels argues that there is a general tendency in industrialized countries to hold the state responsible for the well being of its citizens. In order to meet these expectations, governments have to assure economic growth, which can only be achieved by an opening of the economy. This opening, in turn, involves social hardship, which the state can not compensate through traditional national regulations due to increasing external influences. Therefore the state pursues a common regulatory

10 Intra-company trade accounts for 50% of US imports (de la Balze 1994: 16). On the global trading system see Busch/Milner (1994).

capacity on a regional scale (Wessels 1992: 42f). A political accountability of governments for the relative well being of their voters is characteristic for all political systems - the stronger, the more participative they are organized. Latin American governments are also held responsible for the well being of their citizens - though on a different level than the Western European governments.

It is assumed here that the ability of governments to stay in power depends on whether they are able to provide their societies with the goods "wealth" and "security". In a world increasingly shaped by transnationalism and globalization their ability to perform these functions through autonomous and sovereign control over actors and developments in their territory is more and more constrained, as is their ability to isolate their countries from external influences (see Ruggie 1993a). Regional cooperation with other states *can* augment state capacities *vis à vis* the effects of transnational globalization on domestic changes. Therefore it can increase state influence on wealth and security: Through regional governance the state-controlled regulatory level is strengthened and extended territorially. In consequence, competition among states is reduced and the comparative advantages of the partner countries are internalized in a common governance area. This new political and economic regulatory entity can respond more efficiently to the challenges posed by transnational globalization - through adaptation or protection.

Through the regionalization of national markets and production, economy of scale and division of labour effects are obtained, which provide an increased ability to compete, together with a new - now jointly exerted - policy making capacity (Junne 1996: 517-519). Agreeing on common economic policy rules (e.g. tariffs, taxes, standards) reduces the competition among states and enhances attractiveness for transnational lenders and producers (larger market, multilaterally secured economic conditions). Furthermore, new constraints on activities of transnational actors can be introduced, thus reducing the vulnerability of states to these actors. An example is the elimination of currency rate speculation by the establishment of a single currency among a group of countries. The bargaining power and attractiveness of the region vis à vis other actors (investors, states) is increased without reducing state influence in domestic or international politics *per se.* It is instead modified and transferred partially to the regional level. Regional governance complements national governance through joint policy making. Improved legitimacy of state action follows e.g. from the possibility to argue with external commitments and the requirement to reach regional consensus when justifying internal adjustment in the domestic policy debate. The influence in world politics and economy can be multiplied by acting with a single position and combined resources towards third countries and private actors.[11]

The hypothesis of transnational globalization also reflects the transnationalism-debate (see Kaiser 1969, Keohane/Nye 1972), which has recently experienced a revival (see Risse-Kappen 1995). The focus on interactions between transnational actors, political systems and international institutions enlarges the spectrum of explanation for international relations. While the transnationalism-literature concentrates largely on cross-boundary actors (such as human rights groups and firms), this paper also stresses the centrality of systems and processes of world economy (like the finance and the production system). Transnational actors were defined in this paper as actors, that do not follow specific national interests and have effects that are not directed or shaped by a specific national dimension (territory, norms). Thus our approach differs from the definition of Cameron, who perceives the German Bundesbank as a transnational actor (Cameron 1995). As the Bundesbank is tied to national laws and fullfils a national task, it is a classical state-actor according our definition. This holds even though the Bundesbank has relative autonomy vis à vis the federal government as the central, but not unique, state actor.

11 Compared to global cooperation (GATT, UN), regional governance posesses specific advantages. The coordination of national politics and the balancing of interests can be achieved more easily with a small number of partners than with over 150 states. Joint policy making capacity also depends on the number of states participating. Considering the long-running Uruguay-Round of GATT, a worldwide extension of the - much more far-reaching - Single Market (EC) or of the free trade agreement NAFTA does not seem viable. In addition, regional governance is exclusive. Member states gain comparative advantages *vis à vis* non-members through increasing competitiveness and through discrimination against third countries. Furthermore, regional governance can build upon cultural, economic and security links among neighbours (e.g. France-Germany, Mexico-USA), which do not exist at the worldwide level.

Actors and systems of transnational globalization do not have to be private actors in the sense of individual particular interests. Following the suggested definition, they are characterized as not being shaped by specific national interests, norms, and territories as well as by their ability to weaken national actors' policy making capacities.[12] Borderline-cases on the definitional margin are international organizations whose members are states. They can only be counted as transnational-global actors if they comply to the above mentioned definition. This is largely the case with e.g. the International Monetary Fund (see below). What is decisive is the structural possibility of divergence from interest and capabilities of nation-state actors:

> "The new quality of "Globalization" lies in the assumption that the (economic) activities of private actors, which are not constrained by political boundaries, follow a functional logic that is hardly compatible with the welfare- and security-intentions of individual states [...]" (Kohler-Koch 1995: 3).[13]

The complementary relevance of the suggested hypothesis of transnational globalization is illustrated by juxtaposing it to other approaches. The arguments in a chapter by Keohane and Hoffmann from 1991 offer an example (1991: 18-25). The authors suggest three "competing hypotheses" on the reasons for renewed regional cooperation in Europe, which reflect the discussed theoretical approaches (see above III.). (a) Following the neofunctional spill-over thesis, they argue that the deepening of integration is a reaction to regulation necessities deriving from existing integrated areas. (b) From the thesis of growing interdependence and competition among nations it is argued that the new initiatives became necessary to answer increasing competitive pressures from Japan and the US. (c) In addition, it is argued from the thesis on national preference formation, that cooperation was caused by the increasing convergence of national interests

12 The differentiation between nation-state interests and instruments on the one hand, and transnational actors and systems on the other, is - of course - of an analytical nature. "The" national interest does not exist. It is instead a result of a variety of influences - including those of transnational character. State policy making abilities, however, can be differentiated better empirically (territory, international law) from the activities and the outreach of transnational-global actors and systems.

13 Kohler-Koch (1995: 10-17) differentiates the following dimensions of globalization: "material intertwining" (migration, investment, trade), "strategic action" (actors which support or regulate globalization) and "intellectual orientations" (e.g. concepts/values oriented at worldwide competiveness).

of member states due to similar domestic interest coalitions. Keohane and Hoffmann state that all three hypotheses partially explain the new integrative dynamics. However, the questions arise: why were these factors relevant in the 1980s but not before, and what led to them.

This paper argues that all three factors were also caused by the erosion of policy making capacities of individual states due to increasing globalization and transnationalization of markets, production and finance. The latter contributed decisively to the necessity to deepen existing cooperative links, as they e.g. made the protectionist isolation of trade without a single market more costly (thesis a). Furthermore, they increased the necessity to improve competitiveness, because they strengthened competitive pressures through expanded global division of labour (thesis b). Finally, they caused a convergence of national insterests, because they pressured member states simultaneously to implement market reforms, which in turn led to convergent preferences (thesis c).

It is worth mentioning that the similar direction and timing of neoliberal market reforms in Western Europe (and in other regions like Latin America) argues against any strong influence of differences in political systems and cultures on the form of adjustment to transnational globalization. The other possible interpretation is that the political systems and cultures were not as different as would have been necessary to produce different answers.

This paper does not argue that states do not influence the world economy. States and transnational globalization influence each other mutually. But as state behavior (regional cooperation) is to be explained, analysis must focus on the influence of transnational globalization *on* state action. An interesting field for further research would be the opposite question. The argument that non-national, non-territorially-bound transnational actors and systems change national policy-making capacities might at first resemble the "management of international interdependence" of regime theory. But at a second sight it moves on a different level of analysis. While the *situation* of "interdependence" means interconnectedness *among states* and their mutual vulnerability, the argument of this paper focuses on the influence of transnational actors and systems on any type of state activities - domestic, regional, and international.

V. On the Influence of Transnational Globalization on Regional Cooperation in Europe and the Americas

The analysis of the creation and the deepening of regional cooperation has to start from the question of why the participating states perceived regionalism as an adequate policy option at the same time (preference-convergence): Which developments did the major partners undergo simultaneously? Were they influenced by transnational globalization, and is it possible to show a causal connection between this influence and the formation of regional cooperation?

1. Europe: Single Market and Monetary Union

With the project to achieve a Single Market in 1992 the European Community pursued the realization of the "four freedoms" - free movement of goods, capital, labour, and services. These liberalizations implemented a common market, that envisages new impulses for growth and improved competitiveness of European companies by economy of scale and division of labour effects. Interventionist economic policy was weakened in favour of market dynamics within the EC and of better circumstances for global competition. The Single Market extends economic reforms in the most important member states in the 1980s and promotes unified conditions for economic activity within the EC. The regulations for the Monetary Union aim at a Europe-wide anchoring of monetary stability, at a reduction of transaction costs, and at the elimination of currency rate fluctuations.

The deepening of West European integration in the past ten years can be explained by (1) the expectation of economic gains, (2) the role of the European commission as a *driving force* (supranational institutionalism, Pierson 1996), and (3) the convergence of national interests favoring cooperation together with a successful intergovernmental bargaining process (liberal intergovernmentalism, Moravcsik 1991, 1994), The relevance of these interpretative approaches has been widely proved and is not disputed here. But they leave open the question of why their assumptions conformed to the actual developments in the second half of the 1980s but not before. It is suggested here that transnational globalization provided a necessary (but not sufficient) contribution to the deepening of the EC. It created a world economic context that stimulated deregulation and liberalization, which occured *before* the new cooperative steps and which led to a convergence of national attitudes towards the Single Market and Monetary Union projects:

Preceding the decision on the Single Market, the most important EC-members turned away from variations of neo-Keynesian economic policy and towards market liberalizations. Prime Minister Margaret Thatcher undertook the most severe cuts in Great Britain; François Mitterrand's Socialists turned towards a market oriented course in 1983; Chancellor Helmut Kohl brought a gradual pro-market liberalization to Germany after 1982; and Spain's Socialists followed their French sister-party in the mid-1980s. The free market impetus was largely caused by the failure of neo-Keynesian instruments. The trade-off in *national* economic policies between inflation and growth (full employment) ceased to work in the mid-1970s. Europe suffered a severe recession (stagflation). The political consensus supporting a demand side, inflationary, and nationally oriented economic policy faded away. Low inflation, monetary stability and increased external competition came to be the new policy goals (Busch 1996, 294f, ...). Opening the economies and adjusting them to global competition was supposed to help in overcoming the persistent recession. Furthermore, these measures were intended to contribute to a narrowing of the technological gap vis à vis companies from Japan and the US (Hoffmann 1995: 231f). The inability of inward-looking neo-Keynesianism to provide economic growth and wealth was decisive for the ouster of some governments and the change in policy of others: "... government instability increased dramatically during the latter 1970s and early 1980s as voters punished their leaders for not arresting economic decline" (Garrett 1993: 370).

This change of economic action can be traced back *inter alia* to the effects of transnational globalization. Economic policy that focused on the national economy became inefficient (1) due to growing trade flows, which led demand stimulation to evaporate to other countries; (2) due to the transfer of production abroad; and (3) due to the expansion of the transnational finance system (see Sandholtz/Zysman 1989: 128). European companies had lost competitive edge vis à vis North American and East Asian competitors. The latter were acting increasingly as global producers and suppliers and had an advantage due to their transnational strategies. European firms, on the other hand, were restricted by their small home-markets, governmental interventionism, and the demand side policies of their respective home countries (see Story 1993: 45f; Sandholtz/Zysman 1989).

At the end of the Carter administration, especially during the Presidency of Ronald Reagan, the United States took the lead in economic policy envisaging deregulation and global competitiveness. This put Western Europe under additional pressures. The reduction of state regulation in the US ("night watchman state") contributed towards the transnationalization of the world economy through strengthening (deregulating) private economic actors which were not fixed on specific national policies and territories (transnational).

An additional factor contributing towards the inefficiency of neo-Keynesian economic policy was the increasing financial capacity and transnational-global character of the world finance system since the 1970s. Networks of private banks (cross-ownerships, alliances) gained influence on international interest rates, capital-supply, and national capital markets. This reduced the impact and the efficiency of traditional state instruments (Frieden 1991), which were necessary to continue the former economic policy. Transnational capital (loans, investments) favor the places that offer the best conditions in terms of profitability and mobility. This applies to those sites whose economy is widely deregulated, that are shaped by monetary stability, and that provide low taxation and free transfer of profits (see Zürn 1995: 150).

Therefore the liberalizations of the 1980s were *also* a reaction to transnational globalization and to the wish to participate in it. Individually the most important member states reached similar visions of economic policy, which led to the successful intergovernmental bargains on the deepening of integration (Moravcsik 1991, 1994). The "1992" initiative of the new commission president Jacques Delors was accepted by the member states because it promised to anchor and stimulate ongoing reforms and, thus, to contribute towards growth and global competitiveness (of goods and sites), while strengthening the European regulatory level. The latter made it easier to implement the reforms domestically as governments could deny responsibility (vis à vis domestic interest groups) for social hardship by pointing to "Brussels". After transnational globalization and deregulation had weakened the national regulatory capacity, the new regional policy making capacity offered *inter alia*

(1) a more efficient implementation of new economic policies, because they were coordinated with the most important economic partners,
(2) improved conditions for competitiveness towards third states and transnational actors,
(3) privileges for the Single Market area and discrimination against third countries, and
(4) the advantages of a partially common industrial- and technology-policy.

Summing up, transnational globalization contributed to the creation of the Single market project directly and through the influence on national deregulation and opening of markets. "... the "1992" programme should be seen as the first attempt by a group of countries to deal with the requirements of a networked world economy" (Bressand/Nicolaidis 1990: 43).

The Monetary Union (Maastricht) was largely a result of the neoliberal economic strategy relying on *monetary stability* which began in the 1980s and of the Single Market project, which translated the new policy to the market in goods. Transnational globalization helps explain the EMU by more then its influence on the preceeding developments (which paved the way for EMU). Through the dramatic increase in the volume of financial transactions in the global and transnational financial system, the control of states over currency rates and monetary flows weakened since the 1970s (see Helleiner 1994, Frieden 1991). Speculative capital in- and outflows by private actors can - within seconds - be decisive for the export capacity of national economies or for their import bills, as well as for their current account balance. Therefore the performance of Western European economic policy depends heavily on decisions by transnational actors, whose interests and operational areas are not identical with those of nation-states and cannot be controlled by the latter.

The monetary Union would (if implemented) eliminate currency rate fluctuations among EC member states.[14] With this, externally induced changes of competitiveness, inflation, and capital flows would be reduced. In addition, capital in- and outflows among EU-members would be evened out due to inceased Europe-wide monetary stability. This implies, on the one hand, that EU countries will adjust to the expectations of transnational actors providing them with an attractive, monetarily stable environment. On the other hand, the influence of transnational actors is curtailed by the elimination of some operational fields (e.g. currency rate speculations). Through the locking in of strategic economic policy elements (convergence criteria, independence of central banks) national governments lose policy instruments (they retain fiscal policy), but gain stability and attractiveness vis à vis transnational globalization. Price stability as envisaged by EMU could not have been implemented for many governments on their own due to social costs and political opposition. The social costs of monetary stabilization can now be justified in a "european" way - by external commitments, over which single governments have no control (Busch 1996: 295, Sandholtz 1993: 35).

Obviously, reasons beyond transnational globalization were also responsible for the creation of the Single Market and the Monetary Union. The reduction of transaction costs; the French goal, to embed Germany politically and monetarily; the tactically and technically excellently placed proposals of the Delors-Commission; spill-over effects from the Single Market to Maastricht; the "European Vision" of politicians like Mitterrand and Kohl; the success of various intergovernmental bargains; the support by private interest groups etc. (see Baun 1996, Garrett/Weingast 1993, Sandholtz 1993, Wallace 1994: 70f).[15]

14 Such fluctuations were only reduced by the preceeding European Monetary System (EMS).

15 Sandholtz discusses various explanatory approaches to the Monetary Union. He concludes that the internationalization of financial markets is essential for the explanation of the economic policy change in the 1980s but cannot explain the EMU, because several regimes could have provided for monetary stability - not only the EMU

This sketch of the development towards the Single Market and the Monetary Union showed that transnational globalization contributed a necessary causal factor to the deepening of the European Union. Since the 1970s it changed the context to which state functions adjusted in a specific way, which led regional cooperation to be perceived as a logical continuation of national interests and as an attractive instrument to promote growth and (de-)regulate the economy.

2. The Americas: NAFTA and MERCOSUR

NAFTA can be traced back essentially to the dramatic change in Mexican (and not in US) policy in the 1980s.[16] The MERCOSUR was created by Argentina and Brazil; Paraguay and Uruguay did not play any role at its formation. Due to these factors and to comparable developments in Argentina, Brazil and Mexico, the following sketch focuses on the countries mentioned. For the three states the respective regional arrangements have essentially two functions (see Manzetti 1993, Schirm 1996a). First, they serve as an anchor for domestic neoliberal reforms. Future governments were to be tied to the new free market trend and third parties (states, private actors) were to be assured of the continuity of this policy. In the domestic policy arena the liberalizing reforms were better implemented due to the regional agreements - because governments gained a new source of legitimacy as they could argue (vis à vis national interest groups) with external commitments. Second, NAFTA and MERCOSUR aim at improving the competitiveness of the respective economies (see Whiting 1993): More goods were to be exported, more productive investment attracted and more credit souces were to be opened. Through the enlargement of national markets by the partner markets (especially for Mexico by the US market), production scales and new capital inflows were to be increased. Such economy-of-scale advantages - together with specialization effects due to more

of Maastricht. According to Sandholtz, EMU was the best option to force *future* governments into price stability ("tie their hands") in order to gain credibility *vis à vis* investors and creditors (1993: 36-39).

16 The US had proposed a free trade agreement in former times. Until the beginning of the 1980s these offers were percieved by Mexico as an assault to its independence and rejected consequently (Bagley 1988: 224).

competition - can lead to more cost-efficient production and improved competitiveness on world markets.

Summing up, NAFTA and MERCOSUR were largely intended to be means to anchor and continue the preceeding economic reforms (see Morici 1993: 50f, Fuentes 1994). These reforms were caused mainly by the failure of the former developmentalist strategy, which had envisaged a protected industrialization through the substitution of imports (ISI) by means of different variants of nationalistic-autonomous and interventionist regulation. The failure of these models and the direction of the new neoliberal policies can be traced back - decisively, but not exclusively - to the influence of transnational globalization (see Hurrell 1994: 173f, Schirm 1994a). Central to this linkage were (1) private banks, (2) international organizations, (3) the perception by new political leaderships of market economy and globalization as policy-shaping phenomena, and (4) the increased global competition over investment and technology. These factors constrained the policy making abilities of the nation states involved and led the governments to perceive regional cooperation as a desirable option.

Private banks held a key position in the debt crisis of Argentina, Brazil, and Mexico which errupted in 1992 (see Schubert 1995) and which marked the collapse of the earlier economic models.[17] All three countries had borrowed heavily from private creditors operating transnationally in the 1970s. This became possible because of the rapid expansion of private banks in the 1970s, which increased their lending capabilities enormously due to a wave of Petro-Dollar-assets and the flexibilization of finance- and currency-markets in the 1970s (inter alia a consequence of the collapse of the Bretton Woods System). Thus, a decisive reason for the outbreak of the debt crisis was the expansion of private transnationally operating credit souces and the immediate transmission of the high interest rate wave by them to the debtors at the beginning of the 1980s.[18] Rapidly growing interest costs forced the debtors to adjust and redirect their economies towards

17 Brazil represents a slight exception, as it could afford to continue its former policy by and large through the 1980s and only started neoliberal reforms in 1990 (1989).

18 Interest rates on most of the debt were flexible and dependent on the LIBOR (London Inter-Bank Offered Rate), which is determined by private banks. The explosion of interest rates started in the US.

export earnings and therefore towards the competition requirements of world markets at the expense of the former inward-looking autonomist policies.

This weakening of nation-state regulatory autonomy was enforced by the policy of creditor banks, which made urgently needed new credits dependent on agreements between the debtors and the International Monetary Fund. The IMF as a transnational-global actor[19] conditions its approval of agreements with debtors on neoliberal reforms (see Pauly 1994, Biersteker 1992: 116-118). These conditions envisage essentially an improvement of economic competitiveness and stability through privatization of state functions and firms, reduction of trade barriers and deregulation. The World Bank accompanies this policy with infrastructural and advisory measures.

Together with these developments, the economic paradigm of the political elites changed in Argentina, Brazil, and Mexico. The administrations of Presidents Menem, Collor/Cardoso, and Salinas/Zedillo perceived the competitiveness of the private sector to be the key for growth and therefore for their political success (see Teitel 1992, Schirm 1994a: 56-71, 121-138 and 1996a). Considering the increased global competition over markets, investment, and technology, the strategy of competitiveness required an adaptation of state measures to the expectations of the crucial actors in these fields - transnationally oriented and globally acting companies:

> "States that adapt their economic policies to respond receptively (both flexibly and favorably) to these changing global conditions will do well, or at least have a better chance of doing well, in the increasingly competitive world economy" (Biersteker 1992: 113).

Exports (sales), production sites (investment), and technological innovation are better achieved through large regional markets with binding commitments to a market economy, than through the former policy, restricted to national entities and shaped by economic interventionism (see Pastor 1994, de la Balze 1994). Transnational globalization thus leads to

19 IMF policy is largely determined by the G-7 countries, in exceptional cases until today by the US (as seen at the bail-out of Mexico in 1995). Even though the IMF can be a "borderline-case" of transnationality in some instances, it is basically a transnational actor, because it is mostly not shaped by *one specific* national interest. Furthermore, it underlines the relevance of globalization as it applies its conditions more or less unchanged to *all* countries.

the creation of "competitiveness communities": "In this situation the inclination towards "macro-regionalism", towards the building of regionally integrated economic areas grows (the EC, the EFTA, later NAFTA) [...]" (Altvater 1994: 543).

Through the creation of NAFTA and MERCOSUR the participating states respond to the increasing influence of transnational globalization *and* improve their policy making abilities. Due to the greater relevance of regional associations (compared to single states) towards companies, banks and third states, they potentially gain attractiveness and bargaining power. Considerably increased capital inflows (investment and loans) to Argentina, Brazil, and Mexico in recent years are regarded largely as a result of the creation of NAFTA and MERCOSUR (see Hornbeck 1995: 3, Bouzas 1995, Capital 31/3 March 1992: 209). Due to the anchoring of economic policies in the cooperation treaties, governments are able to give "external constraints" as policy reasons when criticized domestically for the social hardships of neoliberal reforms. Thus a political disciplining of domestic social and economic interest groups is more likely to succeed than without external commitments. An indicator for this argument is the re-election of the political leaderships in the neoliberal avantgarde countries Argentina (Menem) and Mexico (PRI), even though their policies entailed considerable social hardship. Government policy seems to have given a majority of voters the hope for an improvement of their socio-economic situation.

This short sketch of the link between transnational globalization and regional governance in the Americas does *not* imply that other causal factors are of secondary importance. Mexican policy, for instance, cannot be explained without the influence of the US. The latter no longer reaches hegemonic dimensions, but rather secures US preeminence through *indirect power* (Schirm 1994a). By *indirect power* the US could structure the context of Mexican decision making in a specific way, which led Mexico to percieve an - optional, not forced - adaptation to US positions as lying in its own interest.

Regarding the interest of the United States in an economic association with Mexico, the influence of transnational globalization played a central role. Also crucially important, however, was the foreign and security policy aim to stabilize a pro-American political elite, and a neighboring country that has only recently converted to US-friendly politics (see Krugman 1993). But also the US saw itself increasingly exposed to global competition in trade, production sites, and transnational investors, to whose expectations it had to adjust (see Hufbauer/Schott 1992). Exploitation of low Mexican wages through the transfer of production, in order to promote US global competitiveness, represented a strategic advantage of NAFTA. Transnational private actors in the form of millions of illegal migrants also added to the percieved adequacy of the policy tool "NAFTA": With NAFTA Mexico was expected to reach enduring growth, which in turn would create sufficient employment to lower migration numbers (see Department of State 1992).

VI. Conclusion

Conceptualizing transnational globalization as *one* causal factor for regional cooperation complements existing approaches and provides a better understanding of the reasons for this aspect of international relations. It could be explained, why several states simultaneously develop a preference for regional economic cooperation. Furthermore, we have seen why regional agreements can be reached without the presence of common institutions. The reasons for the simultaneous convergence of national interests lay largely in the increased influence of actors and systems whose actions are not shaped by specific national territories, interests, and policies - and which act increasingly on a global scale. As production, investment, and trade are less and less controllable by national means, states have to adjust increasingly to the requirements of transnational globalization. When the policy making capacity of states is undermined, then the ability of governments to provide a good necessary to secure their power - wealth - is constrained. If regional cooperation with other states offers a strategy to meet the requirements of transnational globalization as well as to secure policy making capacity (now together with other states), then regional governance will be perceived simultaneously by several states as an attractive policy option.

But why did transnational cooperation only lead certain states to cooperate regionally? Four hypotheses seem plausible. (1) Regional governance as a reaction to transnational globalization requires a "strong state". It has to be administratively competent to undertake the adjustments, to negotiate a complicated treaty with other states, and to implement it successfully. "Weak states" in Africa, South Asia, Eastern Europe, and Latin America are not capable of performing these tasks. An exception is the inclusion of "weak states" (such as Greece and Paraguay) into the cooperative process by "strong states" as its driving forces. (2) Only those states are affected by transnational globalization which are integrated into the world economy (trade, investment, loans). Relatively isolated states are neither exposed to the effects mentioned, nor do they have to adjust to them. (3) Specific historical legacies or security scenarios can prevent the connection between transnational globalization and regional cooperation. This applies for instance to Japan and China in East Asia as well as to Israel in the Middle East. (4) Many states would like to become members of EU, NAFTA, and MERCOSUR, but have not (yet) been admitted. One can think of a couple of additional explanations, like the existence of anti-cooperative ideologies ("national resilience" in South East Asia) or deeply rooted resentments (India-Pakistan). The hypotheses just mentioned can give a hint of why regional cooperation does not exist or proceeds at very vague levels in some regions.

The analytical conceptualization of regional cooperation as a result of the effects of transnational globalization on the policy making capacity of states also provides conclusions about the character and function of regional governance. From this point of view, cooperation is not undertaken with the goal to create a new supra-state. Instead the aim is to gain new common instruments, with which specific state tasks can be better accomplished than with the earlier individual approach. If members of a regional group reach the conclusion that they can accomplish these tasks better on their own, then a paralysis or a disintegration of the cooperative mechanism is to be expected. Common institutions can be autonomous actors and can shape member-state expectations. But they depend on performing a function perceived as meaningful by the member states.

The arguments developed so far also allow for a new perspective on the debate about how state sovereignty changes through regional cooperation. From the perspective of this paper, the relevant question is not about the distribution of sovereignty (meaning policy shaping capacity) between nation states and supranational inititutions, because the latter only represent a different form, a different level, of *state* action. Instead, the decisive question concerns the policy-making capacity of the state-level (national as well as supranational) *vis à vis* the effects of transnational globalization. The interactions between these two policy-shaping forces, their respective influence on economics and politics, is crucial for the character of international relations at the end of the twentieth century. Considering how transnational globalization constrains states, the questions about power distribution among states (and between states and supranational institutions) affect an important but narrowing spectrum of international relations.

The concept developed in this paper allows for a multidimensional understanding of international relations: it incorporates international state policies as well as transnational actors and systems, and their influence on societies and economies at the domestic level. The analysis of these overlapping structures and the connections among them provides a better understanding of international relations than the focus on only one dimension. Evidently, the causal relationship between transnational globalization, state activity, and regional governance represents only *one* explanatory factor. But it provides a necessary interpretative element to address the reasons for regional cooperation in the 1990s.

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