The Political Economy of Regional Integration

Christina J. Schneider

Department of Political Science, University of California San Diego, La Jolla, California 92093; email: cj.schneider@ucsd.edu

Keywords
regional integration agreements, institutional design, domestic politics, international cooperation, externalities, overlapping agreements

Abstract
This article reviews and analyzes recent research on regional integration. The review is structured along a political economy framework and proceeds in three steps. After analyzing the development of regional integration agreements (RIAs) from a historical perspective, I first discuss regional integration as a consequence of the decision-making calculus of office-motivated political leaders who find themselves under pressure from different societal groups interested in promoting or hindering regional integration. These pressures are conveyed, constrained, and calibrated by domestic institutions, which provide an important context for policy making, and in particular for the choice to enter RIAs. The analysis also highlights the importance of international pressures for regional integration. Second, I summarize the determinants and consequences of variations in regional institutional design. Third, I analyze the normative and strategic consequences of regional integration. The article concludes by outlining opportunities for future research, with emphasis on the domestic politics of regional integration, the causes and consequences of institutional design beyond trade agreements, and the consequences of the increasing number of often overlapping regional agreements.
AN ANALYTICAL FRAMEWORK FOR REGIONAL INTEGRATION

On May 19, 2016, the North Atlantic Treaty Organization (NATO) invited Montenegro to become its 29th member. The accession of the small Balkan country was merely the next step in NATO’s eastern expansion, which has been taking place since the mid-1990s. Some observers believe that this process brings stability and security to the region. Others are not so sure. Russia in particular claims that NATO’s eastern expansion is a threat to peace. Whatever the merit of Russia’s position, it illustrates the debate about regional integration. Whereas some laud such integration for the betterment it supposedly brings to the security and prosperity of the participants, others deplore it for the increase in fragmentation, isolation, and competition it supposedly causes among both participants and third parties. The explosive growth of regional integration agreements (RIAs) since the 1950s has made them the centerpiece of many questions of global governance. Do RIAs have the intended effects for members? Do they affect nonmembers, and if so, how? Why do governments sign these agreements, and do they anticipate the long-term consequences of doing so?

Figure 1 details the increasing importance and fragmentation of formalized RIAs since the 1950s (Pevehouse et al. 2004). These agreements are more prevalent in Africa, Europe, and the Americas, although Africa, like the Middle East, has seen some decline since the 2000s, whereas Europe, like Asia, has forged ahead during that period (Figure 1a). RIAs have outgrown other types of intergovernmental organizations (IGOs) and have become a dominant mode of international cooperation in many issue areas (Figure 1b). This, of course, has not gone unnoticed. Scholars have developed theories and studied empirically all aspects of regional integration from multiple academic perspectives, employing a wide array of approaches.

Figure 1
The growth of regional integration agreements (RIAs), 1900–2014.

1The Correlates of War IGO data include numerous formalized schemes of regional integration but exclude emanations (regional organizations that are formed by extant international organizations) and agreements that do not involve substantial delegation of decision making to a central supranational body, such as many preferential trade agreements (PTAs), which are even more numerous and have been counted elsewhere (Dur & Elsig 2015).
One consequence of the wealth of studies has been definitional diversity. Frequently used terms—regionalism, regionalization, regional integration—refer to different concepts related to the same phenomenon, and each can have multiple meanings (for the definitional debate, see Sbragia 2008, Mansfield & Milner 1999, Börzel 2012). For instance, regional integration could refer to a process of “change from relative heterogeneity and lack of cooperation towards increased cooperation, integration, convergence, coherence and identity in a variety of fields such as culture, security, economic development and politics, within a given geographical space” (Schulz et al. 2001, p. 5). It could also refer to an outcome—one in which states “reorganize a particular regional space along defined economic and political lines” (Gamble & Payne 1996, p. 2). The term could even refer to the “body of ideas, values and concrete objectives that are aimed at creating, maintaining or modifying the provision of security and wealth, peace and development within a region: the urge by any set of actors to reorganize along a particular regional space” (Schulz et al. 2001, p. 5). Regional integration can also take many forms, ranging from informal cooperation to various degrees of increasingly formal interactions where governments transfer some sovereignty to a regional organization. Even the inherently geographic connotation of regional integration has been extended to cover the rise of “cross-regional” RIAs and the less region-bound preferential trade agreements (PTAs).

This protean adaptation of the conceptual apparatus has driven it further from its historical origins in the study of the European Union. In part, this shift was doubtless due to idiosyncratic regional aspects that gave rise to different “models of integration.” But some of it was due to the explicit rejection of invariably normative comparisons that took the European Union as either the paragon of regional integration or its antimodel. The virtue of this development is that the study of regional integration is no longer moored to theories like neofunctionalism and intergovernmentalism that dominate EU scholarship, a freedom that has opened up possibilities for comparative analysis without what Murray (2010) calls “integration snobbery.” The vice of this development is its embarrassment of riches, which makes it quite challenging to perform that analysis without some kind of disciplining framework.

Thus, although this diversity of approaches has accumulated into an impressive body of work, this review only deals with the political economy of regional integration. I cannot possibly do justice to the rich literature that examines the topic from other perspectives, such as those that focus on cultural or ideational factors or on explicitly security-related regionalism [Acharya & Johnston (2007) and Börzel & Risse (2016) review other perspectives]. But more importantly, I want to organize our current understanding of regional integration into a framework that seems particularly serviceable for comparative study. This necessarily limits my scope. I have tried to incorporate some of the other work where it seems to connect with the approach taken here, but any further extension in the width of coverage would necessarily sacrifice its depth and coherence. I have opted to err on the side of depth in a unified analytical framework.

This review is organized by the political economy model shown in Figure 2. This framework emphasizes the decision-making calculus of office-motivated political leaders who find themselves under pressure from different societal groups interested in promoting or hindering regional integration. These pressures are conveyed, constrained, and calibrated by domestic institutions, which provide an important context for policy making, and in particular for the choice to enter RIAs. This immediately brings to the fore the design of these agreements, an issue unfortunately black-boxed by many alternative approaches. RIAs vary tremendously in their design with regard to mandate, membership, scope, decision-making rules (both formal and informal), and extent of delegation. They also seem to be formed for a variety of purposes, and the designs reflect the goals policy makers are hoping to achieve. The choice to enter an RIA might have unintended consequences, but we can certainly glean a better understanding of the RIA’s effectiveness if we
Interaction between RIAs

Causes
- Societal pressures
- Political leaders
- Institutions
- International factors

Consequences
- National
- Regional
- International

Institutional development

Figure 2
An analytical framework for regional integration research.

know what the intended consequences are. The approach also suggests that RIA design must be an ongoing concern: As policy goals, information, and knowledge change over time, so will the RIAs. Moreover, as different RIAs come into being—sometimes with overlapping membership and issue areas—the interaction among RIAs can produce further impetus for changes in design.

The usefulness of the analytical framework is not merely organizational. By focusing attention on the connections among its components, the model identifies several lacunae in our grasp of regional integration. First, our understanding of how domestic politics influences, and is influenced by, regional integration is still rudimentary and the causal mechanisms underspecified. Second, insights from new data on institutional design have not been incorporated into the theoretical explanations, and more relevant design data need to be collected. Third, the role of complexity of integration both within and across regions is poorly understood. These are all promising venues for future research.

CHOOSING TO INTEGRATE
The political economy framework makes the government’s choice for regional integration central to the explanation. As with any deliberate choice, the analysis boils down to recognizing the government’s incentives to act, and this means identifying the actors who push for it, the actors who oppose it, the political institutions that mediate these demands, and the government’s own ideological and possibly opportunistic predilections.

Who Demands and Who Opposes Integration?
The starting point for many demand-driven theories of regional integration is the pressure from domestic groups that expect to benefit from it. These arguments typically focus on demand for
regional public goods and study the mobilization of economic and social interest groups to cope with externalities created by increasing economic interdependence and competition.

In a seminal work, Viner (1950) argues that custom unions can be beneficial for a country’s economy if they are trade-creating rather than trade-diverting unions. Removing tariff barriers within a region enables a more efficient allocation of production across countries. If these benefits outweigh the costs of diverting trade from outside the union as a consequence of setting up a common external tariff, then domestic economic groups should demand regional trade integration from the government. Regional integration can also improve a country’s terms of trade, which strengthens the incentives to act (Collier 1979). Common currency areas could reduce uncertainty and minimize transaction costs, which also improve trade flows, giving groups reasons to demand them (Mundell 1963). Greater mobility of capital, labor, consumers, and taxpayers leads to fiscal spillovers across countries in a region, which create demand for more fiscal coordination and integration, as well as for centralized redistributive policies (Casella & Frey 1992). More generally, RIAs can be beneficial if they help overcome market failures that arise from economic and political uncertainty, or if they mitigate financial risks (Haas 1958).

One implication of this line of reasoning is that regional integration might be contagious. By affecting the terms of trade among those who integrate, they also change the terms of trade for outsiders who trade with them (Baldwin 1995, Mansfield 1998). Baccini & Dur (2015) argue that trade agreements can cause investment discrimination against outsiders, which could prompt the excluded countries to sign trade agreements as a strategy to level the playing field. For example, the creation of a single European market triggered a number of initiatives in other regions—the Arab Maghreb Union, the Andean Pact, Mercosur—in an effort to cope with increased economic competition (Mattli 1999). Similarly, the Association of Southeast Asian Nations (ASEAN) came into being in part because of the stiff competition the Southeast Asian founding members faced through other regionalization processes in China and India (Hwee 2010).

Based on these considerations, scholars identify a variety of domestic groups that should favor regional economic integration. Among them are export-oriented firms (Milner 1997) and multinational corporations (Manger 2009); within those groups, highly productive companies appear to benefit disproportionately (Baccini et al. 2016). European export companies joined forces with the European Commission to lobby EU member governments in favor of the Single European Market and the European Monetary Union (Moravcsik 1991, Frieden 2002). Similarly, American business lobbied the US government in favor of the North American Free Trade Agreement (NAFTA) and Asia-Pacific Economic Cooperation (APEC) agreement (Milner 1995, Cameron & Tomlin 2002). Although generally we should expect import-competing firms to oppose multilateral free trade, their preferences over RIAs might not be that unconditional. For instance, if integration diverts trade, it could reduce competition from outsiders, which would benefit import-competing firms (Grossman & Helpman 1995). In general, unlike multilateral economic integration, regional integration can produce different sets of winners and losers depending on trade patterns and RIA design. Much more work needs to be done on the distributional consequences of RIAs (which cannot be presumed to be analogous to bilateral or multilateral agreements) so that we can better identify the groups who push for and oppose them.

Although analyses typically give pride of place to firms and organized special interest groups, the general public could also spur demand for integration. One prevalent assumption is that the public at large comprises consumers who benefit from lower prices and should therefore have strong preferences for free trade and regional integration. This assumption is unwarranted. Kono (2008) shows that support for free trade ranges from a low of 8% in Uganda to a high of 77% in Japan. Similarly, by 2008, more than 54% of Americans believed that NAFTA was bad for the US economy, and only 37% thought it was good (English 2008). Scholars have recently begun to
study the determinants of trade policy preferences in the general public, but the results are mixed, and virtually nonexistent for anything other than trade (Scheve & Slaughter 2001, Hainmueller & Hiscox 2006). One notable exception is the wealth of public opinion research on European integration, summarized by Hobolt & de Vries (2016), but for reasons we turn to next, it is unclear how generalizable the effects might be.

**Will the Government Respond, and If So, to Whom?**

Demand for or opposition to regional integration can only be meaningful if the government is responsive to such pressures. Office-motivated political leaders are more likely to respond if their political survival depends on what they do with respect to integration (Moravcsik 1998). They might be more willing to accommodate domestic market actors when the economy is in the doldrums (Mattli 1999), or when they hope that the integration policy could serve as a signal that their policies are generally sound (Haggard 1997). Coming down from this level of abstraction requires one to study carefully how domestic institutions translate social and economic pressures into the leader’s odds of political survival.

Because politics is much more densely and formally institutionalized in democratic societies, it is perhaps not surprising that most work has focused on the mediating role of institutions in democracies. The fundamental principle in these polities is that voters exercise some sort of influence on policy through the leaders they elect. Thus, for example, a democratic government’s decision for free trade would be rooted in the preferences of the public (Milner & Kubota 2005). By equating democracy with increased influence of voters on the likelihood of a leader’s political survival and ascribing certain policy preferences (e.g., free trade) to these voters, scholars have found that more democratic polities are more likely to integrate regionally (Mansfield et al. 2002). The results are robust across RIAs, as well as within RIAs such as the European Union (Mattli & Plümper 2002) or the Economic Community of West African States (ECOWAS; Kirschner & Stapel 2012).

The central role reserved for the public in these studies is perhaps surprising given the paucity of empirical knowledge we have about the distribution of preferences among its members. In fact, when scholars initially attempted to relate public opinion to regional integration, they found no effects. This was chalked up to voters facing severe collective action problems (Gilligan 1997) or being rationally ignorant (Gabel & Scheve 2007) and so unable to mount effective pressure in favor of policies they might prefer. In contrast, further careful scrutiny found that greater public support for free trade is associated with lower tariffs, and that this correlation only holds for democracies (Kono 2008). There are several plausible reasons for these mixed results.

One factor that might be at play here is the salience of regional integration among voters. Decisions related to RIAs are often not salient domestically, in part because leaders deliberately depoliticize or obfuscate them. This was one reason for the “permissive consensus” during the early stages of European integration (Inglehart 1970). Over time, however, this integration has become progressively politicized and is now quite salient among the European publics (Hobolt & de Vries 2016). As a result, opinion about European integration has started to affect votes (Carrubba 2001, Tillman 2004), which in turn has provided political leaders with incentives to mind their regional negotiations and cooperation strategies (Schneider 2013). These results suggest that it would be worthwhile to investigate the variation of the salience of regional integration beyond the European Union and over time to identify the conditions that admit voter influence on related policies.

A second potentially relevant factor is the ability of institutions to channel diverse interests. For example, democratic systems with greater numbers of veto players would be more likely to permit opposing preferences to bubble up through the political hierarchy, which could give contradictory
incentives to policy makers and make them less likely to join RIAs or cooperate within existing agreements (Milner & Mansfield 2012).

Third, it could be that the public’s penchant for the trade aspects of regional integration is not the preference that political leaders worry about. Domestic political instability was crucial for the design of the Arab League, where regional integration was the key to shoring up sovereignty and legitimacy of ruling regimes, trumping both collective security arrangements and intraregional conflict resolution (Barnett & Solingen 2007). More generally, in the wake of decolonization, many political leaders in Asia, Africa, and the Middle East have had to fend off internal and external threats to sovereignty, and have often seen regional integration as an instrument to strengthen their position (Okolo 1985, Hurrell 2007). Weak states have been especially prone to seek it (Söderbaum 2004). The regime-preserving logic of regional integration implies that we should neither look for its impetus in the economic preferences of the public nor evaluate RIAs for their economic efficiency or ability to provide collective goods. They should, however, enhance the legitimacy and stability of participating regimes.

This last point leads to one further consideration. Although some polities democratized during the decolonization period, many did not. How are we to understand government responsiveness in authoritarian regimes? Unlike democracies, with much-studied institutions and public opinion surveys, nondemocracies tend to be opaque, with murky institutional channels of influence and publics that might intentionally falsify their preferences. Although we do have some impressionistic results—personalistic authoritarian leaders appear to be both less willing and less able to commit and adapt to regional cooperation (Haas 1961, Nye 1987)—we are on much shakier ground both theoretically and empirically when it comes to nondemocracies. One potentially very fruitful venue for research would be to apply the growing literature on authoritarian political institutions to questions of regional integration (Gehlbach et al. 2016 provide a review of this literature).

International Origins of Regional Integration

The incentives for the government to pursue regional integration need not all be sourced to domestic interests. At least three foreign factors might also independently furnish the necessary impetus. First, the government might want to respond to regional security threats (Lake & Morgan 1997, Buzan & Wæver 2004). For example, the Russian-led Collective Security Treaty Organization (CSTO) has sought to increase ties with the Shanghai Cooperation Organization (SCO) and China, arguably as a way to counterbalance NATO. [Hemmer & Katzenstein (2002), however, note that external threats might not be a sufficient explanation for regional integration because Asia still does not have an effective collective defense organization.]

Second, the government might wish to increase its bargaining leverage in the World Trade Organization (WTO). Because membership in an RIA seems to confer greater clout, the government might actively pursue it (Mansfield & Reinhardt 2003). Moreover, once integration is under way, it can increase trust among political leaders and give them even stronger incentives to cooperate (Gowa & Mansfield 1993).

Third, a regional hegemon might be interested in the political, economic, and security benefits of consolidating its influence over a group of states and could urge them to integrate (Katzenstein 2005). Conversely, rival hegemonic powers could work against it. Although the roles of the United States and the Soviet Union during the Cold War instantly come to mind, one need not be limited to them. Additional examples include the United States for NAFTA, Brazil for Mercosur, Nigeria for ECOWAS, and India for the South Asian Association for Regional Cooperation. A more recent development is the incipient formation of a rival hegemonic bloc by Brazil, Russia, India, China,
and South Africa (the BRICS countries) that could challenge the existing regional integration arrangements.

THE DESIGN AND DEVELOPMENT OF REGIONAL INTEGRATION AGREEMENTS

Not all RIAs are created equal. Although typical studies of regional integration implicitly treat them as equal, asking only whether countries are members or not, RIAs—even the less formalized ones—vary considerably in their institutional design and sometimes change over time. These differences matter greatly for international cooperation. Take, for instance, revenue sharing and redistribution among members. The institutional designs of the European Union and Southern African Development Community explicitly provide for them, whereas that of Mercosur, a similar regional organization, does not. Within the European Union, political leaders can offer side payments to other governments and achieve deeper integration despite stringent decision-making rules requiring unanimity (Schneider 2011). Within Mercosur, no such possibility exists, and even though Brazil has the potential to be its paymaster, domestic political and economic factors have made it reluctant to assume the leadership role (Malamud 2008, p. 123). This has caused integration within Mercosur to proceed along different lines (Hummel & Lohaus 2012).

Given the importance of such design variations, it is not surprising that there has been a tremendous data-collection effort. The initial wave focused exclusively on PTAs; the Design of Trade Agreements database includes nearly 600 PTAs between 1947 and 2010 and covers many institutional features like sector coverage, commitment depth, and trade integration and compliance tools (Elsig et al. 2014).

More recently, the data-collection effort has extended to other RIAs, covering issue areas (Pevehouse 2005, Goertz & Powers 2014), voting rules (Blake & Payton 2015), vitality of agreements (Gray 2016), and their sovereignty costs (Hafner-Burton et al. 2013, Hooghe & Marks 2015). Haftel (2012) provides information on the economic activities and institutional structure of 28 RIAs over three decades. For each of 72 IGOs, Lenz et al. (2014) provide information on whether the organization is general purpose or task specific, on the extent of delegation to supranational bodies and pooling within member-state bodies, and on the number of reforms, including regional arrangements, from 1950 to 2010. The Comparative Regional Organizations Project collects data on the emergence and institutional development of RIAs as indicated in their founding agreements (http://lehrstuhlib.uni-goettingen.de/crop/information.html). These data are absolutely crucial to our understanding of RIAs and our evaluation of their effects. For example, Gray & Slapin (2012) use expert surveys to measure effectiveness, the use of dispute settlement mechanisms, and the political and international influence of regional economic agreements.

Space limitations preclude a comprehensive assessment of all potentially relevant RIA features. I have singled out two prominent ones—pooling and delegation—to illustrate the important role of institutional design. Governments can pool authority among themselves in member-state bodies or they can delegate it to an independent body, such as a general secretariat, an assembly, or a court.

Pooling Authority: Voting Rules and Flexibility

When governments pool authority to make collective decisions, the formal preference aggregation rules—whose vote counts and for how much—can have both direct effects (by weighing some members or coalitions of members more heavily than others) and indirect effects (by fostering the development of a particular informal, but pervasive, culture that regulates formal behavior).
Many RIAs require unanimous decisions within particular issue areas (Blake & Payton 2015). It is well known that a unanimity requirement, which, unlike majority rule, endows each member with *de facto* veto power, often results in conflict and gridlock, and tends to produce outcomes geared toward the lowest common denominator (Schulz & König 2000, Tsebelis 2002). Increasing preference heterogeneity among members tends to aggravate these problems (Schneider & Urpelainen 2014), whereas providing opportunities for issue linkage tends to ameliorate them (McKibben & Western 2014). Although it is true that countries and coalitions that control more votes often obtain greater benefits from regional integration (Hug & König 2002, Schneider & Tobin 2013), the unanimity requirement can strengthen the bargaining position of weaker members against more powerful states (Schneider 2011). At the very least, it allows them to block decisions they oppose, as Turkey did in 2011, when it derailed NATO’s operational planning of the no-fly zones over Libya because it disagreed with France about the locus of political control (Blake & Payton 2015).

Unanimity may pose special challenges in two areas where it is almost invariably the rule: admitting new members, which can increase preference heterogeneity, and attempting more intensive integration, when these divergent preferences can come into conflict—the so-called “broader-deeper trade-off” (Downs et al. 1998). Initially, simply correlating enlargement and further integration produced mixed results. Some found that broadening membership worsens the prospects of deeper integration (König 2007, Hertz & Leuffen 2011), whereas others found either no effect or precisely the opposite (Golub 2007). All of these claims are probably correct because the effect is conditional (Keleman et al. 2014, Schneider 2014). First, deepening can occur prior to enlargement and because of its anticipation: Members who expect problems to arise after enlargement may choose to reform the regional institutions and pass legislation before it occurs, getting new members into a deeper agreement and reducing the need for post-enlargement changes along these lines (Leuffen & Hertz 2010). That is because unanimous accession rules enable existing members to extract more concessions from new applicants (Schneider & Urpelainen 2012). Second, the trade-off depends on preference divergence, which is not an automatic consequence of enlargement. This could be because expansion is limited to states that are economically and politically similar to existing members, as is often the case with PTAs (Mansfield & Pevehouse 2013). The preference alignment could also be a consequence of government changes (Schneider 2014), and it could be endogenous, as the evidence of a PTA’s success alters the preferences of nonmembers, bringing them closer to those of members. This congruence through socialization can reduce heterogeneity over time. It could also be that some issue areas involve more shared interests than others, as is often the case with exclusively economic regional agreements (Slapin & Gray 2014).

The study of the supposed trade-off does, however, reveal abiding concerns with reconciling possibly conflicting demands in these agreements. Because RIAs typically involve countries of varying structural power but depend on voluntary cooperation of even their weaker members, these benefits of unanimity often outweigh its costs, which helps explain its wide adoption. Even RIAs that have recently moved toward formal majority voting rules—the European Union and the Inter-American Development Bank—still rely on consensus informally (Lewis 2003). One can see this change as an attempt to balance the weaker members’ need to ensure that their fundamental interests are protected with the stronger members’ desire for efficiency without coercion by obstinate minorities. The culture of informal consensus pushes the more powerful to give due voice to the concerns of the less powerful, while the latter’s ability to impose undesirable outcomes is tempered by the threat that they could always be overridden if push came to shove. Because informal negotiations, unlike public votes, take place behind closed doors, governments might be more willing to change their initial positions in order to compromise. Removing sensitive
details from the public spotlight can foster the emergence of a cooperative culture, which can enhance the function of RIAs (Stasavage 2004). Still, governments are quite aware of the weight that formal rules accord them, and this shapes the limits of what is acceptable to concede for the sake of unanimity. Even when decisions are supposed to be by informal consensus, they are made “in the shadow of the formal vote” (Golub 1999). This implies that there might be less difference than there seems between Asian RIAs, with their ostensible reliance on informal and consensual decision making, and their more formalized European and North American counterparts (Kahler 2000).

Because voting rules determine, in part, the extent of a government’s influence over collective decisions, they represent the degree of control it has over its sovereignty costs, which are of great salience domestically (Haftel & Thompson 2006). For more parochial concerns that need to be addressed promptly and proactively, the voting mechanism can prove cumbersome and unresponsive. Consequently, governments have admitted flexible arrangements into the institutional design. These “escape clauses” allow members to avoid especially burdensome contractual obligations, making RIAs more attractive initially and more durable afterward (Rosendorff & Milner 2001, Pelc 2009). The demand for flexible arrangements originates in the conflict between import-competing groups that stand to bear most of the costs from RIA membership and exporters that stand to reap most of the benefits (Kucik 2012). Leaders vulnerable to domestic protectionist groups are much more likely to sign up for RIAs when they contain escape clauses. There are, of course, limits to these arrangements because providing for too many will destroy the integrity of the RIA and undermine its purpose. Baccini et al. (2015a) demonstrate that flexibility in some areas may go hand in hand with rigidity in others. Manger (2015) also finds that integration is deeper when the dominant regional trade is intra-industry (and so the need for escape clauses is smaller).

Flexible arrangements can also have a darker side for they can allow some members to shift burdens onto others. The European Union has increasingly accepted them in its quest for further institutional deepening and widening (Schimmelfennig et al. 2013). But many are discriminatory: They provide an escape clause for some by imposing (temporary) restrictions of membership rights on others. The former can thus avoid real or imagined costs while denying substantial benefits to the latter. Discriminatory flexibility of this type has been critical to the successful expansion of the union (Plümper & Schneider 2007, Schneider 2009). Qualitative evidence suggests that similar practices exist in other RIAs, but their origins, purpose, and effects require further study.

The incentives to seek more flexible or more rigid arrangements may not be related to the ostensible aims of the agreement. This can happen when a government’s main concerns are not the RIA’s raison d’être. For example, even though African leaders are among the most enthusiastic signers of RIAs, as shown in Figure 1a, they tend to hollow out these agreements by endowing them with no implementation and enforcement capacity (an extreme instance of flexibility by incapability). This is because they are much more interested in using membership in the RIAs to cement their states’ sovereignty and security than in regional integration (Herbst 2007). On the other end of the spectrum, emerging democracies are more likely to sign stringent human rights agreements because they can use the sovereignty costs to lock in liberal policies (Hafner-Burton et al. 2013). Understanding the institutional design of RIAs thus requires us to go beyond the stated purpose of the agreements and consider both international and domestic political problems confronted by members. Disentangling the reasons governments agree to relinquish more or less sovereignty is also necessary if we are to assess the functioning of RIAs.

Delegating Sovereignty

Instead of making decisions collectively, governments can choose to delegate their authority to an organization. This can be especially fruitful when expertise, impartiality, and the presence of a
third party are particularly important for cooperation. RIA agencies can and do fulfill a plethora of functions: gathering information, providing technical policy expertise, creating rules, setting the agenda, arbitrating, monitoring compliance, and enforcing agreements, among others. Some RIAs, like the European Union, delegate many of these functions. Others, like ASEAN, delegate only a few. PTAs tend to occupy an intermediate position, with delegation usually limited to specific functions such as arbitration and enforcement of the agreement itself.

On the credit side, delegating to an agent can reduce transaction costs, enhance coordination, and strengthen incentives for cooperation and compliance, all of which increase the effectiveness of RIAs (Schneider & Slantchev 2013). On the debit side, relinquishing sovereignty to an autonomous organization increases the risk of agency slippage—the danger that the RIA would produce policy outcomes that the government does not like and cannot control (Pollack 1997). Whether RIA agencies are truly autonomous enough to pose such a risk is unclear: Even the favorite bogey, the European Commission, seems to be quite constrained (Hug 2003). Nevertheless, there is evidence that governments are more likely to delegate authority when they believe this risk to be small, as is likely to be the case when the countries are roughly similar economically and are not motivated by regime preservation (Smith 2000, Haftel 2013). In this way, the choice of how much authority to delegate reflects the perceived balance between the benefits of agency and the costs of slippage. This balance varies with the context of membership, which implies that the degree of delegation cannot be used as a normative benchmark for comparisons.

THE EFFECTS OF REGIONAL INTEGRATION

Having chosen to participate in a RIA and carefully tailored its institutions to their perceived needs, governments should expect to reap the benefits. So do they? How effective are RIAs in achieving their goals? I should warn here from the outset that the discussion of effects is perforce limited to nonstrategic, normatively desirable outcomes, such as free trade, security, and economic development; it does not include an assessment of how good RIAs are at fulfilling the strategic goals of political leaders. This is simply because there is very little research on the latter even though anecdotal evidence suggests that role might be quite important in some regions. This matters because lumping RIAs whose purpose is not to promote the economic welfare of the members—official statements to the contrary notwithstanding—with those for which it is will surely be problematic for analysis. Caution is needed when interpreting general findings that suggest deep RIAs are more effective than shallow ones (Dür et al. 2014). After all, the shallow RIA could be quite good at delivering what its members want, enhanced sovereignty for instance, without improving the usual normatively desirable outcomes.

The vast majority of studies of RIA effectiveness examine the impact of these agreements on trade. The consistent finding is that they do generally increase trade flows among members and reduce trade volatility. The effects are substantial—a 34% jump in trade among PTA members (Tomz et al. 2007) and a doubling of trade volume within a 10-year period (Baier & Bergstrand 2007), despite the apparent inability of PTAs to reduce certain non-tariff trade barriers such as discrimination in procurement (Rickard & Kono 2014). Estimating the effects of RIAs on multilateral trade—that is, beyond trade among members—is much more complicated, and a lively debate exists as to whether RIAs are more likely to promote multilateral trade liberalization or impede it (Bhagwati 1991, Lawrence 1996).

Probing deeper into the effects of particular institutional design features has significantly refined our understanding of how these RIAs work. We now know that customs unions are far more effective in promoting trade than are free trade or partial scope agreements (Magee 2008). Moreover, shallow agreements have no effect on trade flows at all, whereas deeper PTAs produce
larger increases in trade (Dür et al. 2014). In line with the reasoning about escape clauses, trade agreements with flexible arrangements are also better at reducing trade volatility than are rigid agreements (Kucik 2015).

The focus on institutional features can also help uncover the reasons some RIAs fail to function properly. After all, institutions cannot deliver the intended outcomes if they are not implemented properly by the member countries. As it turns out, governments that face significant legal ratification hurdles, that operate under binding political constraints, or that simply do not have sufficient administrative capacity often do not implement the legal obligations of their agreements (Haftel & Thompson 2013, Gray 2014; see also Börzel et al. 2010 and König & Mäder 2013 for the growing studies on compliance within the European Union more specifically). The resulting implementation gap could be extensive—only half of Mercosur legislation was in force in 2004—and this might be the major cause behind deficit in performance, as Malamud (2005) has argued for Mercosur.

As for the effect of RIAs on non-trade-related outcomes, what the literature lacks in iterative refinement or accumulated knowledge, it makes up for in breadth of coverage. Scholars have analyzed how RIAs affect human rights (Hafner-Burton 2005), foreign direct investment flows (Büthe & Milner 2008), exchange rate regimes and currency policies (Copelovitch & Pevehouse 2013), sovereign risk assessments (Gray 2009, 2013), stock market performance of domestic companies (Bechtel & Schneider 2010), regional and interstate conflict between members (Mansfield & Pevehouse 2000, Haftel 2007), economic sanctions (Hafner-Burton & Montgomery 2008), foreign development aid (Baccini & Urpelainen 2012), the regulatory quality of new members (Mattli & Plümper 2004), and, perhaps the most studied of all, the democratic quality of domestic institutions (Pevehouse 2002, Schimmelfennig & Sedelmeier 2002, Donno 2013).

These studies generally find that RIAs contribute to good governance, and whatever disagreement exists tends to revolve around the precise mechanism responsible for that. The traditional argument is that the positive effect is due to the capacity and willingness of member states to abide by the terms of membership (Mattli & Plümper 2004, Plümper et al. 2006). In this view, the RIA itself might not be much of an independent contributor, although the initial costs of membership could affect the incentives to comply with its conditions (Downs et al. 1996). The rejoinder is that socialization within RIAs and within networks of organizations changes the preferences of governments, making them more likely to operate cooperatively within the agreement frameworks, and this contributes to the positive outcomes (Checkel 2005).

Unfortunately, unlike the trade case, there has been almost no work done on the interplay between regional and multilateral integration in these nontrade areas. This is especially galling in lending and foreign aid, where the recent establishment of regional finance and development institutions with functions very similar to those of existing multilaterals (e.g., the European Stability Mechanism versus the International Monetary Fund, or the New Development Bank of the BRICS countries versus the World Bank) raises important questions about the effectiveness of the latter. An analogous gaping hole exists in security, where it is straightforward how an improvement in the security of RIA members might contribute to the insecurity of nonmembers.

The solid evidence for the benefits offered by trade RIAs and the accumulating indications of similar effects in nontrade areas may tempt one into a functionalist explanation of the explosive growth of RIAs over the past half century (depicted in Figure 1). Some of that growth is almost certainly caused by learning from experience because the designers of RIAs have a well-documented tendency to model new agreements on existing ones. PTAs, for example, usually follow one of three prototypes—the European Union, NAFTA, and a “Southern” type—with NAFTA-style agreements becoming dominant over time (Baccini et al. 2015b). The European Court of Justice has been copied at least 11 times (Alter 2012). When Mercosur established its own parliament in
2006, it emulated the European Parliament (Dri 2009). When ASEAN formed its Committee of Permanent Representatives, it also drew upon the European experience with regional integration (Jetsche & Murray 2012). But this sort of self-evident triumphalism needs to be tempered with several observations.

First, whereas membership in any one RIA is beneficial, a country cannot simply increase its benefits by piling up memberships in other RIAs. The effects are not additively separable; there are negative interactions that can render the whole of multiple memberships less than the sum of individual ones. Increasing the number of agreements with overlapping memberships leads to regime complexity—what some have dubbed, half in jest, a “spaghetti bowl” of RIAs—that can increase transaction costs for companies and countries that have to deal with often contradictory and incompatible regulations (Bhagwati 1993, Alter & Meunier 2009). For instance, out of 58 regional trade agreements, only about a third have identical Rules of Origin for a given product (Estevadeordal et al. 2009). Moreover, a rise in RIAs could be associated with increasing competitive pressures that end up in beggar-thy-neighbor trade wars that leave everyone worse off (Krugman 1991). The recognition of these adverse consequences could be among the reasons that, although two countries with a bilateral investment treaty (BIT) are more likely to sign a PTA subsequently, the likelihood drops if one of them has BITs or PTAs with many other countries (Tobin & Busch 2010).

Second, the presence of several institutions that ostensibly could handle the same matter allows governments to forum shop and select which RIA to use for any particular purpose (Busch 2007, Schneider & Tobin 2016). The risk of losing influence that comes when one’s forum is abandoned for another could impel the affected RIA to make itself more attractive by weakening the enforcement of its membership terms. This could help explain the great variations in dispute settlement procedures that exist in otherwise very similar PTAs (Allee & Elsig 2015).

Third, the process of socialization into RIAs may not be limited to transmitting the values of good governance. It could just as well infect members with less desirable incentives. For example, governments can become more corrupt after they join a RIA with a highly corrupt membership (Hafner-Burton & Schneider 2016). They can also become more cavalier with human rights after they join a RIA whose members are known to disrespect these rights (Greenhill 2015).

Finally, there is a growing worry over the potential for a democratic deficit in these agreements (Dahl 1999, Moravcsik 2002, Crombez 2003, Hix & Follesdal 2006). Relocating political decisions to the regional and multilateral fora could make them unresponsive to domestic and local concerns because voters have much less influence at these higher levels. Paradoxically, it could also expose governments to domestic electoral backlash over policies they could do little to control (Schmidt 2006). As with many other problems of regional integration, the democratic deficit critique started out in studies of the European Union but has now spread to other RIAs such as Mercosur and NAFTA (Anderson 1999, Malamud 2008). This particular consequence has troubling normative implications, and it is imperative for further studies to assess its likelihood and intensity.

CONCLUSION

The scholarship of regional integration has moved well beyond its EU-centric inception, and now even analyses of the European Union are enriched by findings from investigations of other RIAs. The political economy approach advocated by this review has furnished a particularly useful organizing framework, which facilitates comparative studies and identifies areas where more needs to be done. Four venues for future research seem particularly promising (and badly needed).

First, fastening on the political choice to participate in a RIA has necessitated a careful consideration of the domestic politics of that decision. There has been very little work on the roles of
domestic institutions, government ideology, and public opinion in the causes and consequences of regional integration. The increasing salience of RIAs with domestic audiences is likely to make these factors even more important. The recent revelations of secret TTIP (Transatlantic Trade and Investment Partnership) negotiations documents caused public support for the US–EU trade deal to plummet from 53% to 18% in the United States and from 55% to 17% in Germany, where support for free trade in general plunged from 88% to 56%, jeopardizing Germany’s ability to pursue free trade agreements in the future (Reuters 2016). With leaks now a permanent fixture of the informational landscape and their content easily and instantly distributed and publicized online, the secret negotiations that had been the oil in the engine of agreements are likely a thing of the past. This can only further politicize regional policies domestically.

Second, scholarly work on regional integration focuses almost exclusively on decisions to join or to enlarge RIAs. The “Brexit” referendum that took place the United Kingdom in June 2016 reminds us that RIAs do not necessarily increase in size. Whether or not the United Kingdom will follow through with the public demand to give up EU membership, we need a better understanding of why, when, and how countries decide to leave RIAs. The United Kingdom’s decision to withdraw from the European Union would certainly not be unique. In a Monkey Cage post, Felicity Vabulas argues that there have been more than 225 cases of membership withdrawals from international organizations.2 For example, Panama decided to withdraw from the Central American Parliament in 2010. And the Common Market for Eastern and Southern Africa (COMESA) has shrunk in size a few times: Lesotho and Mozambique left the organization in 1997, Tanzania quit in 2000, Namibia left in 2004, and Angola suspended its membership in 2007 (Slapin & Gray 2014, p. 734).

Third, the review has repeatedly referenced different motivations for integration across regions, cultures, and issue areas. These must find expression in the institutional design of various RIAs and set the actual goals that the agreements are supposed to achieve. We need both better data and better theories to link government preferences to eventual outcomes through these institutions. In particular, it seems worthwhile to distinguish conceptually and empirically between normative and strategic goals for RIAs. This would permit us to finally move beyond the distorting simplification of correlating outcomes with a dichotomous variable that codes whether a country is an RIA member or not. Instead, we would correlate them with various institutional features, which would also permit meaningful focused comparisons between different RIAs.

Finally, we have very little systematic knowledge about the effects of regime complexity on systemic and domestic outcomes. Why do governments create and participate in institutions with overlapping jurisdictions? Does the resulting complexity have some, possibly unanticipated and probably unintended, detrimental effects for the welfare of citizens in member countries? What about effects on nonmembers? RIAs are expanding in size, scope, and number, creating ever denser global institutional networks that link disparate regions. How do these developments affect the preferences of member governments, their strategies on the international stage, and their politics domestically?

This brings us back full circle: The choice for RIAs is motivated by domestic politics, their institutional design reflects both the desired goals and intended constraints, and now domestic politics is influenced by the consequences of these choices. It is a simple framework but, as Clausewitz once said, the simplest thing is difficult.

DISCLOSURE STATEMENT

The author is not aware of any affiliations, memberships, funding, or financial holdings that might be perceived as affecting the objectivity of this review.

ACKNOWLEDGMENTS

I am very grateful for helpful comments and suggestions from Julia Gray, Dirk Leuffen, Nita Rudra, and Jen Tobin on an earlier version of this article.

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Contents

Politics, Academics, and Africa
Robert H. Bates ................................................................. 1

Qualitative Methods
John Gerring ................................................................. 15

Just War Theory: Revisionists Versus Traditionalists
Seth Lazar ................................................................. 37

International Courts: A Theoretical Assessment
Clifford J. Carrubba and Matthew Gabel ........................................... 55

Political Economy of Taxation
Edgar Kiser and Steven M. Karseski ........................................... 75

Comparing Political Values in China and the West: What Can Be Learned and Why It Matters
Daniel A. Bell ................................................................. 93

Culture, Politics, and Economic Development
Paul Collier ................................................................. 111

Progovernment Militias
Sabine C. Carey and Neil J. Mitchell ........................................... 127

Voter Identification Laws and Turnout in the United States
Benjamin Highton ................................................................. 149

Climate Change and International Relations (After Kyoto)
Arild Underdal ................................................................. 169

Social Movement Theory and the Prospects for Climate Change Activism in the United States
Doug McAdam ................................................................. 189

Climate Change: US Public Opinion
Patrick J. Egan and Megan Mullin ........................................... 209

The Political Economy of Regional Integration
Christina J. Schneider ............................................................... 229
Bureaucracy and Service Delivery
    Thomas B. Pepinsky, Jan H. Pierskalla, and Audrey Sacks ........................................ 249

Feminist Theory Today
    Kathy E. Ferguson .............................................................................................................. 269

When Does Globalization Help the Poor?
    Nita Rudra and Jennifer Tobin .......................................................................................... 287

Measuring Public Opinion with Surveys
    Adam J. Berinsky ............................................................................................................... 309

Conflict and Cooperation on Nuclear Nonproliferation
    Alexandre Debs and Nuno P. Monteiro .............................................................................. 331

From a Deficit of Democracy to a Technocratic Order: The Postcrisis
    Debate on Europe
    Ignacio Sánchez-Cuenca .................................................................................................... 351

Understanding the Political Economy of the Eurozone Crisis
    Jeffry Frieden and Stefanie Walter ................................................................................. 371

The Electoral Consequences of Corruption
    Catherine E. De Vries and Hector Solaz ............................................................................ 391

Labor Unions, Political Representation, and Economic Inequality
    John S. Ablquist .................................................................................................................. 409

Coding the Ideological Direction and Content of Policies
    Joshua D. Clinton ............................................................................................................... 433

Wealth Inequality and Democracy
    Kenneth Scheve and David Stasavage ............................................................................... 451

The New New Civil Wars
    Barbara F. Walter ................................................................................................................ 469

State Building in the Middle East
    Lisa Blaydes ....................................................................................................................... 487

Information, Uncertainty, and War
    Kristopher W. Ramsay ....................................................................................................... 505

Large-Scale Computerized Text Analysis in Political Science:
    Opportunities and Challenges
    John Wilkerson and Andreu Casas .................................................................................... 529

Trading in the Twenty-First Century: Is There a Role for the World
    Trade Organization?
    Judith Goldstein .................................................................................................................. 545
Police Are Our Government: Politics, Political Science, and the Policing of Race-Class Subjugated Communities
Joe Soss and Vesla Weaver ......................................................... 565

Errata

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