

FROM THE INSIDE OUT:
THE DOMESTIC SOURCES OF INTERNATIONAL COOPERATION

by

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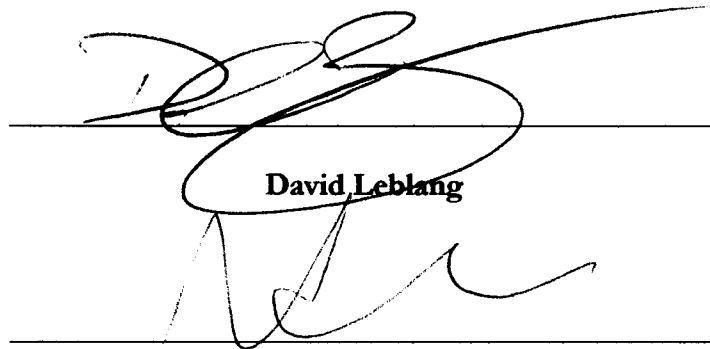
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Limbago, Andrea Little (Ph.D. Political Science)

From the Inside Out: The Domestic Sources of International Cooperation

Thesis directed by Associate Professor David Leblang

The world system is currently experiencing an expansion in the breadth and scope of economic agreements, as well as the simultaneous ebb in depth and influence of military alliances. Recent theories on international cooperation inadequately address these changing trends in international cooperation. International cooperation is generally attributed to systemic level explanations that focus on structural polarity, relative gains or the role of international institutions and regimes. These theories, although useful, fail to explain variation among state responses to similar external stimuli. Nor do they illustrate why states opt for cooperation in specific policy realms that may not be deemed economically or diplomatically beneficial. Or, conversely, why states that are obvious candidates for certain agreements fail to cooperate at the international level. This project points to the role of domestic institutions on international cooperation, examining the impact of variation within states' domestic political environment as a key source for alternate responses to new developments in the international system. The research design entails three chapters of quantitative analyses that focus first on which states tend to cooperate across policy realms, as manifest through preferential trade agreements, currency unions and alliances. Next, I expand the empirical model to focus on dyadic-level analyses, and explore which states tend to cooperate together in the current era as well as over the past century. I apply these results to three of the most influential trends in cooperation in the world system – East Asian regionalism, Latin American dollarization, and transatlantic diplomatic tensions. In short, across all policy realms,

domestic institutional constraints consistently impact a state's propensity to cooperate in the international arena. These results have important implications for current trends in the international system, providing an additional nuance to the often-asked question, "why do states cooperate?" and illustrate the interplay of cooperative agreements.

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1. The Rise and Decline of International Agreements

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CHAPTER 1

INTRODUCTION

The fluidity of interstate cooperation remains a constant characteristic of the international system. The past century alone saw the demise and rebirth of economic cooperation in the monetary and commercial realms. In the security realm, the tearing of the iron curtain continues to influence interstate relationships, simultaneously pushing past enemies towards cooperation, and longtime allies towards conflict. Explanations for cooperation among states in an anarchic system point to the systemic constraints of the international system, or the relative gains a country may reap through cooperative ties. However, what the majority of these arguments fail to explain are varieties among state's responses to similar external stimuli. Why do some states respond to current systemic events through cooperation in the commercial realm, while others opt for security or monetary integration? Incongruence among state's action to similar systemic events cannot adequately be explained through systemic level analyses, but more so necessitates the incorporation of domestic politics in order to create a more nuanced understanding of state behavior. New developments in international cooperation, and the agreements behind these developments, warrant an examination of domestic politics in order to better grasp the divergent trends among the scope of economic and security agreements in the world system, as well as why states choose to cooperate through specific issue areas as opposed to other policy realms.

The current era of globalization has led many to conclude that states no longer have control over domestic policy. With the end of capital controls, a decrease in trade barriers and movements towards regional integration across the globe, there is valid

reason to assume that states do not have the power to influence the international system as they have in the past. The current era is indeed unique for its unprecedented levels of economic and political integration. State borders are certainly more permeable to the flow of capital, trade and labor than perhaps at any other time in history. Nevertheless, this is too simplistic a view of international relations. Instead of a one-size fits all response to globalization, states are pursuing policies that reap the most political rewards and thus are more in tune with the preferences embedded within each domestic political institution. Throughout history states have dealt with, and responded to, events in the international system that were perceived outside of their control. However, reactions to the international events varied, and continue to vary following the third wave of democratization, from state to state.

These varieties in reaction to the international environment remain an anomaly for most of the systemic explanations of cooperation. The fact that countries such as those in the CFA Franc zone have maintained monetary union despite the absence of consistent economic benefits cannot be understood simply by economic explanations or the role of a prominent hegemon. Or, conversely, why European states such as Britain fail to adopt the euro despite the existence of independent studies that argue it is in their best interest to integrate their currency sooner rather than later.¹ Diplomatically, recent divides among the most powerful developed countries in response to intervention in Iraq continue to expose dissenting opinions over international crises. These differences existed to a lesser extent as well during the cold war and are not simply a product of the absence of bipolarity. Instead, they reflect important differences within the domestic political environment of each country. In short, the variation in responses to global

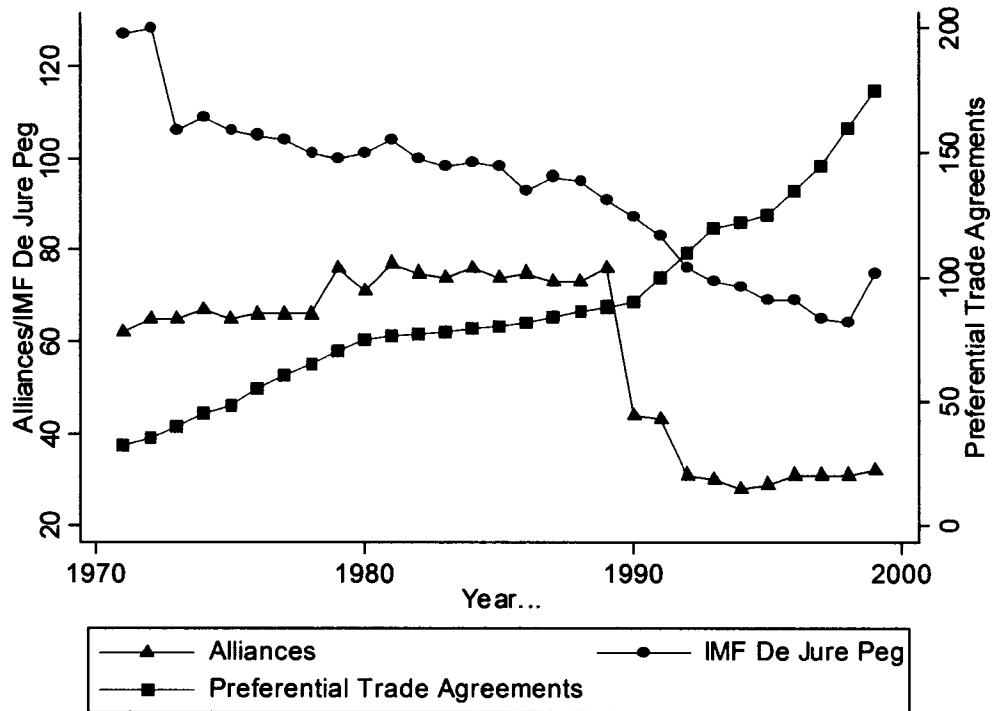
¹ See Begg, et al (2003) for an independent study on the economic reasons of why Britain should adopt the euro sooner rather than later.

challenges throughout history cannot be fully explained through systemic changes in polarity.

This dissertation argues that an important aspect of international cooperation remains largely absent from the predominant structural theories – the role of domestic institutions and the preferences embedded within those institutions. A focus on domestic politics is especially timely as states (both large and small) become increasingly integrated. Furthermore, as Figure 1 illustrates, the post cold war era is unique with the substantial rise in economic cooperation, and subsequent decline in scope of military agreements. Figure 1 depicts these trends among cooperation in three distinct realms.² Monetary integration represents the number of countries with de jure exchange rate pegs. While monetary integration ebbed with the end of Bretton Woods, the recent move towards dollarization within Latin American as well as European markets may be indicative of future trends. In the commercial realm, the data represent the total number of preferential trade agreements in the world system. The figure corroborates intuitive perceptions of the rise of commercial regionalism and economic integration. Finally, in the military realm, the figure depicts the total number of alliances in the world system. Similar to the commercial integration data, although in opposing directions, there is a sharp break at the end of the cold war, with the decline in number of alliances existing in the world system. These changing patterns render a more nuanced explanation of cooperation necessary if we are to gain a better grasp of regional integration. I argue for role of domestic institutions in influencing these trends and limiting government choices

² The monetary integration data is from the IMF, trade agreement data from the World Bank and alliance data is from the Correlates of War dataset, acquired through the EuGene software program from Bennett and Stam (2000, 2004).

Figure 1: The Rise and Decline of International Agreements



among the array of potential foreign policy agreements (currency unions, trade agreements, alliances).

A focus on variation among domestic political institutions provides insight into not only which states tend to cooperate, but also the policy realm in which that cooperation occurs. I analyze three aspects of a state's domestic political institutions – political constraints, winning coalition size, and regime type – and their influence on a state's propensity towards military and economic cooperation. Moreover, it is essential to estimate the impact of each of these variables in the realms of high and low politics alike. Domestic politics are increasingly discussed when analyzing developments in political economy. However, the incorporation of military alliances illustrates the versatile impact of domestic political constraints not only in the economic realm but in the security realm as well. In sum, despite issue-area, a clear connection emerges between international cooperation and the domestic political environment. While this dissertation does not denigrate systemic explanations of cooperation, it does nevertheless have strong implications for current trends in the international system and encourages a more prominent role for domestic politics in explaining international cooperation and movements towards regionalism.

Explaining Variation in Cooperation Among States

International cooperation requires the collaboration of two or more countries in the economic, political, social and cultural realms. Or, as Keohane (1984: 51-2) notes, cooperation entails the mutual adjustment and coordination of policy. In a self-help international system, states often take risks when they cooperate in both the economic

and security realms. One of the key risks associated with cooperation occurs when a state sacrifices a domestic policy instrument for the sake of international collaboration. For instance, a state that forms a military alliance runs the risk of being pulled into a war it might not otherwise be inclined to fight. Alliances that are offensive or defensive in nature require commitments to aid or assist a partner should conflict arise. Similarly, a state that joins a preferential trade agreement also risks the loss of control over protecting infant industries to help them grow and exposes domestic sectors to increased competition from trade agreement partners. Preferential trade agreements generally incorporate the lowering of trade barriers between countries, often resulting in new and cheaper goods into the home market, forcing domestic industries to adapt. In the monetary realm, currency integration in an era of mobile capital inherently limits a state's use of domestic monetary policy to set interest rates or stabilize the economy. Following Mundell-Fleming, states that have fixed exchange rates and capital mobility lose the ability to maintain domestic control over monetary policy. Therefore, government's lose the ability to manipulate interest rates or adjust the exchange rate when confronted with domestic or international shocks. In short, cooperation in each policy realm inevitably entails a degree of risk as well as a loss of domestic control over a policy instrument.

Systemic explanations tend to dominate justifications for exactly why states are willing to take such a risk. This is true among both realist and liberal explanations of cooperation. Within the realist camp, a focus on systemic polarity and the distribution of power is often viewed as the underlying factor that pushes states toward cooperation, as well as the relative gains a country expects to reap. Waltz's (1979) theory on the balancing traits of states remains influential today among realist explanations of cooperation, as does Walt's (1987) focus on the balance of threat. In both cases, states

cooperate in order to balance against either the biggest power or threat, respectively. In contrast, other realists point to the strong role of hegemonic leadership in providing the foundation for a stable and peaceful international system (Gilpin 1981; Kindleburger 1986).³ Throughout these arguments, scholars explain cooperation as a product of survival instincts of states in an anarchic world system. Furthermore, states only cooperate when they expect to gain more than other states or if gains are evenly distributed in light of a common external threat (Grieco 1990). Realist theories rely upon a systemic explanation for cooperation, as states balance, bandwagon, and chaingang their way into cooperative military ties based upon the structure of the international system. While the majority of this literature focuses on military cooperation, realists also explain cooperation in the economic realms via the power motive. For instance, Germany promotes European integration in order to obtain additional control over the region. Although these theories have offered insight into state's motivations to cooperate, they fail to address variation among state's reactions, or why states choose to cooperate in some areas over others at a given time.

In the liberal camp, current literature on international collaboration largely expands upon Keohane's (1984) work on cooperation. Keohane argues that shared interests can promote cooperation in the absence of hegemony, and spark the formation and subsequent persistence of international regimes. Liberal explanations have roots in the functionalist and neo-functionalist schools of thought that emerged following World War II, and also encapsulate regime theory analyses of the seventies and eighties. The majority of this literature points to how and why institutions and regimes matter. Regimes and institutions provide enforcement mechanisms, lengthen the shadow of the

³ Hegemonic stability theory also differentiates between benign and malign hegemons, and therefore predictions regarding cooperation are oftentimes unclear.

future and reveal information to partner states. They decrease the likelihood of defection, and thus decrease the risks often associated with cooperation. Similarly, in a more constructivist slant, these regimes help form a common identity or spread norms, in turn creating a sense of common ground on which cooperation can thrive.⁴ However, as Martin and Simmons (1998) note, these studies should focus less on why institutions matter but more so on differences among institutions as well as the key role of domestic politics on international outcomes.

Barriers to cooperation for realists generally relate to relative gains, while for liberals problems with compliance are viewed as the main deterrent (Grieco 1993). Realists fear that others may gain more and therefore are unlikely to cooperate, while liberals contend that it is the fear that other states may renege on a commitment that impedes cooperation. In general, each school of thought treats states as unitary actors, thus failing to note the constraining role of domestic institutions on policy options for a state's leaders. However, arguments that entail game theory oftentimes stray from the state as a unitary actor and look at the impact of domestic politics on cooperation. For example, game theorists argue that a key impediment to cooperation rests in misperception and uncertainty, both of which occur under circumstances of incomplete information (Jervis 1976). In democracies, information is much more transparent, and the government more accountable, rendering it much more difficult to conceal information to the international system (Fearon 1994).

Game-theoretic explanations of cooperation focus on an expected utility framework, and the over time convergence of interests among states through iterated

⁴ Haas (1992) also points to the role of epistemic communities in shaping and coordinating policy between states. Elite policymakers that tend to share a common outlook or causal beliefs push states towards mutual adjustment of policy, and thus cooperation.

interaction.⁵ Governments weigh the costs and benefits of cooperation, and only form cooperative agreements when deemed in their best interest. Through the bargaining process, governments form agreements that are viewed as mutually beneficial. As the number of actors within the game increases, cooperation is more difficult as collective action problems arise, and misperception becomes more likely to occur. However, this is facilitated through the incorporation international institutions or regimes as additional actors in the game. International institutions facilitate and moderate the strategic interaction that occurs during the bargaining process through providing transparency and information. Therefore, once cooperation emerges, the shadow of the future increases and the actors involved are able to achieve a pareto optimal outcome. Cooperation additionally impacts the shadow of the future as it signal a state's resolve or willingness to the international system, especially in light of a rising threat or conflict (Fearon 1997). In this regard, despite cheating and deception in the world system, cooperation does occur due to the information and moderation provided by these institutions (Axelrod and Keohane 1993).

While the majority of realist or liberal game theory explanations maintain an emphasis on the systemic level, recent work on cooperation, such as Milner (1997), utilizes game theory to demonstrate the role of domestic politics on interstate cooperation. This has led to the subsequent emphasis on the role of credible commitments and democratic institutions on cooperation among states. For example, Simmons (1994) illustrates the role of credible commitments in the monetary realm during the interwar era. She notes that those states that lacked a credible commitment to the exchange rate regime had a much harder time preventing a run on their currency.

⁵ Game theoretic explanations are by no means mutually exclusive from either the realist or liberal camp. In fact, they often are used as a tool to support either school of thought.

Domestic institutional characteristics – such as regime type, government ideology, and government instability – all influenced external perceptions of the state’s monetary policy. Variation among the domestic institutional environment thus sheds light on the causes of the economic instability of the era. These arguments are still applicable today, as Martin (2000) illustrates with regard to variation within domestic legislature. She points to the role of divided government, or political constraints, facing governments and their impact on a range of issues across policy realms. As democratic states are transparent, the domestic institutions, and the policy debates within those institutions, provide information to the international community and signal a state’s resolve to firmly commit to cooperation. The credible commitment literature pertains to the economic and security realms alike. Domestic audience cost literature contends that a government’s accountability to the public indicates a state’s commitment to a specific threat in times of war, or foreign policy agenda in times of peace.⁶ Because autocratic states generally face fewer domestic constraints, they are less accountable to domestic audiences. The higher the levels of accountability, as created via domestic institutions, the less likely a state is to defect from commitments (Leeds 1999).

This dissertation departs from the credible commitment literature and focuses on cooperation among states across the monetary, commercial and security realms. Indeed, a major difficulty in our understanding of cooperation among states is the failure to incorporate domestic level explanations. Structural theories of international cooperation generally fail to account for variation across states in their policy responses to the same events in the international system. A cost-benefit analysis based upon power is simply not sufficient to account for this variation. Government leaders face domestic threats as

⁶ See Fearon (1994) or Schultz (2001).

well and, in many developing countries and developed democracies alike, a leader's accountability to specific sectors of the population and key interest groups is more likely to end his tenure in power than is any external intervention. The following section details the key argument of the dissertation, illustrating the gaps in previous explanations of cooperation and the influential role of domestic political institutions on cooperation in the world system.

The Argument of the Dissertation

The role of domestic institutions is increasingly discussed with regard to a state's ability to credibly commit at the international level.⁷ While this literature points to role of domestic institutions in signaling resolve, or in helping other states predict the *ex post* likelihood of defection, this dissertation examines the role of domestic institutions in shaping a state's *ex ante* propensity to cooperate across issue areas. Are some states more likely to cooperate than others? Do the same institutional constraints impact cooperation in the commercial, monetary and security realms? And with whom do states tend to cooperate? I address each of these issues through the lens of domestic politics. North (1990:3) describes institutions as the rules of the game of a society, which serve as humanly devised constraints, and are the key to understanding historical change. In a similar vein, I point to the role of domestic institutions and their ability to shape a government's range of options with regard to international cooperation.

As noted, many realist arguments point to the role of relative gains in motivating cooperation between states. However, cooperation generally tends to be uneven and the

⁷ For example, Martin (2000), Leeds (1999), Simmons (1994), Milner (1997) or Schultz (2001).

gains from such policy outcomes difficult to define as they may appear in various policy realms. For instance, many African states, in line with growing global trends, form preferential trade agreements. These agreements, unlike similar agreements in other regions, oftentimes entail security or military commitments among friends and foes alike (Powers 2004). Relative gains alone cannot explain why ongoing rivals engage in sustained cooperation. African states exist in the most conflict-ridden region of the world, facing many and varied internal and external threats. Many leaders face inherent domestic obstacles to the formation of an alliance with past or ongoing enemies, and therefore a trade agreement may be the most feasible means by which leaders can pursue cooperative policy objectives. In this manner, the domestic institutional environment, and the preferences of key members within those institutions, may explain why governments cooperate in a given policy realm. In general, in Africa and across the globe, international institutions provide the constraints and foundation on which leaders pursue their interests and those of their key constituents.

As Moe (1990: 213) notes, institutions serve as the, “means by which political winners pursue their own interests, often at the expense of political losers.” A leader’s ability to pursue such interests is inherently limited by the domestic political institution. International agreements innately produce winners or losers, and thus supporters and opponents to specific agreements. This is true in both high and low politics, although the emphasis generally is biased towards political economy explanations, such as endogenous trade theories. Simmons (1994), Milner (1997), Martin (2000) and Hiscox (2002) convincingly illustrate the role of variation among the domestic political environment on commercial and monetary policy. However, domestic level explanations do not pertain solely to the economic realm. Recent incongruence among the major powers’ responses

to terrorism illustrates the strong role domestic institutions have on foreign policy as well. Volgy et al (2004) note the electoral turmoil as well as perceptions regarding security risks within the domestic environment of the G-7 countries as a major explanation for alternate responses to terrorism. While they point to the incongruence of policy responses to external stimuli due to domestic constraints, foreign policies may also respond by converging in a more cooperative manner, as evidenced by Australia-ASEAN Joint Declaration to Combat Terrorism. In both instances, states respond to external stimuli in the international system. However, as illustrated, responses to identical external events vary dramatically based upon the domestic political environment.

Furthermore, domestic constraints affect the relationship of international agreements to one another across policy realms. Alliances have been linked to trade (Gowa and Mansfield 1993, 2004), monetary regimes (Li 2003) as well as general policies of conflict and cooperation (Gibler 2000). Preferential trade agreements similarly influence other policy areas, such as possible mitigating effect on conflict (Mansfield and Pevehouse 2000), while currency unions have been linked to increased trade (Glick and Rose 2002). While connections have been made linking one formal agreement to an externality in a different issue-area, there has yet to be thorough analysis of their relationship to one another. The notion of foreign policy substitutability has been addressed with regard to alliances,⁸ but generally points to the trade-off between military build-ups and alliance portfolios. Extending the initial argument of the dissertation, it becomes evident that domestic institutional constraints prevent cooperation in specific policy realms, while encouraging it in others. Leaders may be able to utilize specific agreements as instruments (or complements) for one another in response to particular

⁸ See Most and Siverson (1987), Morrow (1993), or Morgan and Palmer (2003).

domestic institutional environments. For example, states dominated by potential 'losers' to an open economy may form an alliance with a viable trading partner in order to reap trade benefits while simultaneously appeasing core constituents. This dissertation, therefore, examines those domestic institutional characteristics that indeed encourage the formation of certain forms of agreements, and in turn enhances our understanding of variation among cooperative trends as well as the strategic choice of partners.

Moreover, measurements of the impact of domestic institutions, like the institutions themselves, vary from study to study. These alternative measurements manifest the various ways domestic institutions can serve as constraints and impact international policy. Therefore I focus on three distinct institutional factors that may affect international cooperation. In this manner, I am able to provide a synthesis and general test across space and time of the relationship between the domestic political environment and international cooperation. First, regime type is included in each of the empirical analyses. Stemming from the democratic peace literature, which focuses on the notion that democracies are less likely to go to war with one another, an emerging literature has focused on the role of democratic cooperation as well.⁹ There is debate regarding the relationship between democracies and alliance formation. Simon and Gartke (1999) find no correlation between democracy and alliance formation, while Siverson and Emmons (1991) argue that as a dyad becomes more democratic, the chances of alliance formation increase. Siverson and Emmons point to the role of similarity of interests within democratic dyads, as do Werner and Lemke (1997), as the driving factor behind democratic cooperation. Focusing on a specific dyad, Sotomayor Velazquez (2004) notes the increasing cooperation in the security realm between

⁹ Brown, Lynn-Jones and Miller (2001) provide a thorough analysis of both sides of the democratic peace debate.

Argentina and Brazil as democracy consolidated within each state. He notes the role of democracy in breaking apart the military's stronghold on government policy as a major influence on the dyadic relationship. In the commercial realm, Acharya (2003) views the role of democratization in East Asia as a guiding impetus for integration within that region due to its impact on elite-centered cronyism and socialism of previous decades. Mansfield, Milner and Rosendorff (2000, 2002) contend that democracies have a greater propensity towards free trade and are more likely to join preferential trade agreements. In the monetary realm, the end of the Bretton Woods regime and the rise of democracy in the world system have been associated with a subsequent move to a floating exchange rate among the major powers. Broz (2002), for example, notes an inverse relationship between political transparency and exchange rate transparency (i.e. fixed exchange rate), while Freeman, Hays and Stix (2000) discuss the role of democratic electoral institutions – including political uncertainty, opinion polls, and proportional representation or majoritarian systems – and their impact on changes in monetary regime.

In addition to the role of democracy, there has been increasing focus on the role of political constraints, or veto players, on a state's ability to enact policy or respond to shocks. Tsebelis' (2002) work on veto players illustrated the rigidity in policymaking that occurs as the number of veto players rises. Conversely, as that number declines, policy is more likely to be passed. Henisz and Mansfield (2003) note that democracies tend to be less protectionist, and also argue that policy change in the commercial arena is much harder as the number of veto players within a government rises. MacIntyre (2001) points to the dispersal of veto authority as a determining influence on East Asian responses to the currency crisis. Those countries with either too few or too many veto players were less adept at handling the crisis due to too much policy rigidity or flexibility. Hallerberg

(2002) similarly relates political constraints to monetary policy, examining the crucial role of veto players, especially when voters can readily attribute the benefits or costs of monetary policy to specific actors. As work in this area focuses on a state's inability to ratify policy in an institutional environment plagued by high political constraints, it is equally likely that cooperation may be affected by such an atmosphere.¹⁰

A third way to measure the impact of institutions focuses on the size of the winning coalition. Bueno de Mesquita et al (2003) illustrate the role of the winning coalition on issues ranging from trade openness to political survival. The winning coalition represents the subset of the selectorate that enable the leader to maintain power.¹¹ This varies country by country, but in general, the larger the winning coalition relative to the selectorate, the greater the range of preferences that must be incorporated into the policy agenda. In divisive issues such as free trade, leaders facing large winning coalitions must pursue policy that advantages the greatest percentage of the public. Bueno de Mesquita et al (1999) also argue that it is the size of the winning coalition that is responsible for findings regarding the democratic peace. They note that states with large winning coalitions, often found in democracies, try harder in war and also are more selective about their targets, thus providing an institutional explanation for both the democratic peace and anomalies associated with it. Volgy et al (2004) point to the impact of the selectorate and winning coalition on responses to international terrorism. They contend that terrorism can spark conflict between the selectorate and winning coalition, and thus negatively impact a leader's tenure in office. Due to these institutional constraints, members of the G7 respond in different manners to similar terrorist events.

¹⁰ This is true in international organizations as well, as the veto-player format within the Security Council prevented a clear consensus over the Kosovo conflict (Voeten 2001).

¹¹ Bueno de Mesquita et al (2003: 42-3) define the selectorate as the subset of people who meet the polity's criteria for enfranchisement or citizenship.

As these examples briefly illustrate, the size of the winning coalition can impact a wide range of foreign policy decisions, including a state's ability to form cooperative agreements. Therefore, in addition to regime type and political constraints, this dissertation analyzes the size of the winning coalition and its relationship to international cooperation in the world system.

These three measurements of domestic political institutions provide the foundation for the main hypotheses and expectations within the dissertation. With regard to regime type, in line with the growing literature on the democratic peace and credible commitments, I expect regime type to positively influence a state's propensity to cooperate. If democracies are less likely to go to war together, they also may have a greater likelihood of cooperating in the world system. Second, as veto players arguably render policy changes more difficult, the same may be true in each of the three policy realms with regard to cooperation. Additional veto players inherently bring contrasting preferences to the agenda table, and therefore inhibit a state's ability to cooperate. Finally, the size of the winning coalition may also influence a state's ability to cooperate. Bueno de Mesquita et al (2003) note that as the winning coalition size increases, so do demands on the government to provide public goods to the electorate. As governments are self-interested and seek to ensure the longevity of their tenure in office, they pursue those policies deemed to possess a greater likelihood of fulfilling the preferences of the winning coalition. Governments may, therefore, be more likely to form cooperative agreements as the winning coalition increases in order to provide a public good that they may otherwise not be able to afford the population.

However, given the sacrifices concomitant with international agreements, the impact of each of these domestic institutional variables is likely to vary depending on the

policy realm. Due to this variation, the results may provide important insight into recent developments among cooperative agreements in the world system. The rise of economic cooperation, and decline in number of alliances in the world system may be a product of variation in domestic political environments. Domestic institutions may encourage the formation of certain agreements over others. Furthermore, as I examine the relationship between the agreements themselves, the results should reveal whether or not these agreements serve as instruments for one another, or as complements to further enhance cooperative ties between states. This relationship likely has not been stagnant over time, and is analyzed both for the current era as well as over the past century. Again, referring to Figure 1, the diffusion of cooperative agreements has greatly changed since the end of the cold war. These changes likely also impact the relationship of preferential trade agreements, currency unions and alliances to one another – a relationship that may be different today than it was one hundred years ago.

Organization of the dissertation

This dissertation analyzes the relationship between domestic political constraints and international cooperation through three empirical chapters, followed by a case study chapter. The first chapter focuses on which states are more prone to cooperate in general and asks, “do specific domestic environments promote international cooperation while others deter it?” This chapter looks at the domestic institutional factors that promote or deter the formation of currency unions, alliances, and preferential trade agreements. This is the first step at illustrating the role of domestic institutional constraints on the range of viable options for policymakers, impacting not only the

likelihood of cooperation, but also which agreement is ultimately chosen. This chapter explores the impact of the winning coalition, regime type and political constraints on cooperation, as well as the preferences and ideology of influential sectors within those institutions. Focusing on the monadic level analysis, the model covers the years from 1974-1999.

This model provides the foundation for the following two chapters, which incorporate the same variables but at the dyadic level. Instead of asking “who cooperates?”, these chapters pose the question of “who cooperates with whom?” Again, focusing on variation among regime type, winning coalition size and political constraints, I create a domestic politics model of dyadic cooperation and compare its predictive utility to two other more familiar models in international relations literature. Joint membership in a preferential trade agreement, currency union, or alliance serve as dependent variables in respective models. They are then estimated for the years 1960-1997, based upon a gravity model, liberal peace model and domestic politics model in order to evaluate each model’s explanatory power with regard to international cooperation. The gravity model is frequently used in analyses of capital and trade flows, and controls for inherent obstacles to such economic flows.¹² For example, geographic proximity and common language within a dyad facilitate economic transactions, whereas distance or lack of a common language may hinder them. As reduction of transaction costs are oftentimes explanations for the formation of cooperative agreements, such as currency unions and preferential trade agreements, it is important to compare the explanatory power of the domestic politics model to one more typically associated with economic cooperation. Second, the liberal peace model consists of those variables

¹² See Portes and Rey (2002) for more thorough discussion of the gravity model.

frequently incorporated in liberal and realist analyses of the relationship between democracy, trade, international organizations and conflict.¹³ This model integrates the aforementioned variables, as well as major power status and capability ratio, to examine the role of elements of the liberal peace on conflict. As it is often used to explain conflict, the model should also be tested for its power in explaining cooperation, again making it a model that should be evaluated along with the domestic politics model and gravity model. Analysis of these models validates the utility of a domestic politics model in explaining cooperation between states and across issue areas. While each model offers additional information regarding international cooperation, it is evident that a domestic politics model should maintain a prominent role in discussions of international cooperation.

Chapter 4 similarly incorporates a dyadic analysis. Instead of analyzing the current era, this chapter examines the years 1886-1996 for 27 countries. In addition to the three institutional measures previously discussed, this chapter also explores the role of electoral timing and ideology within government institutions and their impact on international cooperation. This chapter focuses in more detail on the rise and fall of regionalism over the past hundred years, explaining variation among the repercussions of regional integration through a domestic politics lens. Regionalism is generally perceived as benign during the gold standard and malign during the interwar era, thus leading to diverse viewpoints on what the current round of regionalism will have on the world system. The majority of research on regional integration tends to focus on the repercussions of such a trend, as opposed to the causes of regionalism. For instance, those in favor of regionalism point to its trade-creating, welfare-enhancing effects that

¹³ Russett and Oneal (2001) and Oneal, Russett and Berbaum (2003), or Barbieri (2002) provide examples of such a model.

spawn additional cooperation in other areas. Regional blocs, in this regard, are viewed as stepping-stones towards a multi-lateral world system.¹⁴ On the other hand, many point to the beggar-thy-neighbor blocs of the interwar era, as well as the trade diversion that results from regional integration. These scholars foresee a world system of regional blocs asserting aggressive unilateralism, with increasing monopolistic power to exploit other regions as they converge.¹⁵ In sum, this literature largely explores the consequences of regionalism instead of the contributing factors behind such a trend. This chapter therefore builds upon this research, but focuses on the role of domestic politics in shaping regional trends.

Furthermore, chapter 4 provides additional exploration on the interplay among the international agreements themselves. Again, this interplay is largely affected by domestic political constraints, but also illustrates the changing relationship among these agreements that have occurred over time. In general, a temporal break is revealed among the relationship between security, monetary and commercial cooperation. An economic and diplomatic integration exists in the current era, that overlap was largely absent prior to 1945. Today, states that cooperate in certain realms are also likely to cooperate in other policy arenas as well. This was generally not the case prior to 1945, where a divide frequently existed between diplomatic and economic cooperation. The complementary role among cooperative agreements provides reason for optimism regarding the current trends towards regionalism. States are integrating across issue areas, rendering the likelihood of conflict that much more difficult.

¹⁴ See Krugman (1991b), Anderson and Snape (1994), Gould and Woodbridge (1993) or Summers (1991).

¹⁵ See Krugman (1991a), Bhagwati (1990, 1993), Bhagwati and Krueger (1995), deMelo and Panagariya (1993), Winters (1999), or Wonnacott (1990).

The results from these three empirical chapters are then applied to three of the most influential trends in cooperation in the world system today. Chapter 5 provides qualitative analysis of the empirical results, and demonstrates the role of domestic politics on East Asian regionalism, Latin American dollarization and trans-Atlantic diplomatic tensions. As these developments continue to impact the commercial, monetary and security realms, any theory on domestic institutions must provide insight into these trends. These three case studies illustrate the role of institutional and sectoral influences on determining international outcomes and cooperation. In the commercial realm, East Asia has maintained a prominent role in international commerce, beginning with the rise of the East Asian tigers and the influential role of major markets such as Japan, Korea and China. However, unlike other regions, East Asia has until recently refrained from creating preferential trade agreements within the region. Although past analyses point to the role of systemic factors in deterring regional integration, this chapter argues for the role of domestic politics in influencing regional policies towards cooperation.

While East Asia remained an anomaly among commercial integration, Latin American countries continue to debate the efficacy of monetary policies relating to dollarization – or the replacement of the domestic currency with a foreign currency. In this case, debate over adoption of the US dollar maintains heated discourse among small and large Latin American countries alike. Some countries have dollarized despite evidence that it may not be economically beneficial, while other countries conversely fail to dollarize despite prominent evidence suggesting they should do so. Similar to the section on East Asian regionalism, this section again explores the more common systemic explanations for these developments and points to the role of domestic politics

in shaping state's monetary policies and the ultimate decision of whether or not to dollarize. Finally, moving into the security realm, the end of the cold war has left many questioning the role of the only remaining superpower alliance – NATO. With recent trans-Atlantic divides over issues ranging from the Kosovo conflict and the intervention in Iraq, to plausible future disputes over Iran and North Korea, many scholars again point to the end of the balance of power system as the major impetus for rising tensions between Europe and the United States. While valid, these explanations cannot sufficiently explain intra-European divisions, or the variation among states responses to the same external stimuli. This variation, I contend, is best understood through analysis of the domestic institutions and preferences within each state.

These chapters together provide a general test, both empirical and qualitative, of the relationship between domestic politics and international cooperation. This combination of empirical analyses, and their subsequent application to current trends, illuminates why variation among states' responses to external stimuli across policy realms occurs, thus providing the core emphasis of the dissertation. This model indicates that it is not rational or in a government's best interest for states to cooperate at all times, even if the benefits seem evident. And conversely, the model is also able to explain why states cooperate in light of an absence of obvious benefits. Governments perceive the repercussions of cooperation as they may affect their tenure in office or satisfy key constituents. Similarly, the executive branch may favor cooperation, but is restricted due to political constraints in either the legislative or judicial branches, or by the interests of key constituents. In sum, this dissertation provides another layer to our understanding of cooperation among states, as well as current trends in the world system within the commercial, monetary and security arenas.

CHAPTER 2

THE DOMESTIC SOURCES OF INTERNATIONAL COLLABORATION

"The first time a significant conflict arises between domestic policy objectives, on the one hand, and the agreement to cooperate, on the other, there is little doubt about which commitment would fall by the wayside."¹⁶

Over the last fifteen years the global scope of monetary and commercial agreements has expanded, while the breadth and reach of security alliances has diminished. International cooperation among states continues to deepen regional blocs, as oftentimes past enemies agree to collaborate in both the economic and security arenas. For the most part, academic discussion of cooperation has centered on relative versus absolute gains, systemic polarity, or signals that these cooperative agreements send to the international community.¹⁷ More recently, scholars have focused on cooperation among democracies and the credible commitments they entail.¹⁸ While systemic explanations and the credible commitment literature certainly add depth to our understanding of international cooperation, they only tell part of the story. States react through an array of foreign policy responses to similar events in the international system. However, by simply focusing on the systemic level, this variation among policy responses remains largely unaccounted for in theories of cooperation. Domestic level explanations can help fill the void in this literature, and may offer additional insight into which states cooperate, why certain states opt for agreements in one issue area over another, as well as the relationship among the agreements themselves. Depending on the

¹⁶ Eichengreen (2004: 4)

¹⁷ For example, see Baldwin (1993) for neoliberal and neorealist views on cooperation at the systemic level.

¹⁸ Martin (2000), Gowa and Mansfield (2004) and Fearon (1994, 1997) address credible commitments and audience costs in various issue-areas.

domestic institutional environment – from regime type to veto players to the influence of prominent sectors – states are constrained in their policymaking and are limited in the degree to which cooperation may occur. Domestic institutional design may push some states towards cooperation in one policy realm, while deterring cooperation in other realms. Therefore, in deciding to cooperate, leaders must choose among the viable options – military, commercial or monetary collaboration – and pursue that strategy most in line with a state’s overall objectives and feasibility of ratification at the domestic level. In this manner, states may also be forced to opt for specific agreements over others due to the domestic context, thus providing insight into the diverging trends in modern international cooperation.

Dollarization, transatlantic tensions and the recent rise of formal East Asian regionalism are some recent trends that are indicative of cooperation, or the lack thereof, in the modern political and economic realms. However, the domestic factors that influence each of these developments remain largely ignored in scholarly research. For instance, in Latin America countries such as Ecuador and El Salvador have recently adopted the dollar, while countries such as Brazil have opted for floating exchange rates following the currency crises. While market size certainly may explain one aspect of the contrasting monetary policies, it only tells part of the story. As Jameson (2003: 644) notes, “issues of power and political goals of actors and institutions will play the dominant role” in determining future dollarization decisions in Latin America. Variation in Latin American monetary policy dates back to the early 1900s, when US dollar diplomacy functioned relatively smoothly in Panama and Cuba but was met with strong opposition in Puerto Rico. Sectoral interests in Honduras help explain within country

variation, as the northern region, dominated by US banana companies, adopted the dollar as the key currency in contrast to the rest of the country (Helleiner 2003).

Domestic sources similarly influence rising transatlantic tension, as growing US-opposition within European countries highly impacted government's decisions of whether or not to ally in the current Iraqi war. Furthermore, recent US military decisions, largely influenced by a hawkish administration and the attacks of September 11th, continue to strain the tenuous ties between the EU and US. For instance, the decision to remove bases from Germany, while arguably overdue and an outdated remnant of the cold war, contribute to the current nadir of post-World War II US-European relations (Fields 2004: 80). Finally, in the commercial arena, East Asia remained for some time the anomaly in the global trend towards commercial regionalism. While US opposition to East Asian regionalism and the currency crises of 1997 were large influences, equally significant were domestic constraints on policy makers. In Japan, the protectionist and influential agricultural sector hampered economic cooperation, as Japan was one of the last WTO members to form a bilateral trade agreement. This has helped spark similar agreements within the region, which nevertheless trails behind other regions in terms of economic integration. For the most part, nationalist forces guided domestic policymaking, contributing to this lag. As these brief examples illustrate, some of the most influential developments in the modern era may be strongly influenced by domestic factors. While I do not dispute the involvement of international variables, explanations of international cooperation as purely systemic phenomenon are inadequate. The recent developments just discussed are indicative of how states respond through an array of policies to events in the world system. Current systemic theories of international

cooperation fail to account for this variation, which in turn greatly impacts global economic and military integration.

Which domestic factors encourage and deter international cooperation is the key focus of this chapter. Evaluating the domestic sources of international collaboration in three distinct issue areas – preferential trade agreements, monetary regimes and alliances – provides the first step at understanding varieties in cooperation in the world system. As the number of democracies in the world system continues to grow following the third wave of democratization,¹⁹ domestic level analysis of international agreements is not only long overdue but is especially timely as more and more constituents are able to elect or reject their leaders based on political and economic policy. Leaders not only have to answer to the international community, but also to the domestic population when committing to agreements. Furthermore, regional collaboration is arguably the most influential trend in the post-cold war era. An unprecedented number of preferential trade agreements have been reported to the WTO, countries continue to link their economies through exchange rates, and security alignments slowly stray from the rigid alliances of the cold war era.²⁰ Nevertheless, while the repercussions of regionalism are frequently discussed, there has yet to be a thorough, empirical analysis of the domestic conditions driving regionalism.²¹ This chapter takes a first step at understanding the factors that cause regional cooperation through analysis of those aspects of domestic institutional

¹⁹ Huntington (1991) describes the current increase of democracies in the world system up to and following the end of the cold war.

²⁰ On preferential trade agreements reported to the WTO, see http://www.wto.org/english/tratop_e/region_e/region_e.htm. For more on European and American diverging views on security and economic policy, see Kagan (2003). And for more on monetary cooperation since Bretton Woods, see James (1996), or the politics of exchange rate policy see Kirshner (2003).

²¹ Mansfield and Milner's (1997) edited volume does discuss the political and economic factors that impact regionalism, but does so largely from a case study perspective. Nevertheless, this book is one of the first that incorporates a domestic politics perspective

design that contribute to monetary integration, preferential trade agreements and alliances. With each type of international agreement, I examine the role of domestic institutional variation as an indicator of whether the same domestic forces contribute to the formation of each agreement, or if there are unique factors involved. These results shed light not only on international collaboration in the world system, but also add depth to our understanding of the driving forces behind the recent trends towards regionalism, and shifting patterns away from security alignments and towards economic cooperation. In short, I contend that variation in domestic political institutions clarifies why states form, or are deterred from forming, specific international agreements, and subsequently regionalism, as well as why some states opt for one international agreement over another.

This chapter analyzes cooperation in three distinct spheres in order to investigate not only those conditions that encourage cooperation in each realm, but also to examine whether those conditions vary by issue area. In short, this chapter demonstrates the manner in which domestic political institutions influence cooperation in the world system. Moreover, I also explore how institutional constraints impact cooperation across issue-areas. Not only does the domestic political environment impact a state's propensity to cooperate, but it also constrains the means (i.e. policy realm) by which a government collaborates in the international system. Therefore, I also examine those domestic conditions that cause countries to cooperate in the commercial, monetary and political arenas. Or, conversely, which conditions deter each form of cooperation? Current explanations of cooperation do not adequately address those factors that influence and constrain policymakers' choices, nor do they sufficiently speak to the relationship among political and economic cooperation at the international level. Past

analyses of cooperation fail to take into account the possible means by which governments can pursue cooperation, nor do they account for the variety of responses that emerge to the same external stimuli. Even after controlling for external factors such as geographic regions, polarity, and regional conflict, domestic institutional constraints consistently impact a government's decision to cooperate. Institutional factors serve as key determinants of international cooperation. In fact, across issue areas international collaboration represents a government's response to its domestic political environment.

My results suggest that governments with certain domestic institutional constraints may be pushed towards cooperation in certain areas and pulled away from cooperation in others. For instance, from an interest group perspective, countries with a large trading sector are more likely to form preferential trade agreements than any other agreement, while trade openness actually deters security alliances. Institutionally, the larger the number of veto players with influence over policy, the more likely a state is to form a security alliance or trade agreement, but is less likely to adhere to monetary unification. In short, I argue that the range of cooperative options available to leaders is constrained by the domestic political environment. The choice between cooperation in the monetary, commercial and security arenas may be as much indicative of policymakers' ability to cooperate in specific realms, as it is a manifestation of desired policy goals. This in turn helps explain the use of international agreements as instruments for one another. For example, my results suggest that democracies tend to form preferential trade agreements, but are less likely to form alliances or integrate monetarily. Therefore, if a democratic state aspires to strengthen diplomatic ties, commercial integration is the path most likely chosen, with the aspiration that political externalities will emerge from the preferential trade agreement. Furthermore, this model

offers additional insight into why states continue to form monetary unions despite the absence of an optimal currency area. Leaders are constrained by political factors, specifically domestic institutional structures. While I do not deny that international constraints and strategy also impact cooperation (i.e. signaling, commitment, relative gains), the role of the domestic conditions has largely been ignored in quantitative analyses of cooperation.

Cooperation In The World System

In an anarchic world system, why do states cooperate? Answers to this question remain a key source of dissension among realists and liberals. Nevertheless, the original strategy employed to understand cooperation focused on the systemic level, treating the state as a unitary actor.²² Cooperation entails mutual coordination of policy; however, realists and liberals disagree on the motivations and factors behind international cooperation. Realists tend to argue that cooperation is possible, but difficult, under anarchy and is largely influenced by power politics. Waltz (1986: 58) discusses a state's temptation, but more so wariness, to cooperate for joint benefit. This is largely due to the anarchic nature of the world system, lack of complete information, misperception or, in the security realm, the fear of being dragged into a war once a greater military advantage is achieved through alliance. However, he notes, "When on occasion great powers did move toward cooperation, they did so in order to oppose other powers more strongly." This is the heart of realist balancing arguments, wherein states cooperate

²² Keohane (1984: 51-2) defines cooperation as taking place "when the policies actually followed by one government are regarded by its partners as facilitating realization of their own objectives, as a result of a process of policy coordination." This is a generally agreed upon definition of cooperation, and is the definition used in this chapter.

together to balance off a joint external threat. Relative gains often correspond with realist balancing arguments, as states opt for cooperation only when in their self-interest, and as long as the gains received are unevenly distributed in a state's favor (Grieco 1993).²³ An alternative branch of realism points to hegemony instead of balancing as a source of cooperation among states. Concentration of power, not balance, by a single state spawns stability and cooperation in the international economic system. Applied largely in the economic realm, this literature points to cooperation that occurred under British or US hegemony, and the lack of cooperation during the interwar period that led to the chaos and instability of the era.²⁴

In contrast, liberal theorists tend to point to the role of ideas and international institutions in guiding cooperation. Regime theory and institutional analyses emerged following dissatisfaction with functional and neo-functional arguments, but largely ignore the interaction between the domestic and international spheres (Krasner 1983; Haggard and Simmons 1987). While regime theory and institutional analyses differ, they both look to overarching mechanisms that facilitate and encourage cooperation among states. In addition, Snidal (1993: 171) argues, "a small increase in the number of actors dramatically decreases the impact of relative gains in impeding cooperation." Therefore, many liberals contend that a multi-polar, as opposed to bipolar, system is likely to produce more cooperation as the role of relative gains decreases. This is especially true if international institutions help mitigate anarchy, as these institutions are able to provide additional degrees of information as well as an outlet for dispute resolution. Finally,

²³ Grieco (1993: 324) lays out the conditions that the impact of relative gains on cooperation varies, such as the issue area, fungibility of influence, current power status of the state, and the size of gaps in mutual gains.

²⁴ See, among others, Gilpin (1981, 1987), Gowa (1994), Krasner (1976), Carr (2001) or Kindleberger (1973).

international institutions also lengthen the shadow of the future and decrease the uncertainty between states that can hinder cooperation (Axelrod and Keohane 1993).

Following the third wave of democracy, theoretical work on cooperation has begun to focus on democratic cooperation and credible commitments. While the realist-liberal debate centers on the structural push factors behind cooperation, the credible commitment literature concentrates on those domestic characteristics that render democratic cooperation more stable and with a greater likelihood of being fulfilled.²⁵ Although this literature focuses on the credibility of cooperation, as opposed to the sources of cooperation, it does look within the state and point to those factors that influence international collaboration. For example, Martin (2000) illustrates the role of the American and European legislatures in adding legitimacy to agreements ranging from food-aid policy to implementation of a common market. However, the credible commitment literature also illustrates the role of democratic institutions in making threats, in addition to cooperation, more legitimate. Schultz (2001) and Fearon (1994) promote the role of information and signaling, inherent within democracies, that makes their threats more viable than nondemocracies. The audience cost literature focuses on those characteristics inherent within democracies that make both threats of force as well as cooperation more believable to other actors. Democracies provide information through institutional checks and balances as well as the electorate's ability to force governments to be responsible for their actions. Therefore, due to the processes and sometimes quagmire that can emerge within democratic policymaking, once a decision has been reached it is that much more credible to members of the international

²⁵ Although recently Gartzke and Gledisch (2004) claim democracies are actually less reliable allies due to interest groups and government turnover, both of which support the key argument of this chapter and the focus on the impact of domestic institutional constraints on policymaking.

community. Similarly, Lipson (2003) discusses the transparency and 'contracting advantage' innate within democracies that make them more reliable partners. In short, discussion of democratic credible commitments generally points to the transparency, institutional framework, signaling or information provided within democracies that render democratic regimes more dependable partners. Nevertheless, it should be noted that this literature does not argue that democracies are inherently more cooperative. In fact, international agreements are oftentimes difficult to pass within democracies for those same reasons that make them more credible once the agreement is passed. Even if a democratic government aspires to cooperate at the international level, it may be difficult due to domestic institutional constraints and the power of key sectors and the electorate.

As this discussion illustrates, there has been significant work attempting to explain international cooperation among self-interested states. Nevertheless, a large aspect of cooperation remains underexplored – the domestic determinants. Self-interested leaders not only need to be wary of international responses to collaboration, but their tenure in office may also be adversely affected if the wrong agreement, or agreement partner, is chosen. Although research on the credibility of democratic agreements does offer insight into domestic factors affecting cooperation, the main arguments relate *ex post* to the formation of agreements, or focus on a single case study, making it difficult to create a broader, theoretical argument. In short, although the credible commitment literature is a first step at incorporating domestic level analyses, this theoretic work remains underexplored in a systematic, generalizable manner. Instead of examining the outcome of cooperation, this chapter builds upon the credible commitment literature, analyzing the domestic causes of cooperation in the world system

and how the domestic political environment impacts international cooperation in three distinct issue areas.

Looking Domestically At International Agreements

While regionalism and the rise of economic blocs is a significant trend following the demise of the cold war, there has yet to be empirical analysis of the domestic factors behind this development. Superficially one may assume that international collaboration is only relevant at the systemic level. Nevertheless, one must not ignore the domestic forces guiding a state's willingness to surrender a degree of sovereignty for joint cooperation. As Snyder (1997: 143) notes, "systemic constraints leave considerable room for choice, and the domestic constraints then determine the choices..." While systemic factors certainly limit available options, domestic factors guide states to choose specific agreements based upon the range of options available. For instance, Denmark and the UK continue to reject adopting the euro, while East European countries are waiting in the wings anticipating accession. The Canada-US Free Trade Agreement, and predecessor to NAFTA, muddled through difficult ratification procedures, and at times flirted with rejection, while many Latin American countries would jump at an opportunity to form such an agreement with these countries in order to gain greater accessibility to such a large market. And leaders across the world have had to respond to domestic unrest due to whether or not they aligned with the US against Iraq in the recent war. For example, in Germany Gerard Schroder ran his campaign based upon a promise not to ally with the US. Although "Schroder's decision to run an election campaign based on opposition to America's policy in Iraq made him seem devious and

untrustworthy” (Lambert 2003) at the international level, domestically it raised his popularity and helped in his re-election bid. As these examples illustrate, international agreements across issue areas are far from removed from domestic constraints.

These examples support Kupchan’s (1997: 212) claim that there are trade-offs between “the scope of regional arrangements and the ability of member-states to win domestic support for participation in those arrangements.” Member-states’ must take into consideration the domestic repercussions when choosing whether or not to form an international agreement. Kupchan stresses that the necessity to sell international agreements to the electorate applies equally in both the security and economic realms. While some claim there is a sort of partisan truce when it comes to foreign policy (Gowa 1998), this may not be true of international agreements. Domestic institutions, sectoral interests, and party ideology can influence which countries have a higher propensity to collaborate internationally, as well as the choice of international agreement. In this way, domestic constituents influence policy and can impact whether or not an international agreement is ratified, as failure to respond to the electorate may influence a leader’s tenure in office. International agreements provide information to the electorate about the behavior of policymakers. Therefore, leaders in office need to act strategically, playing a two-level game to ensure electoral popularity as well as to achieve goals internationally.²⁶

For the most part, the domestic factors behind international cooperation, and the subsequent regionalism, remain largely unexplored. However, past literature on the international agreements that push countries towards regionalism does shed some light on the issue. The following section provides an overview of past work on the domestic

²⁶ See Fearon (1994, 1997), Leeds (1999) and Schultz (2001) for more discussion on audience costs. Keohane (1984: chapter 6) also illustrates the role of compliance and the cost of renegeing on promises.

influences that impact a state's propensity to form three types of international agreements – alliances, preferential trade agreements and currency unions. However, as is evident from the discussion below, this literature is incomplete at best.²⁷

Alliances

An alliance is a formal agreement between or among states stipulating a manner of consultation or joint action in a number of pre-specified contingencies (Maoz 1990: 93). According to Maoz (2000: 113), they are part of a state's repertoire of strategic responses to security-related challenges in the world system. States often form alliances to deal with external or internal threats, to help settle territorial disputes, or to signal resolve.²⁸ Alliance literature usually falls into the Realist debate between balance of power (Waltz 1979) and balance of threat (Walt 1987). This disagreement deals with whether states ally to balance against a dominant power, or whether they balance against the dominant threat.²⁹ While this debate has advanced our knowledge of major power alignments, it remains limited in explaining minor power alignments and excludes domestic sources of alliances (Levy and Barnett 1992: 20).

There has been scant attention given to domestic influences on alliance formation, although there is evidence indicating that leaders use alliances to push forth their domestic agenda. Morrow (1993) and Most and Siverson (1987) incorporate substitutability and statecraft into their analyses, but rely strictly on the trade-off between

²⁷ This discussion focuses solely on the domestic, not dyadic level, of analyses. Analyses on which countries tend to cooperate together (e.g. joint democracy, joint ideology) are explored in the subsequent chapter.

²⁸ See Schweller (1997), Altfield (1984), Morrow (1993, 2000), Reiter and Gartner (2002), Lai and Reiter (2000) and Levy and Barnett (1992) for further detail on why states ally.

²⁹ Working within these frameworks, chainganging and bandwagoning are further explanations of alliance patterns in the international system.

arms and alliances, ignoring any political economy influences.³⁰ Maoz (2000: 115) claims that regime score³¹, regime persistence, revolutionary changes within the region, and levels of democratization within the region are the main political factors that impact alliance formation. However, two of these four factors are not strictly domestic variables.³² Gilligan and Hunt (1998) focus on regime survival (the length of tenure in office) as a determining factor in alliance formation, noting that many developing country leaders face greater threats internally than abroad, and therefore will ally with those states that will ensure their persistence in power. Altfeld (1984) also formulates a domestic politics framework in his explanation of why states ally, but focuses strictly on rational choice and transitive preferences, arguing that alliances almost always form only when in the security interests of all actors involved. While I work under the assumption that leaders are rational with the main goal to stay in power, it is essential to take this a step further and understand the origins of these preferences. In short, leaders will only provide as much protection to special interests as they can without hurting their prospects for staying in office (Milner, Rosendorff, and Mansfield 2003: 4). David (1991) successfully digs deeper into alliance formation and, working within the balance of threat framework, notes that leaders must deal with both internal and external threats. However, although internal instability is addressed, the analysis is still incomplete as it fails to incorporate the domestic institutional and sectoral constraints that influence policymaking.

³⁰ In fact, arms and alliances are considered the only possible substitutes for one another in Morrow's (2000) overview of alliance literature. Most and Starr (1989) and Morgan and Palmer (2003) discuss foreign policy substitutability in more detail.

³¹ The regime score represents the level of democracy as measured by the Polity IV dataset. This variable is often measured from -10 to 10, with a score of ten indicating the highest level of democracy, and -10 the most autocratic states.

³² The regional implications, however, will be useful in dyadic analysis, as they point to a diffusion pattern of alliances.

Papayoanou's (1999) *Power Ties* is one of the only major works that addresses domestic political economy factors involved in alliance formation. Papayoanou, while working within the balance of power framework, argues that status quo states will balance when their domestic economies are interdependent with each other, as well as independent from revisionist states. While he incorporates domestic politics by focusing on how economically interdependent states are, Papayoanou still fails to open the black box of the state and look at how domestic factors, such as institutional design and sectoral preferences, explicitly affect alliance formation. Narizny (2003) has perhaps the most detailed discussion in this area, relying upon domestic party politics, and their subsequent sectoral alignments, to explain British alignment from 1905-1939. He argues that Britain's alignments were a result of which party was in power. The Liberals were largely from the north and had strong trade ties with the continent, and therefore opposed taking sides between France and Germany prior to World War I, as Germany was one of Britain's best trading partners. On the other hand, Conservatives generally resided in London and had large stakes in the empire and finance, influencing their decision to support France and Russia against Germany and Austria in order to prevent German hegemony on the continent. These differences persisted into the interwar era and led to another policy shift prior to World War II. By creating a domestic political economy account of alignment, Narizny is able to explain why the British appeased the Germans for so long, and illustrates the important role domestic economic and financial interests play in shaping alignment decisions. Similarly, Levy and Barnett (1992) apply a domestic political economy account into their analysis of Third World alignments. They contend that domestic political economy factors formulate security policy for developing countries, and overall shape their conception of security. Unlike major powers,

developing countries lack the resources to choose between alliances and armaments, and oftentimes cannot invoke conscription for fear of giving too much power to domestic opposition. Domestic factors also constrain access to resources and create incentives to access these through external means, despite risks of entrapment and concessions. In sum, while alliances generally remain analyzed as systemic phenomenon, recent case study analysis points to the possibility that domestic factors – political and economic – influence the decision to ally in developing and developed countries alike.³³

Preferential trade agreements

In contrast to work on alliances, there is an emerging literature on domestic sources of preferential trade agreements, albeit the majority is limited to brief case study analysis of the OECD preferential trade agreements. Preferential trade agreements are defined as, “a broad class of institutions that include free trade areas, common markets, and customs unions” (Mansfield and Pevehouse 2000: 775). Milner, Rosendorff and Mansfield (2003) and Haggard (1997) argue that domestic politics determines not only who signs preferential trade agreements, but also the structure of the agreement. Leaders use preferential trade agreements to spread information to their constituents regarding the government’s economic policy, as well as to serve as a scapegoat during economic downturns. Mansfield, Milner and Rosendorff (2002) also contend that as states become more democratic, they are more likely to join preferential trade agreements. Not only does regime type matter, but so too does the ratification procedures. Through a case study of the US/Canada FTA in 1989, Bennett and Duchesne (2000) illustrate how

³³ As Maoz (2000: 137) explains, a model on alliance formation must start at the monadic level in order to understand those factors that push national governments to pursue alliances. The next step, he explains, is to take the analysis to the dyadic level, which I investigate in the following chapter.

legislative power, societal interests, embedded preferences and the ratification procedure itself shapes the likelihood of whether or not a state will join a preferential trade agreement. The US policy of 'fast track', along with distribution of power in each legislature (and the interests of their supporters) determined the length of the ratification process in each country as well as the outcome of the process itself.

Divided government and ideology also have been investigated with relation to trade policy. Through individual US case study analyses, Karol (2000) finds little consistent impact of divided government on trade policy, as congressional democrats were relatively free trade proponents prior to 1970, regardless of the president's party affiliation, while the same has been true since 1970 of Republicans. In contrast, Sherman (2002) asserts divided government actually decreases tariffs. Again, focusing on the US, Sherman explains that trade policies do not necessarily adhere to party lines, claiming that Democratic congresses are more protectionist than Republican ones, while Republican presidents are more protectionist than their Democratic counterparts. Therefore, policy preferences diverge to the greatest degree under a unified government. Despite these contradictory findings, the majority of recent research claims divided government further serves as an impediment to adoption of preferential trade agreements as they serve as a hindrance to the ratification procedure (Milner and Rosendorff 1997; Iida 1993).

Timing also may impact the likelihood that a trade agreement will pass. When elections occur midway through negotiations there is a decreased likelihood that they will be ratified due to electoral uncertainty and the executive's decreased ability to influence foreign leaders (Milner and Rosendorff 1997). Milner (1997) also argues that regional agreements reflect the rational responses of governments to their domestic political

situation, as they form agreements based upon the preferences of economic agents and supporters. With regard to ideology among OECD countries, Milner and Judkins (2004) find right-wing parties advocate trade openness while those of the left are more closed. Left wing parties tend to be more supportive of labor, and therefore are more protectionist in order to shelter their base, while right wing parties favor the interests of capital, generally their key constituents. In short, the majority of literature on commercial cooperation has been examined through case study analyses, reflecting an increasing interest in which countries form preferential trade agreements and what domestic sources impact their ratification. Although Stolper-Samuelson models tend to take precedence over ideology in the trade literature,³⁴ both arguments illustrate the impact of domestic-level factors in influencing trade policy. While a political economy approach to commercial cooperation is increasingly incorporated into analyses, this literature remains largely limited to case study analyses of OECD countries.

Monetary Regime

Moving on to the last issue area, recent work has begun to explore the domestic factors influencing currency unions, although it is incomplete at best. Domestic determinants – such as regime type, interest groups, party ideology, and cabinet instability – have been analyzed with regard to their impact on fixed exchange rates. As Frieden (1993:140) notes, “domestic distributional considerations are central to the choice of exchange-rate regimes.” For instance, with regard to ideology Bearce (2002) claims OECD countries in the modern float era favor tight monetary policy (relying upon interest rates to stem inflation), but loose fiscal policy (greater government

³⁴ See Hiscox (2002)

spending) if they are leftist, while right wing governments opt for a more flexible monetary policy and tight fiscal policy. As Leftist parties traditionally provide public goods and focus on income redistribution, they tend to favor the tight monetary policy mix. In contrast, right-wing parties prefer private investment and monetary expansion. With regard to the interwar period, Simmons (1994) finds that unstable governments were the least likely to partake in monetary cooperation, while small, trade dependent countries with an accommodating labor force were the most likely. She also argues that high left-wing representation led to increased depreciations, while more conservative governments defended the currency but raised tariffs. Leblang (2003) similarly finds a connection between ideology and monetary policy, correlating left-wing representation in developing countries with exchange rate stability, as parties of the left focus on income distribution and employment, therefore requiring the fixed exchange rate as a signal to the international community of stability.

Institutional design also has been correlated with monetary policy. Eichengreen (1995) claims that states with proportional representation during the interwar period were more prone to crisis due to the large number of political parties associated with it, as well as weak governments and coalitions. Also incorporating institutional factors, MacIntyre (2001) attributes the number of veto players to the success or failure of states and their (in)ability to deal with the Asian Crisis. Drawing upon work by Tsebelis (2002), MacIntyre claims that the higher the number of veto players the more policy rigidity, while too few led to policy volatility. It was those states in between that were best able to respond to the crisis. Similarly, Verdier (1998) contends that the centralized governments were most adept at financing globally during the gold standard, as decentralized countries had to contend with too many competing domestic sectors. Finally, Bernhard

and Leblang (1999) find that states with proportional representation and high opposition are more likely to fix their exchange rate while majoritarian systems with low opposition are more likely to float. Coalition governments are also more likely to fix, while those dominated by a single party are likely to float. While these works have taken the first step at analyzing the domestic political economy of monetary policy, there is no overall consensus on either the institutional or ideological influences on monetary policy (Broz and Frieden 2001). As this overview reveals, states likely follow incentives that are structured by their domestic institutional framework as well as sectoral interests but, as Cohen (2003: 160) admits, “no studies yet exist that directly probe the role of domestic interest groups in currency regionalization.”

Hypotheses

As Gourevitch (1996) explains, institutions constrain the array of options available to policymakers, as well as the accessibility of specific sectors to the policymaking process. I expand upon his argument and apply it to the realms of international commercial, monetary and security cooperation in order to evaluate the role of domestic institutions on high and low politics alike. Existing theories, especially on military alliances, belittle the role of domestic institutions on matters of international collaboration. And although political economy research bestows a greater role to the domestic political environment, these theories have yet to provide a generalizable, systematic analysis of the causes of economic cooperation. The key focus of this chapter, therefore, is to examine whether or not domestic institutional constraints influence international cooperation across policy realms. As the previous discussion illustrates,

both institutional factors, as well as the interests of prominent sectors of society, have been associated with international agreements in the economic and political arenas. Assuming a government's main goal is to stay in power, institutional characteristics may constrain or encourage leaders from cooperating due to constraints such as ideological differences, legislative dissension or simply bureaucratic red tape. Similarly, if leaders are supported by key interest groups that may be negatively affected by international collaboration, international agreements will unlikely be ratified. The converse of each example is also true, as domestic political factors also can promote cooperation in distinct spheres. For example, while Mexico remains wary of additional dependence on the US through dollarization, prominent members of the business sector continue to encourage it (Jameson 2001: 4). Nevertheless, despite the likely role of domestic factors in influencing international cooperation, the majority of research on international collaboration tends to attribute participation in international agreements as systemic phenomenon. This is especially apparent in studies on alliance formation, which tend to overlook and belittle the importance of domestic economic and political factors in shaping high politics. By analyzing this relationship through a domestic politics lens, I can focus on the distinct domestic characteristics that render cooperation more likely, analyze the lowest common denominator among cooperative states, and examine those conditions that encourage cooperation across issue areas.

Like political institutions themselves, the actual measurement of domestic political institutions and the constraints they impose varies considerably. In an attempt to account for the various facets of institutional constraints on foreign policymaking, I measure institutional constraints building upon work on democratic cooperation, veto players, and selectorate theory work by Bueno de Mesquita, Smith, Siverson and

Morrow's (2003 – heretofore BSSM). Following work by Mansfield, Milner and Rosendorff (2000, 2002), regime-type influences cooperation in the commercial arena. Additional work on democracies tends to attribute greater cooperation to those countries that possess greater levels of democracy within their political institutions due to transparency, accountability and checks and balances.³⁵ However, a state's level of democracy is but one way to measure domestic institutional constraints. BSSM point to the size of the winning coalition, or that portion of the populace to which a leader is accountable. The larger the winning coalition, they contend, the more likely leaders are to pursue policies that are optimal to a greater percentage of the population. As they note (BSSM 2003: 311), "bad policy turns out to be good politics for autocrats, monarchs and junta leaders" because they only answer to a small portion of society. In contrast, strategies that may be qualitatively deemed as good policy by a larger proportion of the population, such as trade openness and exchange rate stability, may be pursued in large winning coalition governments, even if they hurt a small section of society.³⁶

Finally, the veto player literature measures the role of institutional design on international policy through the lens of political constraints inherent within specific institutions. As Tsebelis (2000) notes, veto player theory points to institutional variation that is applicable to democracies and non-democracies alike, therefore offering a distinct measurement of domestic political institutions. Analyses on veto players have found an empirical correlation between political constraints and economic policy such as exchange rate policy (MacIntyre 2001), trade openness (Henisz and Mansfield 2003), and capital

³⁵ See also Acharya (2003), Morrow, Siverson and Tabares (1998) and Henisz and Mansfield (2003) for additional discussion of democracies on various forms of cooperation.

³⁶ McGillivray (2003) notes that governments may pursue trade policies that are beneficial at the national level although they hurt them in local regions.

controls (Kastner and Rector 2003). The larger the number of veto players (i.e. political constraints) the harder it is for a state to change policy. Therefore, it is plausible that as the number of veto-players increases within a political institution, the harder it is to pass policy. The following hypotheses reflect three alternative frameworks for measuring the role of domestic institutional constraints on foreign policymaking.

Hypothesis 1: Democracies are more likely to cooperate than non-democracies.

Hypothesis 2: The larger the winning coalition, a state's propensity to cooperate increases.

Hypothesis 3: Additional political constraints hamper cooperation.

However, in addition to institutional design, domestic institutions play a significant role through their interplay with society – creating incentives, including the representation of influential sectors, and generally representing the interests of predominant factions of society. According to Milner (1997: 60), “the likelihood and terms of international cooperative agreements depend on the preferences of the interest groups involved in the policy area.” Institutions inherently shape the degree to which the interests of specific sectors come to fruition through cooperative agreements. Furthermore, in line with the selectorate literature, key sectors may comprise a large percentage of the winning coalition and thus have large influence on government stability and regime duration. Therefore, in addition to domestic institutional design, two key sectors are also analyzed with regard to their role in influencing foreign policy – the trade and military sectors. These two sectors are important as each group greatly influences policymaking in both democracies and non-democracies alike. In short, the following hypotheses reflect the notion that not only does the structure of institutions matter, but so too do the interests of specific sectors that are included, excluded or disenfranchised via institutional constraints. Trade has been associated with a state's

greater propensity for cooperation in the diplomatic arena (Pollins 1989) as well as a strong correlation with trade agreements (Krueger 1999) and currency unions (Rose 2000), and therefore likely impacts a state's propensity to form cooperative agreements. Furthermore, as Schneider and Schulze (2003) note, the military sector has a strong interest not only in foreign diplomatic policy but also in economic policy due to the desire to accrue income to finance the military arsenal. Countries that tend to overspend on the military sector are more prone to conflict, and therefore may also be less likely to cooperate.

Hypothesis 4: Due to the outward-orientation of the trading sector, countries with a large proportion of trade to GDP are more likely to cooperate than those with insignificant trading sectors.

Hypothesis 5: As the size of the military sector increases, a state's propensity to cooperate decreases.

While the role of domestic institutional constraints on international cooperation remain a prime focus on the chapter, the results will nevertheless also manifest whether or not the same domestic factors influence international cooperation across issue areas. Does cooperation in one area yield cooperation across issue areas? Or do states simply opt to cooperate in only the political or economic spheres? Both relationships are viable, as states with good relations may wish to extend them across issue areas. However, the converse may also be true. Perhaps states rely upon cooperation through one international agreement in order to provide the externality of implicit cooperation in other realms as well. In this regard, agreements serve as instruments for one another, with the aspiration that cooperation will spillover into other arenas, much in line with functional and neo-functional arguments. Or states simply wish to maintain their domestic autonomy, and limit the amount dependence they have on other states.

Furthermore, as I analyze three different forms of cooperation the results may yield whether certain domestic conditions inherently positively impact a state's propensity to cooperate. Some states may intrinsically be more prone to cooperation than others, despite the policy realm. As little research has been conducted on the various sources of cooperation across monetary, commercial and security arenas, both hypotheses must be examined in order to evaluate whether certain states are more prone towards cooperation, which in turn yields results regarding the relationship of the agreements to each other.

Hypothesis 6: States that form international agreements in one issue area are likely to form them in others as well.

Hypothesis 7: States that form international agreements in one issue area are less likely to form them as other areas as well.

Research Design

Preferential trade agreements, a fixed exchange rate and alliances are analyzed individually, although the independent variables remain the same. Preferential trade agreements are measured as the total number of trade agreements a country has in a given year.³⁷ Since the majority of WTO members partake in at least one preferential trade agreement, a simple dichotomous variable would not offer much variation. Through incorporation of the total number of agreements, I measure the depth of commercial cooperation and gain great variance in the dependent variable. Similarly, the alliance variable indicates the total number of countries with which a given state is allied.

³⁷ These commercial agreements do inherently entail a wide range in terms of depth and scale. However, as this is an exploratory analysis on a state's propensity to cooperate in the commercial area they are grouped together for the sake of parsimony. A next step may be to evaluate the role of domestic political conditions on the diversity of agreements within each policy realm.

This again is a useful measure, as virtually every country maintains at least one alliance, and there is great variation from country to country. Finally, I measure monetary cooperation through a binary variable of whether or not a country maintains a fixed exchange rate in a given year. Examining whether or not a country is in a currency union leads to faulty coding, as many countries peg their currencies to those that float. For instance, there is always at least one country that is in a currency union with the US during the time period analyzed. However, coding the US as part of a currency union every year would be erroneous. Fixed exchange rates provide the best option. Nevertheless, it should be noted that a fixed exchange rate does not necessarily imply cooperation between two states, such as Iraq's peg to the dollar. The fixed exchange rate variable does, however, capture the notion of abandoning domestic monetary autonomy, such as the ability to control inflation, in favor of integrating into the international monetary system. Furthermore, this is a unique form of cooperation in that it takes just one, not two, country's alteration of behavior for coordination to occur.

As the dependent variables are either count (alliance and preferential trade agreements) or binary (monetary regime), they do not follow a simple ordinary least squares (OLS) distribution. Count models generally follow a poisson distribution, while binary dependent variables reflect logit or probit distributions. Furthermore, as the analysis covers a wide range of time, the estimations must account for autocorrelation within the dependent variables. Therefore, the alliance and preferential trade agreement dependent variables are tested through autoregressive poisson estimation as a fourth order process,³⁸ and probit for the monetary regime model. As distributions rarely follow a pure poisson distribution (Long 1997: 230), it is essential to estimate the model

³⁸ The AR (4) function indicates that the model corrects for autocorrelation over the previous four years.

through a technique that takes into account both temporal dependence and the contagion inherent within the dependent variable.³⁹ The autoregressive poisson estimation is the appropriate model when the dependent variable is a count variable, but also exhibits contagion and overdispersion. The auto-regressive poisson estimator was first introduced by Schwartz et al (1996) in order to allow for autocorrelation and overdispersion in their time-series data. It has since then been used frequently for time-series count models.⁴⁰ Similarly, while negative binomial regression would be an improvement on poisson, it similarly does not allow for autocorrelation. The autoregressive poisson analysis is based upon the regular poisson distribution, therefore making it appropriate for estimation of count models, but additionally takes both autocorrelation and overdispersion into account. The autoregressive poisson estimator uses iterative weighted least squares to allow for autocorrelation and overdispersion, unlike negative binomial or poisson estimators. Equally important, theoretically the alliance and preferential trade agreement variables do exhibit temporal contagion, as the probability of forming more of each respective agreement changes as each additional agreement is formed. In contrast, the monetary regime variable is a binary dependent variable, therefore probit is used, as well as temporal splines to control for duration dependence (Beck, Katz and Tucker 1998).

Dependent Variables

The preferential trade agreement variable represents the total number of preferential trade agreements a country has in a given year. This data was obtained from

³⁹ Furthermore, in instances of overdispersion and contagion, a regular poisson model will exaggerate the significance of the variables and therefore lead to erroneous results.

⁴⁰ See also Katsouyanni et al (1996) for initial use of this estimator.

Jon Pevehouse. The alliance variable reflects the number of countries with which a country is allied in a given year. This data is based upon the Correlates of War alliance data obtained from the EuGene software-generating program created by D. Scott Bennett and Allan Stam.⁴¹ The monetary regime variable is simply a binary variable, indicating whether or not a country has a fixed exchange rate. I obtained this data from the IMF. Each variable serves as a dependent variable in a model; the other two international agreement variables are then incorporated into that model as independent variables to test the impact each international agreement has on international agreements in other issue areas.⁴² Table 1 has descriptive statistics for all variables in the baseline model. Tables 2 and 3 list those countries with the largest number of alliances or preferential trade agreements and their respective partners.

Independent Variables

I control for those institutional factors that may affect a state's decision to join each international agreement. The first domestic institutional controls stem from the democratic cooperation literature, incorporating both regime type and duration. As previously discussed, past literature provides some evidence that democracies are more likely to cooperate and adhere to free trade (Mansfield, Milner and Rosendorff 2000).⁴³ Furthermore, according to Maoz (2000: 115), states with durable political regimes feel less threatened, and therefore seek to preserve autonomy as opposed to security through

⁴¹ Go to www.eugenesoftware.org for more information or see Bennett and Stam (2000).

⁴² At most, these variables are correlated at the .09 level.

⁴³ This work generally focuses on trade, not preferential trade agreements, the developed world or on cooperation between two democratic states. Therefore, although useful, it is necessary to expand these argument for a more systematic and general analysis of international cooperation.

Table 1: Summary Statistics

Variable	Observations	Mean	St. Dev.	Min	Max
Preferential trade agreement	3051	4.1049	6.4475	0	37
Alliance	3051	10.9414	11.4258	0	57
Fixed Exchange Rate	3051	.6401	.4800	0	1
Durable	3051	22.7828	24.7193	0	99
Polity	3051	-3.4708	17.756	-88	10
Winning Coalition	3051	.5504	.3201	0	1
Political Cohesion	3051	.1782	.2135	0	.7081103
Domestic Conflict	3051	2875.142	6446.516	0	94325
Regional Conflict	3051	1.3274	2.8138	0	52
Military Sector	3051	58543.55	261692.9	-2.0278	3856
GDP	3051	57.2947	43.8709	2.9899	711.8681
Openness	3051	71.5420	45.7147	5.0553	439.0288
Latin America	3051	.148	.3551	0	1
Middle East	3051	.06063	.2387	0	1
Eastern Europe	3051	.04021	.1965	0	1
Africa	3051	.2587	.4380	0	1
South Asia	3051	.0183	.1341	0	1
East Asia	3051	.0934	.2911	0	1
OECD	3051	.1499	.3570	0	1

Table 2: US Alliances, 1991

United Kingdom	Belgium	Denmark	France
Germany	Italy	Luxembourg	Netherlands
Norway	Canada	Japan	Greece
Iceland	Portugal	Spain	Turkey
Australia	Argentina	Bolivia	Brazil
Chile	Colombia	Costa Rica	Dominican Republic
Ecuador	El Salvador	Guatemala	Haiti
Honduras	Mexico	Nicaragua	Panama
Paraguay	Peru	Uruguay	Venezuela
Antigua & Barbuda	Bahamas	Barbados	Dominica
Grenada	Guyana	Belize	Jamaica
Saint Kitts & Nexis	Saint Lucia	Saint Vincent	Suriname
Trinidad	Korea	Philippines	Bulgaria
Russia	Czechoslovakia	Hungary	Poland
Rumania			

Note: US and Canada are the only countries with more than 35 alliances in given year. 52% have ten or less, 84% have twenty or less, 95% have thirty or less.

Table 3: French Preferential Trade Agreements, 1999

Association of Caribbean States	EC-Algeria	EC-Andorra	EC-Azerbaijan
EC-Bulgaria	EC-Cyprus	EC-Czech Republic	EC-Egypt
EC-Estonia	EC-FYROM	EC-Hungary	EC-Iceland
EC-Israel	EC-Jordan	EC-Kyrgyzstan	EC-Latvia
EC-Lebanon	EC-Liechtenstein	EC-Lithuania	EC-Lome
EC-Macedonia	EC-Malta	EC-Morocco	EC-Norway
EC-PTOM	EC-Poland	EC-Rumania	EC-Slovakia
EC-Slovenia	EC-Switzerland	EC-Syria	EC-Tunisia
EC-Turkey	EC-Uzbekistan	European Economic Area (EEA)	EEC-EU
IOCom			

Note: 94% of the countries have ten or less preferential trade agreements. There are over 50 EU-focused preferential trade agreements, but not all members have ratified each preferential trade agreement. IOCom consists of France, Malagasy, Comoros, Mauritius, and Seychelles. PTOM=Overseas countries and territories.

an alliance. And autocratic states with constant leader change are likely to experience high levels of trade disruption (McGillivray and Smith 2004), and therefore likely deter preferential trade agreement formation and potentially other forms of cooperation. For instance, states that have undergone great political changes are equally unlikely to have the stability to sustain a stable peg (which is more feasible under regime persistence). I acquire both variables through the Polity IV dataset. I incorporate the polity variable, which results from differencing the autocracy score from the democracy score (values originally ranged from 10 [most democratic] to -10 [most autocratic] for each variable). The polity variable for durability ranges from 0 to 99, and represents the number of years since the last regime transition.⁴⁴

Literature on veto players produces the next institutional constraint that may impact cooperation. I utilize Witold Henisz's political constraints dataset, and more specifically his political constraints index, which estimates the viability of political change through identification of the main branches of government with veto power over policy, as well as the alignment and homogeneity of preferences among those branches.⁴⁵ This variable ranges from zero (least constrained) to .708 (most constrained). Centralized states often use international organizations and agreements to signal credibility of policy. Since these cohesive states can reverse policy with little chance of opposition, they often require agreements to increase credibility (North and Weingast 1989). In fact, regional trade institutions can fulfill the role of 'credibility-enhancing mechanisms', and therefore may be more likely under a centralized government (Fernandez-Arias and Spiegel 1998: 229). In addition, as the veto player suggests, the more actors involved in policymaking

⁴⁴ See <http://www.cidcm.umd.edu/inscr/polity/> for the complete Polity IV dataset.

⁴⁵ Henisz (2002).

and that maintain veto power, the harder it is to pass legislation. Therefore, political constraints may impede cooperation at the international level.

I also employ BSSM's selectorate variables for government coalition size and loyalty norm.⁴⁶ The selectorate theory emphasizes the institutional framework and the range of people who impact policymaking and political survival. The selectorate represents the subset of people who have a "formal role in expressing a preference over that selection of the leadership that rules them", while the winning coalition is the subset within the selectorate "whose support is essential if the incumbent is to remain in power" (BSSM 2003: 38). This variable is also indicative of domestic audience costs, as the larger the winning coalition, the greater the domestic electorate to which the leader is directly responsible. The domestic audience costs ensure that the leader is punished if he reneges on an agreement, and therefore signals commitment to the international community. I control both for the size of the winning coalition as well as the ratio of the winning coalition to the selectorate (loyalty norm). The variables are highly collinear, therefore I only incorporate the size of the winning coalition. The winning coalition variable is a five-point scale that ranges from zero to one, with zero indicating the smallest winning coalition and one the largest. The winning coalition variable represents an index of institutional factors that contribute to the recruitment of the executive and the regime type.⁴⁷ BSSM find, among other things, that small winning coalitions, especially in combination with a large selectorate, contribute to poor governance and corruption, with little impetus to improve the general security and standard of living for

⁴⁶ They are correlated at the .7 level.

⁴⁷ These are based upon the REGTYPE, XRCOMP, XROPEN and PARCOMP variables from Polity IV's dataset. See http://www.nyu.edu/gsas/dept/politics/faculty/bdm/dempeace_bdm.pdf for additional details on the construction of the index. The results are similar for the winning coalition and loyalty norm. The democracy and winning coalition variables are correlated at the .55 level.

its population (BSSM 2003: 214). Furthermore, they argue large winning coalitions are consistent with open trade policies, as large winning coalitions must attract loyalty and support from a broad range of voters, and therefore look beyond those who do not reap the benefits from open trade as they rarely are large enough to influence the election (BSSM 2003: 197). Therefore, the larger the winning coalition, the more likely they may be to collaborate internationally across foreign policy issues, and in turn improve the welfare of its citizens.

Along with institutional factors, there are several additional political and economic factors that may affect a state's decision to form an international agreement. The next two variables represent the two key sectors discussed in hypotheses 4 and 5. I create a variable representing the strength of the military, an influential sector for diplomatic, and thus alliance, policy. I incorporate Correlates of War data on military expenditure as well as GDP data from the Penn World dataset to measure the military sector.⁴⁸ The military sector variable, measured as the ratio of military expenditure to GDP, is constructed in the same manner that Schneider and Schulze (2003) employ in their analysis of the impact of the military on the commercial peace. They argue that large spenders (as a percentage of GDP) are indicative of more hostile states, as this sector simultaneously has greater interest in creating hostilities with another state as well as increasing aggregate income. Therefore, it is also plausible that large spenders are less likely to cooperate as well, as they tend to be present in more hostile states. In addition, I incorporate the strength of the trading sector – trade as a percentage of GDP – through data from the Penn World dataset. This indicates not only the strength of export-oriented industries, but also the degree of commercial openness within a state. Following

⁴⁸ All Correlates of War variables were acquired at Bennett and Stam's EuGene software homepage: www.eugenesoftware.org.

the commercial peace hypotheses (e.g. Oneal, Russett and Berbaum 2003), trade openness fosters improved relations between states, making the price of war too costly once states become interdependent. This literature suggests that commercially open states are more cooperative, and therefore they may be more likely to join international agreements, especially in the trade arena.⁴⁹ The last economic control incorporates the size of a state's economy, as measured through GDP, and was also obtained from the Penn World tables. Small countries have been associated with greater trade openness (Alesina and Wacziarg 1998), and therefore may impact commercial, as well as political, cooperation.

As conflict both within the state and the region may disrupt economic and diplomatic ties, thereby influencing a state's decision to form an international agreement, I control for both. First, I employ a regional conflict variable created from the Correlates of War dataset, which indicates the sum total amount of militarized interstate disputes within contiguous countries.⁵⁰ Focusing domestically, I incorporate Arthur Bank's conflict index, which is an index of assassinations, general strikes, guerilla warfare, government crises, purges, riots and revolutions.⁵¹

I use these independent variables to construct a baseline model of preferential trade agreements, fixed exchange rates and alliance formation, respectively. In addition, I include regional dummy variables, representing seven distinct regions of the world. There is little consensus on an exact definition of region, as many require geographical proximity, while others such as Cohen (1997) focus on function rather than geography.

⁴⁹ Although Barbieri (2002) comes to the opposite conclusion.

⁵⁰ A militarized interstate dispute involves a direct threat, display, or use of force.

⁵¹ The Banks dataset can be found at <http://www.databanks.sitehosting.net/Default.htm>, as well as at the *The Logic of Political Survival* homepage (<http://www.nyu.edu/gsas/dept/politics/data/bdm2s2/Logic.htm>) along with the selectorate theory variables. The Henisz political concentration dataset is located at his homepage: <http://www-management.wharton.upenn.edu/henisz/>.

As this debate is beyond the scope of this chapter, I distinguish between regions following the World Bank's categorization used in Przeworski et al (2000). These regional dummy variables capture distinct differences in the forms of regional agreements across the international system. For instance, African states increasingly incorporate security components into preferential trade agreements, while democracy remains a key condition to NATO and EU membership.

Results⁵²

Each international agreement serves as the dependent variable in distinct models. The results across all three international agreement models indicate that several domestic factors significantly impact a state's propensity to join international agreements. The findings also distinguish between the domestic and regional factors that encourage economic integration, and those that encourage security collaboration. Table 2 has the results for each model, as well as the marginal effects for each independent variable.

The key focus of this chapter is to understand the impact of domestic institutional constraints on international collaboration, and thus gain additional insight into the causes of the growing trends in international cooperation. Table 2 produces interesting results regarding this relationship, and provides initial evidence that indeed domestic institutional variation strongly influences the cooperative agreements behind regionalism, as well as the issue area chosen for collaboration. This analysis also provides preliminary support for both hypotheses 6 and 7, as countries that tend to collaborate in

⁵² I do not report the cubic splines in the table for the sake of brevity.

Table 4: Domestic Sources of International Agreements 1974-1999

	Preferential trade agreement	Alliance	Fixed Exchange Rate	Marginal Effects		
				Preferential Trade Agreement	Alliance	Fixed Exchange Rate
Alliance	.010* (.001)	-----	-.040* (.004)	.033	-----	-.015
Fixed Exchange Rate	-.399* (.014)	-.222* (.010)	-----	-1.621	-2.207	-----
Preferential trade agreement	-----	.016* (.001)	-.033* (.006)	-----	.124	-.013
Durable	-.004* (.000)	.001* (.000)	-.000 (.002)	-.009	.014	-.001
Polity	.002* (.000)	-.001* (.000)	-.002 (.002)	.012	-.006	-.001
Winning Coalition	.157* (.038)	-.045* (.026)	-.252* (.148)	.249	-.423	-.010
Political Constraints	.703* (.045)	-.106* (.036)	-1.063* (.195)	2.236	-.958	-.000
Domestic Conflict	-.000* (.000)	-.000 (.000)	-.000* (.000)	-.001	-.000	-.001
Regional MID	.012* (.002)	-.003 (.002)	-.006 (.011)	.052	-.080	-.001
Military Sector	-.000* (.000)	.000* (.000)	-.000* (.000)	-.001	.000	-.000
GDP	.001* (.000)	-.003* (.000)	.000 (.001)	.001	-.001	.000
Trade/GDP	.004* (.000)	-.001* (.000)	.000 (.001)	.014	-.011	.000
Latin America	-.608* (.042)	1.739* (.043)	.968* (.157)	-1.994	13.149	.382
Middle East	.052 (.044)	1.026* (.044)	.881* (.152)	.298	8.007	.347
Eastern Europe	.104* (.058)	-.040 (.065)	.434* (.201)	.256	-.744	.171
Africa	.342* (.039)	.101* (.044)	.493* (.128)	1.291	.331	.194
South Asia	-.179* (.069)	-1.267* (.086)	.629* (.219)	-.612	-9.492	.248
East Asia	-.878* (.047)	-1.964* (.070)	.011 (.139)	-2.701	-14.769	.005
OECD	1.041* (.040)	.784* (.047)	.364* (.164)	3.409	6.148	.143
Rho 1	.867* (.021)	.991* (.020)	NA			
Rho 2	.112* (.027)	-.109* (.028)	NA			
Rho 3	-.026 (.027)	.056* (.027)	NA			
Rho 4	.044* (.021)	.017 (.019)	NA			

*Note: Standard errors are in parentheses. Temporal splines for monetary integration model not included in table.

N=2537 for preferential trade agreement and alliance models, N=3051 for monetary integration model.

R²= .95, .95 and .26 for each respective model.

*p<.1, f-test for alliance and preferential trade agreement, χ^2 -test for monetary integration.

the commercial area also cooperate in the political arena, while monetary integration is inversely related to cooperation in either realm. The findings hold up for the entire sample, as well as for a non-OECD sample. These results are consistent with past findings by Mansfield, Gowa (1994), and Mansfield, Milner and Rosendorff (2002), wherein commercial policy and military policy are intricately linked. For each additional alliance a state forms, the expected number of preferential trade agreements increases by .033. Similarly, for each additional trade agreement, the expected number of alliances increases by .124. However, the same is not true for monetary integration into the global market. Across each model, an inverse and statistically significant relationship is revealed between fixed exchange rates on alliances and preferential trade agreements, and vice versa. As the number of alliances or trade agreements increases within a country, the likelihood that a country has a fixed exchange rate decreases by .015 and .013, respectively. One reason for this may be due to the nature of exchange rate cooperation itself. While during the Bretton Woods era a fixed exchange rate certainly indicated a degree of cooperation in the global market, the same is not necessarily true today. However, when analyzing the de facto peg, a positive and statistically significant relationship does emerge between preferential trade agreements and exchange rate policy.⁵³ Therefore, those states that in reality fix their exchange rate are more likely to cooperate in the commercial area as well. In contrast, those states that may distort the truth behind their exchange rate regime also cooperate less in both the commercial and political arenas. This is an interesting finding, as it manifests an additional outcome of

⁵³ The IMF data represents the de jure exchange rate regime. However, there is large literature and discussion on countries that in theory have a fixed exchange rate, but in reality stray far from the peg. Or conversely, those that report to the IMF a floating exchange rate, but in reality fix their currency. See (Calvo and Reinhart 2002) for more information on this discussion. Data for de facto exchange rate regimes was obtained from Reinhart and Rogoff (<http://www.wam.umd.edu/~creinhar/>).

fabricating exchange rate policy – failure to cooperate in other issue areas as well. In contrast, those countries that in reality promote a stable fixed exchange rate are the countries that also tend to cooperate in the commercial arena as well. While the results do not provide a means to explore if states intend to cooperate or fabricate their monetary policy, this finding does set the foundation for more work in this area.

Moreover, the results suggest that domestic institutional factors influence international collaboration, although the direction of their influence varies by issue area. For example, the longer a specific regime is in power, the probability that it will form alliances increases by .014, consistent with Maoz (2000), while the longer a government is in power the less likely it is to form preferential trade agreements. However, when looking at only non-OECD countries, durability tends to hinder alliance formation, but increase commercial cooperation, contrary to those results in the baseline model. Again focusing on institutional variation, democracies have a greater likelihood of forming preferential trade agreements, consistent with Mansfield, Milner and Rosendorff (2002), but are less likely to form alliances.⁵⁴ As countries become more democratic, the probability that they will cooperate in the commercial arena increases by .012. Democracy does not have a statistically significant effect on monetary integration, although the coefficient is negative. This is consistent with current trends, as many autocratic regimes fix their exchange rate while the major democracies tend to float.⁵⁵ Similarly, the size of the winning coalition diversely impacts cooperation, leading to collaboration in the commercial realm, and thus greater trade openness as BSSM argue,

⁵⁴ These results do not speak to the debate between Siverson and Emmons (1991) and Simon and Gartzke (1999), as they focus on which countries ally together, not those with a higher propensity to form alliances in general. This issue is addressed in the subsequent chapter.

⁵⁵ The exception of course is currently the unification of European currencies under the euro, which did not occur during the time period covered in this chapter.

but restricts states from monetary and political cooperation. Political constraints within the government is also statistically significant, as countries with greater political constraints form preferential trade agreements, while additional veto players deter alliance formation and monetary integration. The findings on preferential trade agreements counter many claims in the veto player literature which contends that policy is less likely to pass as the number of constraints increases. Nevertheless, they are consistent with aspects of the credible commitment literature that point to the credibility that emerges in foreign policy if it passes despite political divisions within governments. However, it is likely that the impact of political constraints hinges upon the interests of key sectors or government ideology. For instance, an interaction between left-wing governments and political constraints produces more intuitive results, as left-wing governments with high political constraints are less likely to form preferential trade agreements. In addition, for countries with a large military influence, as the number of veto players increases, the likelihood of preferential trade agreement formation decreases. This sort of interplay among interests and institutions is intuitive and should provoke additional research.⁵⁶

Additional sector and conflict-driven variables also influence which form of international cooperation is chosen. Countries with higher scores on the domestic conflict index, and thus exhibit greater instability, are less likely to cooperate across issue areas. Regional conflict also matters, as it deters alliances formation but actually leads to states forming greater numbers of preferential trade agreements. Also, countries with a

⁵⁶ Institutions provide the means by which specific leaders or interest groups manifest and pursue their own interests. A domestic environment with little political constraints facilitates policy ratification according to the veto player literature. However, these results may suggest that the relationship is more nuanced, and depends upon the interests of those actors. Even though the United States currently exhibits an institutional environment with little political constraints, it is still highly unlikely that the Kyoto Protocol will be ratified due to government ideology and key sectors of society.

larger military sector favor alliance formation but are less likely to cooperate in the commercial and monetary realms. Conversely, states with either a large GDP or large trading sectors are less likely to form alliances, but are more likely to form trade agreements.

The regression analyses indicate variation across regions as well, as certain regions opt for cooperation in some areas over others. Latin American countries tend to cooperate through political and monetary policy, instead of commercial, while East European countries rely heavily upon economic agreements in place of alliances. African and Middle Eastern states tend to incorporate all three forms of cooperation, while South and East Asian countries are negatively associated with political and commercial cooperation, but positively associated with monetary integration. Finally, OECD countries are statistically significant and positively associated with political, monetary and commercial cooperation. There also are some changes in the findings depending on the region at hand. For instance, an interaction between the Middle East and regional conflict variables produces a decreased likelihood of forming trade agreements, but an increased probability of fixing the exchange rate. Thus, as violence in the region grows, Middle Eastern countries have a greater likelihood of fixing their exchange rate, and stray from trade agreements. Moreover, an additional finding on regional variation emerges when interacting Latin America with the military sector. This interaction shows an increased likelihood that Latin American states will form trade agreements as the military sector's strength increases. And although Latin American countries have a greater likelihood of fixing their exchange rate, the reverse is true as the military sector grows. Moving to Africa, an interaction between Africa and the polity variable indicates that although African countries possess a propensity to form trade

agreements, they are less likely to cooperate in the commercial arena as they become more democratic. And in Eastern Europe, an interaction between the domestic conflict and Eastern Europe variables produces a statistically significant and negative relationship on alliance formation. Instability within Eastern European states decreases the likelihood that they will form alliances. As these examples illustrate, some variation does exist across regions, adding additional strength to the role of domestic politics in shaping not only whether or not a country cooperates, but in what realm that country cooperates as well.

Although the autoregressive poisson and probit models are the most appropriate for the data, I did test additional models to verify the robustness of the results. The findings in table 2 remain consistent across additional robustness tests. The alliance and preferential trade agreement models were also estimated through negative binomial and poisson regressions, with similar results produced. The exchange rate regime model was analyzed through fixed effects logit as well as through ordinal logit, with a scale of 1-3 indicating a fixed, intermediate or floating exchange rate regime. Again, the results remained consistent.⁵⁷

Furthermore, four additional controls (ideology, FDI, the cold war, and political rights) were included in the model to examine the strength of the relationship among the international agreements, as well as to further investigate domestic influences on international cooperation. First, government ideology data was incorporated into the baseline model, limiting the time period to 1979-1997. As Narizny (2003: 185) explains, “partisanship...is a fundamental disagreement over the means and ends of foreign policy.” My results corroborate this statement. Right-wing governments are statistically

⁵⁷ The results vary slightly in the fixed effects model, largely due to the dramatic decrease in sample size in that model.

significant, and positively associated with preferential trade agreements, but are negatively correlated with monetary integration.⁵⁸ FDI inflows positively impact preferential trade agreement and alliance formation, but negatively influence monetary integration.⁵⁹ Furthermore, the time period covered incorporates both the cold war and the post-cold war era. A post-cold war dummy did not alter the results, but was positively associated with preferential trade agreements and alliances, but negative for the *de jure* peg. This is consistent with current trends, as preferential trade agreements have proliferated in number since the end of the cold war. And with the demise of bipolarity, countries are forming alliances with a larger number of countries, producing greater membership but fewer actual formal military alliance agreements. Finally, the Freedom House index of political rights as well as the loyalty norm variable replaced the winning coalition variable (in separate models), but still produced consistent findings.

I also replaced the polity variable with two binary variables for democracy, wherein any score 6 or higher on the polity scale indicates a democracy, and any score less than or equal to -6 represents an autocracy.⁶⁰ Democracy is positively associated, and autocracy negatively, with preferential trade agreements as well as alliances. Thus, while the original polity variable is negative for alliances, a division into autocracies and democracies does indeed show that democracies also are more likely to cooperate in the political arena as well, consistent with Russett, Oneal and Davis' (1998) findings on international organization membership. Autocracy is also positively associated with

⁵⁸ These results are consistent with Milner and Judkins (2003) findings on preferential trade agreements, and are consistent with Leblang (2003) and Simmons (1994). Right-wing governments are not statistically significant with regard to alliances, although the coefficient is negative.

⁵⁹ The ideology data is from the Database of Political Institutions, and the FDI data is from the World Bank.

⁶⁰ This is the cutoff applied in many analyses. See, for instance, Pevehouse (2002: 531).

monetary integration, indicating that autocratic regimes are more likely to sustain a fixed exchange rate.

Along with the institutional variables, I estimated two additional sectoral variables – the agricultural sector and financial sector. I control for the overall size of the financial sector through Beck, Demirguc- Kunt and Levine’s measure of private credit by deposit money banks and other financial institutions to GDP. This measures the financial activity of private financial intermediaries, and their role of channeling savings to investors (Beck, Demirguc-Kunt and Levine 2001: 22).⁶¹ The stronger a state’s financial sector, the more likely it is to favor openness (such as through currency unions or preferential trade agreements) as opposed to protectionism. However, the financial sector’s impact on currency unions is not straightforward. As Cohen (1997: 67) notes, the financial sector desires stability, but may disagree on how to achieve it. The agricultural sector is measured as the total number of workers in agriculture as a percentage of the entire labor force. I obtained this data from the World Bank. When incorporated into the baseline model, the financial sector has a statistically significant and negative impact on trade agreements and alliances. Interestingly, the agricultural sector, like the financial sector, also decreases a state’s likelihood of joining trade agreements. However, the agricultural sector also influences monetary policy, increasing the probability that a state will fix its exchange rate the greater the power of the agricultural sector. Again, these additional variables highlight the role of dominant institutions of society in shaping foreign policy and the type of cooperative agreement a government chooses.

⁶¹ See Levine, Loayza and Beck (1999) and Beck, Levine and Loayze (1999) for use of this variable.

In sum, these results indicate how variation in domestic institutions and sectoral preferences lead to variation in international foreign cooperation. Specific domestic characteristics push countries towards certain forms of international collaboration, while simultaneously pulling them away from cooperation in other issue areas. Furthermore, these results indicate the complementary relationship among commercial and political cooperation, as well as the unique role of monetary integration in the world system. In the current era, with countries increasingly leaning towards economic over security arrangements, the data indicate which countries are making this transition in foreign cooperation as well as which agreement may ultimately be chosen.

Discussion

Recent research on international organizations indicates that “forum shopping”, wherein actors choose among an array of viable institutional options to achieve their goals, may clarify why governments choose specific institutions and design features over others (Busch 1999; Mattli 2001). As this literature suggests, the choice of forum is largely driven by domestic determinants. Used generally to discuss the chosen forum for trade negotiations and dispute settlements, forum shopping implies a state’s practice of looking among the best viable options, given certain conditions, and the subsequent choice of the option that will provide the best possible outcome. This notion easily travels to international cooperation as well and supports the findings in this chapter. I argue that each international agreement is simply one aspect of a state’s general foreign policy arsenal, and which agreement is chosen is largely constrained and influenced by domestic institutional factors. My findings indicate that, given a set of domestic

institutional circumstances, states may opt for collaboration in one issue area over another, with the hope that spillover may occur into additional arenas as well.⁶² As the results on political constraints, regime type and winning coalition vary across issue area, leaders must contend with their specific domestic institutional context and pursue those policies most feasible given the institutional environment. They choose across issue areas, and oftentimes the final foreign policy decision is that which is optimal given the domestic context.

The idea of forum shopping among international agreements speaks well to the hypotheses put forth in this chapter, which argue for the important role of domestic factors in shaping international collaboration. Furthermore, the results demonstrate that specific domestic factors influence which form of collaboration is chosen by a state, again illustrating the notion that states can shop around for the form of international cooperation that is viable at both the domestic and systemic levels. In short, a state looks across issue areas, examines among the plausible options and, within the constraints of domestic conditions, chooses that option which will help it succeed. This analysis demonstrates that indeed political leaders, and thus international cooperation, are constrained in policy choices based upon domestic institutional and sectoral factors. The findings in this paper provide an additional nuance to the notion of forum shopping, as states may be limited in possible forms of cooperation depending on the domestic context.

Furthermore, due to domestic constraints, a government may be forced to rely upon a specific form of cooperation, when the desired goal may actually stray from that specific arena. Because of these institutional constraints, international agreements may be

⁶² For more on the concept of spillover, see Keohane and Nye (1977) and Haas (1961).

instruments for one another as domestic institutional conditions encourage the formation of cooperation in specific realms, while deterring states from cooperation in other arenas. This corroborates Mansfield and Pevehouse's (2000) claims that findings among the commercial peace are in fact largely driven by preferential trade agreement formation between states. In this regard, preferential trade agreements not only increase trade within a dyad, but also promote peace and stability, which may be the larger goal of the government.⁶³ Reversing the causal arrow to political impacts on economic cooperation, Gowa (1994) notes the increased trade ties between states that are also allies. In both cases, spillover occurs wherein cooperation in one area leads to beneficial externalities in other areas. This research indicates that one reason for this spillover is the use of forum (or agreement) shopping among states, as states look for the best viable option, given domestic conditions, to achieve the desired goals. The domestic politics guide states in their decision to cooperate, as well as to apply these agreements as instruments for one another depending upon the domestic environment.

An important example of the use of international agreements as instruments for one another is evident in evolving Sino-Russian relations. One-time enemies during the cold war, these two countries have expanded trade ties dramatically since 1985 – tripling in size under Putin's first term – and have increasingly institutionalized their relationship through bilateral meetings since the early nineties. While these two countries are far from intimate allies, the strong commercial ties have mitigated the effects of friction between the states, especially over historically heated issues such as border disputes, and have helped them pursue grand strategy within the region (Lo 2004). Furthermore, it is essential to note that these dramatic changes over the last fifteen years would not be

⁶³ Furthermore, while preferential trade agreements are associated with pacific relations, alliances increase the probability that a state may initiate a dispute against non-allies (Morgan and Palmer 2003: 197).

possible had domestic conditions in each great power remained static. This example illustrates the universality of this paper's main discussion of the role of domestic institutions. Domestic political conditions not only are influential in democracies, but also in illiberal democracies as well as autocratic states. Of course, changes in the world system also prompted changes in Sino-Russian relations. Nevertheless, the role of domestic politics must not be ignored.

As the international system continues to evolve towards regional monetary and commercial blocs, and away from the rigid political divisions of the cold war, it is essential to understand the domestic factors driving these trends. Of course, systemic factors certainly continue to play a strong role, but should not continue to overshadow and thus suppress the impact of domestic institutional and sectoral variation on international cooperation. Furthermore, literature on political and economic cooperation remains disparate. These findings indicate that an expanded dialogue between these two sub-fields could certainly enhance and expand our understanding of cooperative relations between states. While analyses at the monadic level are a first step at understanding the domestic sources of cooperation, it is equally important to analyze with whom countries tend to collaborate. Now that we have a better understanding of which states tend to cooperate in each distinct realm, it is time to examine whether or not opposites attract.

CHAPTER 3

INTERNATIONAL COLLABORATION AND DOMESTIC CONSTRAINTS

The notion that opposites attract may be a popular axiom, but does it hold true for international relations? Interest in international agreements gained pre-eminence towards the end of the cold war, with analyses ranging from the impact of alliances on war (e.g. Gibler 2000), currency unions on trade (Glick and Rose 2002) to preferential trade agreements on conflict (Mansfield and Pevehouse 2000). In addition, while dyadic analysis continues to permeate through the field, a great deal of this research investigates conflict (or the lack thereof) between states (e.g. Russett and Oneal 2001, Ray 2000). This has enabled great advances in our understanding of conflict between countries, but has done little to address explicit forms of cooperation among states. Of course, these theories on war are also able to explain peace, but peace is not synonymous with cooperation. States that join into international agreements take cooperation to a new level that is not captured by the notion of lack of conflict. This chapter relies upon work in these fields, merging work on international agreements with that of the dyadic analyses on conflict and capital flows, in an attempt to understand the impetus behind current trends towards regional cooperation and, more precisely, to investigate a key aspect of international collaboration – with whom do countries opt into these agreements?

I investigate the causes of regionalism through the lens of international agreement formation, exploring those factors that both encourage and deter international collaboration between states. While trends towards regional cooperation

date back to the mid-1800s,⁶⁴ the last two decades exhibit the exponential growth of economic agreements in both depth and width across the globe. Preferential trade agreements continue to multiply, countries are beginning to converge towards a few major currencies, and security arrangements ebb in their scope and depth. Recent events in the international system indicate further movement away from the rigid system of the cold war, and have the potential to transform and alter relations in the post-war era.

For instance, commercial and monetary cooperation drive relations between the states of the European Union, which continues to expand further eastward and currently has a GDP greater than that of the United States. In Asia, the internationalization of the yen and the possibility of an institution similar to the Asian Monetary Fund proposed in 1997 remains debated in Japan,⁶⁵ and preferential trade agreements have begun to link economies following the monetary crises of the late 1990s. In the security realm, the United States is moving away from the politics of the cold war, preferring to focus economic and strategic collaboration towards the western hemisphere and into new territory. And the role of NATO, the diplomatic link between the United States and Europe and a prominent actor in the post World War II international system, is frequently questioned with the end of the cold war, its delay in the Balkans and internal divisions over the war in Iraq. As these examples illustrate, across the globe the international system is experiencing great transformations in the monetary, commercial and security realms. Each of these developments is indicative of the current round of regionalism, or the integration of countries often based upon geographic proximity,

⁶⁴ See Mansfield and Milner (1999) for an overview of regionalism during the gold standard, interwar and post-World War II eras.

⁶⁵ See Grimes (2003) or Hamilton-Hart (2003).

common identity, culture or linguistic ties.⁶⁶ The repercussions of regionalism have received great scholarly attention, while empirical examination of the guiding forces behind this new wave of international regionalism, with potential strategic re-alignments among the major powers and increased economic convergence, remain largely unexplored in international relations. Nevertheless, it is essential to understand the driving stimuli behind these patterns. What conditions are most conducive to international collaboration among states, and which deter it?

In order to answer these questions, I explore cooperation between states as viewed through alliances, preferential trade agreements and monetary unions. Dyadic analysis, with a focus on domestic institutions and sectors within each state, may provide additional insight into our understanding of interstate cooperation. Utilizing models from the liberal peace literature as well as capital flows literature, along with a new domestic institutions framework, I estimate the causes of agreement formation in three distinct models. However, while the liberal peace and capital flows literature are certain to provide useful insight into monetary, commercial and political cooperation, they may be incomplete. A model based upon domestic factors is additionally analyzed in order to ascertain whether such a model contains as much predictive utility as the other two more prevalent models, as well as whether or not agreement formation is influenced by domestic political institutions. While the gravity and liberal peace model may provide a solid foundation for understanding cooperation, it is essential to empirically evaluate the role of domestic factors in influencing dyadic partnerships.

⁶⁶ As mentioned in the previous chapter, regionalism remains a somewhat vague concept, often dependent upon whether one adheres to the liberal, realist, or constructivist school of thought. For the purposes of this chapter, I focus on the economic and political integration of countries as a defining feature of regionalism.

Governments are faced with a range of viable partners in the world system, many of which possess similar attributes. How then do states narrow down their selection criteria for cooperation in the world system? I argue domestic institutional constraints, and the preferences of key sectors of society aggregated through these institutions, are key factors that influence a leader's decision. For instance, when choosing to form a preferential trade agreement, countries such as Japan are faced with domestic hurdles – in this case a strong, protectionist agricultural sector. Therefore, Singapore was the logical choice for Japan's entrance into the world of bilateral trade agreements, as Singapore did not threaten Japan's agricultural sector. Furthermore, political constraints may impact cooperation, as the more actors with veto power over policy may in turn impede cooperation. In short, there is sound reason to believe that domestic political factors strongly influence cooperation in the world system. While the role of democracy on conflict and cooperation has a strong foundation, this chapter takes that research a step further and disaggregates those domestic level factors that may impact the formation of international agreements in the commercial, monetary and political realms.

Focus on cooperation within the monetary, commercial and political realms enables analyses not only of which states tend to cooperate together in distinct issue areas, but also adds insight into the relationship between the agreements themselves. Does cooperation in one realm lead to cooperation in other areas as well? There has yet to be thorough empirical analysis of the direct relationship among currency unions, trade agreements and alliances. While many case study analyses allude to a connection, and the impact of agreements on diverse realms also has been explored, quantitative analysis of dyadic partners and the interplay among agreements remains largely ignored. Therefore, I explore first whether or not the same domestic institutional constraints impact

cooperation across these three issues. Next, I analyze the relationship of each agreement to one another and examine if this relationship is conditioned by variation across domestic institutions. As high and low politics become increasingly intermingled as globalization advances, it is timely to evaluate agreements that are traditionally categorized into the high and low politics realms. This in turn may manifest the notion that these agreements are much more intertwined than previously understood, and may in fact serve additional roles external to their original function.

Strategic And Economic Collaboration Behind Regionalism

Although regionalism is not unprecedented, the recent trends not only are likely to endure, but most likely will become more embedded over the next few decades (Bhagwati 1993: 24). Many scholars agree that, although there are currently numerous overlapping interstate commercial and political agreements and customs unions, eventually three core regional blocs will emerge centering on the Americas, Europe and East Asia.⁶⁷ The majority of research on regionalism tends to focus on the repercussions of regionalism, such as benign or malignant regionalism, externalities of regionalism, the role of institutions or the depth versus width trade-off.⁶⁸ While these are certainly important and intriguing puzzles, there has yet to be dyadic empirical analysis of the sources of regionalism – specifically the international agreements that spur the movement towards regional blocs. In addition, thus far there has been little attention

⁶⁷ This chapter makes no substantive claims on the likelihood of such convergence. See Michalek and Gibb (1997: 266), Hirst and Thompson (1992: 369), Frankel, Stein and Wei (1999: 91), and Frankel (1997).

⁶⁸ For example, Paul Krugman (1991a: 10; 1991b) argues both that economic blocs can increase economic gains on one hand, while they also may lead to trade diversion, beggar-thy-neighbor policies and trade warfare on the other. Yarbrough and Yarbrough (1997) examine the role of institutional variation, and Gilligan (2004) addresses the depth versus width trade-off.

given to the dyadic characteristics that render some countries more prone to regional cooperation than others. Therefore, unlike the majority of past research on regionalism, this chapter evaluates the push factors that encourage regionalism and impact the partnership and cooperation among states, as opposed to the repercussions of such cooperation.

International relations theory does offer diverse explanations for the sources of regionalism. According to realists, regional trends are driven largely by systemic factors and self-interest, pointing to the role of hegemony (Gilpin 1975), as well as the use of regional agreements as instruments used by major powers to secure influence in the region (Kerremans 2000). Thus, a state's concern over security encourages these states to form regional agreements, and in turn increase their influence in the regional arena. Once the regional support is no longer needed, the agreement collapses. In contrast, work by functionalists and neo-functionalists explain regional institutional trends through the functional purpose these serve, as well as the spillover effects into other areas.⁶⁹ Emerging initially in Europe after World War II, functionalist scholars contend that states will be willing to abandon a degree of sovereignty in order to reap mutual gains in both the economic and political arena. In this regard, regional cooperation in one area would spillover into cooperation in other areas, as long as states perceived these agreements to be in their best interest. Through focus on the lowest common denominator, compromise and cooperation can be achieved and frontiers rendered permeable as common interests are strengthened. Although these divergent explanations for the sources of regionalism have added to our understanding of regionalism, they fail to look within the state, or to examine which countries tend to opt into these agreements

⁶⁹ See Haas (1961), Mitrany (1943), Deutsche (1957) for early writings in this area.

together. As discussed, regionalism is not strictly limited to contiguous states; therefore geography alone cannot adequately explain the basic foundation of regionalism.

Additional sources of regionalism emerge from the credible commitment literature. The international collaboration behind regionalism represents a voluntary agreement made between states. Nevertheless, in an anarchic system states still concern themselves with whether or not their partner will renege on specific agreements. However, countries that face large audience costs, such as in democracies, are more likely to fulfill agreement obligations due to domestic repercussions of failing to fulfill the commitment.⁷⁰ Leeds (1999) points to the strategic policy behind international agreement formation, as cooperation occurs in part due to the belief on both sides that a state will not renege. In short, accountability – largely present in democracies – deters defection from international collaboration. According to Martin (2000), a credible commitment emerges from democratic institutions because, once passed, these commitments signal a state's resolve to uphold an agreement. This literature sheds light on which states will fulfill commitments, but still fails to explain which states have a high or low propensity to sign agreements. For example, Bueno de Mesquita et al (2003) explain the role of the winning coalition (those members of the population that keep the leader in office) in deterring conflict. In this regard, the winning coalition represents the population to which the leader is responsible. The larger the winning coalition, the less likely a state is to renege on an agreement. However, what role do these audience costs play prior to collaboration? Will a leader, knowing he must fulfill the demands of a broad audience, choose to avoid international agreements at the risk of future inability to fulfill

⁷⁰ Audience costs are those costs that emerge from the action of domestic constituents concerned over the shape and repercussions of the government's foreign policy. See Fearon (1994) for discussion on audience costs and foreign policy.

the commitment? Or in contrast, do leaders form these international agreements to signal policy commitment at both the international and domestic level? The credible commitment literature inadequately addresses these questions, but does provide foundational evidence of the influence institutional variation may have on international collaboration, and thus regionalism.

Regionalism occurs through international cooperation, which I contend manifests itself mainly through alliances, trade agreements and currency unions. Country pairs that join preferential trade agreements, currency unions or alliances signal their relationship to the domestic and international community, and thereby abandon a degree of state sovereignty in exchange for the benefits they expect to reap through cooperation. Although there has been little examination of which country pairs are more likely to collaborate, there are, of course, a few exceptions. For instance, the notion that two democracies are less likely to go to war has been stated as the closest thing to an empirical law in international relations (Levy 1988: 662). This in turn has led to new inquiries into democratic cooperation. For example, with regard to alliances, Siverson and Emmons (1991) and Werner and Lemke (1997) argue that democracies are more likely to ally with democracies, and autocracies with autocracies. Simon and Gartzke (1999) come to the opposite conclusion, and argue instead that opposites attract, and dyads with one autocratic and one democratic state are the most likely to form alliances. More recently, Lai and Reiter (2000) argue that democracies tend to ally together during the cold war, but the same is not true of the pre-war era. Leeds (1999), however, comes to similar conclusions as Siverson and Emmons, noting that autocracies ally with autocracies, democracies with democracies. Leeds contends that because democracies are more accountable to domestic groups, they face higher costs for breaking promises and

therefore are more willing to maintain commitments and cooperate. However, according to Gartzke and Gleditsch (2004), democracies are actually less reliable allies and thus may be less likely to fulfill commitments. While this debate remains ongoing, the literature nevertheless looks at dyadic determinants (the presence or absence of joint democracy) of cooperation, as shaped via domestic institutional design. In short, the majority of work on the choice of alliance partner focuses on regime type and fails to consider other institutional and domestic variation that may encourage international collaboration. Incorporation of the domestic political environment may help settle this debate, as it may be variation within the domestic institutions, such as political constraints, that may account for these alternate findings.

Similarly, in the economic sphere, preferential trade agreement analyses also tend to emphasize democratic cooperation. Mansfield, Milner and Rosendorff (2002) claim that as states become more democratic, their propensity to join preferential trade agreements increases. However, institutional aspects within democracies may deter trade agreement formation. Milner and Rosendorff (1997) claim that divided government has deterred commercial agreement formation, although this is limited to case study analysis of the US. Other institutional arguments point to institutional similarities. For instance, Souva (2004) argues that both political and economic institutional similarity decrease conflict between states, while Werner and Lemke (1997) claim that institutional similarities guide a state's decision to align, regardless of regime type. The literature on commercial cooperation, like that in the political realm, focuses on how the domestic institutional framework impacts cooperation, and whether or not the institutional design is similar or varies within a dyad.

With regard to monetary union, the decision to cooperate may again be largely driven by political stimuli. Generally currency union formation is explained through optimum currency area (OCA) explanations (Mundell 1961), wherein a decrease in transaction costs and labor mobility provide the impetus for monetary integration. While economic factors certainly play a role in determining the range of monetary options available to states, which option is ultimately chosen is driven by politics.⁷¹ Once a state decides to fix their currency or partake in a currency union, that state then has to determine with which state(s) it will cooperate. For instance, Liberia and Panama did not fulfill the requisites for an OCA with the US, but nevertheless still opted to link their currencies due to both political and economic benefits they hoped to reap. Moreover, the CFA Franc zone is a great example of states that maintained monetary integration even though it was no longer economically efficient. Stasavage (2003) suggests those countries that desired to maintain a privileged status with France (i.e. maintaining aid and security arrangements) were those that maintained the monetary links. Conversely, the ruble zone demonstrates the desire of states to break off from monetary integration in order to obtain complete independence from a hegemonic state (Abdelal 2003). In short, a range of political factors from security concerns to interests to ideational differences may be responsible for determining which countries integrate monetarily as well as with whom they choose for the partnership.

In sum, domestic and dyadic determinants likely impact the dyadic decision to collaborate. As Barnett and Levy (1991, 370) argue:

States may shun alliances in general because of domestically generated preferences for isolationist policies, and they may reject certain states as potential alliance partners because of ideological

⁷¹ For instance, there is large agreement that the EU actually does not constitute an OCA, but rather OCA attributes may emerge subsequent to the integration (Chang 2003: 220).

differences, religious considerations, or exclusionary trade or financial policies that are driven by domestic interests or ethnic politics.

As this discussion illustrates, domestic and dyadic level factors greatly influence a state's decision to cooperate, as well as which form of international cooperation is chosen.

While a key goal of this chapter is to explore the causes of regionalism through analyses of the impact of domestic institutions on cooperation between dyad pairs, it also will elucidate how states use international agreements – whether as complements or instruments for one another – as well as whether certain domestic institutional factors encourage states to opt for international collaboration in one issue-area over another. For example, Mansfield, Milner and Rosendorff (2002) claim that states that are part of a military alliance are also more likely to form preferential trade agreements, and thus support the notion that they are complements. While the majority of alliance literature on substitutability addresses arms build-up versus alliance formation as the only viable political options, I argue that states may reap similar security benefits that emerge from an alliance relationship through alternate forms of partnership. Furthermore, most favored nation status with China certainly provides US access to the world's largest market, but also is a strategic maneuver to improve diplomatic relations with the fastest growing major power. While an explicit alliance with China is not feasible, preferential trade status is. Moreover, a state may gain more security and protection through currency unions (e.g. CFA franc zone and aid from France) or trade agreement formation (e.g. many African PTAs also have security components built into the agreement). Conversely, states that partner as alliances may reap those economic benefits that are

traditionally associated with monetary and commercial integration, such as currency stability or increased trade flows.⁷²

Past research on each international agreement indicates spillover effects in other issue-areas; therefore it is time to investigate whether there are domestic institutional factors which push states towards a specific international agreement in order, perhaps, to reap benefits across issue-areas. It is plausible that domestic institutional constraints within the dyad encourage the formation of one agreement over the other. A model of cooperation based upon domestic political institutions within a dyad expands upon the institutional arguments within the democratic peace literature, empirically examining the role of veto players, the size of the winning coalition and regime type on international agreement formation. While domestic institutions have been discussed with regard to conflict (e.g. role of checks and balances within democracy), similar research on cooperation, with more specific measurements of domestic institutions, has yet to be analyzed. I contend that variation within the domestic political institutions will expand our understanding of the causes of cooperation between states, and thus growing trends towards regional blocs. In sum, it is essential to explore the push and pull factors that encourage the formation of each agreement in order to understand not only which conditions are most conducive to international collaboration, but also to explore the interplay among international agreements and their dominant role in shaping regionalism. In fact, as Puchala (1975) notes with regard to the EU, a common market can only exist if the nation-states allow it. In this regard, the following research design illuminates which dyads are more prone to allow international cooperation, and which may deter it.

⁷² The notion that alliances increase trade flows remains debated between Gowa and Mansfield (1993, 2004) and Morrow, Siverson and Tabares (1998).

Research Design

I argue that domestic politics, specifically formal domestic institutional design and the preferences of key sectors expressed through these institutions, assert a great influence not only on whether or not states form a specific agreement but, perhaps more importantly, whether they impact with whom a state will cooperate in each issue area. I assume that leaders desire to stay in power, and therefore maximize their foreign and economic policy decisions based upon those agreements that will help retain them in office. For example, those states with a large trading sector and proportionally large degree of economic openness may be more prone to form trade agreements than those with relatively closed markets. With regard to domestic political institutions, the number of veto players has been linked to monetary and economic policy,⁷³ and therefore likely affects agreement formation in these areas. Therefore, both government leaders within a dyad not only deal with the international repercussions of cooperation, but perhaps more importantly, are left to defend their decisions at the domestic level. Following the credible commitment literature, government leaders face a certain degree of accountability to domestic constituents, and therefore face a high cost for renegeing on promises or failing to fulfill certain campaign promises.⁷⁴ Similarly, the democratic peace literature focuses on domestic political institutions and their constraints on war. This too is closely linked to the credible commitment literature, as both note the driving influence of domestic politics in preventing rash decisions at the international level. In sum,

⁷³ See Henisz and Mansfield (2003), Karol (2000), Sherman (2002) or MacIntyre (2001). To my knowledge, there has not been any in depth research on the impact of political constraints on military decisions such as alliance formation.

⁷⁴ For example see Leeds (1999) with regard to democratic states' propensity towards cooperation.

literature on commitments and conflict point to the influential role of domestic politics, but have yet to empirically analyze the domestic institutional factors behind cooperation, as measured through alliances, trade agreements and currency unions.

Dependent Variables

I create a dummy variable for each international agreement, coded 1 if both countries in the dyad partake in either an alliance, trade agreement or currency union depending upon the model, zero otherwise. The alliance variable was obtained from the Correlates of War dataset and was created using EuGene data creating software.⁷⁵ The preferential trade agreement variable was created using data provided by Jon Pevehouse, while the currency union variable is from Andrew Rose's webpage.⁷⁶ Descriptive statistics for each dependent and independent variables are in table 1. Each international agreement also serves as an independent variable in the respective models for the other international agreements. Each of these agreements in turn serves as a dependent variable in three distinct models – based on the liberal peace, gravity model for capital and trade flows, and domestic institutions – in order to determine their potential predictive utility for cooperation. These three models, while not traditionally employed to evaluate cooperation and agreement formation, provide the most solid foundation and greatest potential for offering greater insight into cooperative relations between states. The gravity model is often used to explain capital flows between countries, and provides the context for evaluating the role of inherent transaction costs on cooperation.

⁷⁵ See Bennett and Stam (2000) or www.eugenesoftware.org. The Correlates of War variables - major power, conflict and capability ratio - are also obtained from EuGene.

⁷⁶ The following variables were also obtained at Andrew Rose's webpage: contiguity, distance, common language, colonial ties, common colonizer, population, gdp, growth and bilateral trade. <http://faculty.haas.berkeley.edu/arose/RecRes.htm>

Table 1: Summary Statistics

Variable	Observations	Mean	Std. Dev.	Minimum	Maximum
Alliance	486148	.0355	.1850	0	1
PTA	304024	.2383	.4260	0	1
Currency Union	336281	.0129	.1127	0	1
Contiguity	336281	.0275	.1636	0	1
Distance	336281	4461.37	2744.461	39.8105	12420
Common Language	336281	.2105	.4076	0	1
Colony	336281	.0198	.1393	0	1
Common Colonizer	336281	.0935	.2912	0	1
Population	254365	18.0083	2.5197	7.76239	27.877
RGDP	271853	16.5729	1.4638	11.6897	21.1057
Bilateral Trade	336281	1.14e+08	1.46e+09	0	2.03e+11
Democracy _t	298805	-3.1417	6.5876	-10	10
WTO	486148	.6133	.4870	0	1
Affinity	115415	.5629	.3296	-1	1
Major Power	486148	.0542	.2264	0	1
Conflict	304034	.0027	.0519	0	1
Capability Ratio	304034	.2467	.2703	0	1
Bipolar System	486148	.6606	.4735	0	1
Winning Coalition _t	486148	.2534	.2956	0	1
Political Constraints _t	303578	.0805	.1519	0	.7181
Financial Sector _t	236644	.2911	.2776	.0003	2.2121
Openness _t	289632	54.0498	35.9155	3.1479	439.0288
Instability _t	486206	.0729	.2599	0	1
Economic Growth _t	428727	59.0421	324.7251	-2897.229	2772.508
Military Sector _t	252679	32696.36	194693	-2.0278	3856972

Conversely, the liberal peace model is widely used to explore conflict between states, but has yet to travel to models of cooperation. The domestic institutions model represents a key focus of this chapter, and attempts to evaluate the predictive utility of this model compared to the more prominent models used in the field. As each is unique in its own way, the gravity model, liberal peace model and domestic political institutions models are analyzed, and their predictive utility compared, with regard to international cooperation.

The Gravity Model

Building upon the gravity model, wherein inherent obstacles are accounted for when estimating capital flows, I likewise employ variables that pose innate restrictions to international cooperation. Viewed as the workhorse for originally explaining trade, and more recently financial flows, the gravity model controls for transactional barriers to economic flows.⁷⁷ In their discussion on the causes of peace, Oneal, Russett and Berbaum (2003) are influenced by the gravity model, incorporating standard components such as population, distance, contiguity and GDP into their baseline model for trade. Moreover, the gravity model travels well into the realm of international cooperation, which also is hindered by innate impediments to cooperation. For example, contiguity and distance are likely to have contrasting effects on international cooperation. While current trends towards regionalism are not restricted to contiguous states, proximity certainly facilitates cooperation.⁷⁸ The contiguity variable is a dummy variable, and indicates whether or not countries share a border. The distance variable represents the

⁷⁷ This model is largely influenced by the work of Portes and Rey (2002) and Rose (2000) on gravity models.

⁷⁸ This is a similar, but opposite, argument to that made in the conflict literature, which consistently finds proximity to be equated with conflict and distance with peace.

distance between the capital cities. Along with physical barriers to cooperation, I also include a transaction cost barrier, common language, which may impede cooperation. While common language is not likely to be the determining factor in cooperation, it does serve as an additional barrier that countries must overcome in order to cooperate. This variable is coded 1 if the dyad shares a common language, otherwise zero.⁷⁹

Colonial relations are also included in the gravity model, as past colonial ties greatly influence dyadic relations today. However, while past literature insinuates a positive relationship between colonial ties and economic flows, the same may not be true of cooperation. As the CFA Franc zone and ruble zone examples indicated, countries are likely to integrate or disintegrate ties – politically and economically – with countries with which they once, or still have, colonial ties. While colonial control is not identical as it once was (e.g. sterling zone during the gold standard), the remnants of colonial relations and dependence are still highly influential in modern international relations. However, while colonial ties within the franc zone have led to the persistence of monetary cooperation, the opposite is true of the ruble zone. I include a dummy variable for country pairs that were ever in a colonial relationship. In addition, I incorporate whether or not countries share the same colonizer. Countries with similar colonial pasts may be more prone to cooperate together due to lasting institutional and political similarities that were created during colonization. This variable is coded 1 if the dyad shares a common colonizer, otherwise it is coded zero.

Finally, factors that influence both market size and military capabilities are incorporated into the model. First, the log of the product of the population size of the

⁷⁹ The variables for contiguity, distance and common language were acquired from Andrew Rose's website, as were the variables for colonial relationship, common colonizer, population, GDP, trade and WTO membership: <http://faculty.haas.berkeley.edu/arose/RecRes.htm>

two states represents the size of each nation, which largely impacts military potential as well as the size of the consumer market. Second, the log of the product of the real GDPs of each state is measured, again taking into account not only the market size, but also the degree to which a state can provide for itself in both the defense and economic realms. Each of these variables is indicative of a country's size, which in turn impacts economic flows, and possible cooperation as well.⁸⁰

The Liberal Peace Model

The second model incorporates important aspects of the commercial peace literature, largely based upon the work of Oneal and Russett.⁸¹ The three legs of the Kantian tripod – commerce, international organizations, and democracy – which arguably decrease conflict, and thus plausibly promote cooperation, are incorporated into the model. The trade variable measures the mean bilateral trade between the countries. Countries that trade more are arguably more likely to form trade agreements and currency unions in order to achieve optimum efficiency, while strong commercial relations may also instigate strategic cooperation as well. The democracy variable is created based upon the weakest link assumption, wherein the less constrained country in the dyad determines the diplomatic relations between the states, whether cooperative or conflictual (Oneal et al. 1996). In this case, the lowest level of democracy indicates the lowest level of domestic constraints. The higher the level, the more constrained both

⁸⁰ As Rose (2001) notes, the level of trade between two states is “directly proportional to their combined incomes and inversely proportional to the distance between them.” This analysis explores whether the same may be true of international cooperation, not only in the commercial arena but the monetary and political arenas as well.

⁸¹ See Oneal and Russett (1997, 2001), or Russett and Oneal (2001).

countries are, thereby preventing conflict. Similarly, if democracies cooperate more together, the higher levels should also translate into greater international collaboration. Obtained from the Polity IV dataset, the polity variable ranges from -10 to 10 and represents the democracy score minus the autocracy score.⁸²

Two additional variables incorporate the third leg of the Kantian tripod and the notion of international organizations. The first, WTO membership, measures whether or not both countries are in GATT/WTO. This is a dummy variable, coded 1 if both states are in GATT/WTO, zero otherwise, and accounts for their degree of international economic cooperation. The second IGO variable, diplomatic affinity, indicates the degree to which voting patterns in the UN converge. This variable estimates a country-pair's level of similar interests in strategic matters. The diplomatic affinity ranges from -1 to 1, and represents affinity in the voting behavior as measured through the roll-call votes. As the variable approaches 1, the greater the convergence of their voting behavior.⁸³ According to Gartzke (1998), states with greater voting affinity engage in less conflict. The converse may also be true, as those with greater affinity may be more likely to engage in cooperative agreements. Bueno de Mesquita (1981) and Fearon (1997) argue that states ally because they have shared interests and similar preferences. Similarity of interests may be especially important for developing countries. Since removal of power for these leaders may likely result in death, these leaders ask which countries will best protect them (David 1991: 238), often based upon joint interests.

⁸² See <http://www.bsos.umd.edu/cidcm/polity/index.html>. I also substitute a joint democracy variable, wherein both countries in the dyad possess a polity score of 5 or greater. The results remain unchanged. I incorporate the lowest level of democracy instead in order to gain more variation within the variable itself, and to remain consistent with much of the work on conflict, commerce and cooperation.

⁸³ Gartzke, Jo and Tucker's United Nations General Assembly Voting dataset can be obtained at <http://www.vanderbilt.edu/~rtucker/data/affinity/un/assembly/>.

There also are a number of 'usual suspects' from the liberal peace and conflict literature that are additionally incorporated.⁸⁴ Major powers, for example, are consistently found to be associated with higher levels of conflict between states. While dyads with major powers do tend to have higher propensity towards conflict, one could also imagine, especially in the modern float era, that dyads with major powers could also be more prone to pacific behavior and the formation of international agreements. Conversely, according to Venables (2003), developing countries benefit more if a developed country is part of a regional agreement. He explains that low-income countries can experience high levels of growth if they partner with a high-income country due to increased consumer demand in the smaller economy's exports. Furthermore, these unions also are more successful at exploiting comparative advantage than those agreements formed between north-north or south-south partners. In addition, Dee and Gali (2003: 5) argue that many 'new-age' preferential trade agreements are being formed between small and large countries, noting, "small countries want to reform their internal economies so that they can be accepted as members of the global trading system." They continue to explain that small countries use preferential trade agreements to signal a credible commitment to reform and thus attract investment. Similar arguments could be made of dollarization and why Eastern European states are so willing to adopt the Euro. The major power variable is a dummy, coded 1 if one or both states in the dyad is a major power, otherwise it is zero.⁸⁵

In addition, conflict itself is likely to deter the formation of international agreements as well, and often serves as the dependent variable in the liberal peace

⁸⁴ For example see Russett and Oneal (2001), Barbieri (2002) for an overview.

⁸⁵ I obtained the major power variable, conflict, capability ratio and military expenditure from the Correlates of War dataset, utilizing Bennett and Stam's (2000, 2004) EuGene software.

literature. While there is discussion on whether or not conflict disrupts trade, there has not been analysis on whether or not conflict disrupts international agreements between countries.⁸⁶ The conflict variable indicates whether or not a militarized interstate dispute exists in a given year within the dyad. This ranges from threats of force to war. Along with conflict, a country's capabilities may also impact cooperation between states. Capability ratio is consistently incorporated into the conflict literature, and therefore may similarly impact cooperation. For instance, Maoz (2000: 123) discusses strong states' propensity to ally with countries of similar capabilities, as those with lesser capabilities are more of a strategic burden than an asset. In contrast, according to Genna and Hiroi (2004) power asymmetries within Latin American dyads promote regional integration, but only when trade levels are high and alliance portfolios are similar. However, it is important to note that differences in capabilities within a dyad may also be indicative of dependence within the dyad, and therefore antagonistic relations. This variable is measured as the ratio of the smaller capability index to the larger within the dyad. This is based upon the Correlates of War Composite Index of National Capabilities.⁸⁷

Similar to the gravity model, contiguity and distance are also incorporated into this model, as they have been frequently associated with conflict (contiguity), or the lack thereof (distance). Furthermore, I employ a dummy variable for bipolarity. The democratic peace has taken criticism for robustness during the cold war but inadequacy

⁸⁶ See Anderton and Carter (2003) and Barbieri and Levy (2003) on the trade-disruption hypotheses and subsequent debates.

⁸⁷ The Composite Index of National Capabilities incorporates factors ranging from urban population size to military expenditure to iron and steel production. Following Oneal, Russett and Berbaum (2003), economic growth is not incorporated into this model due to the lack of robustness and significance in previous estimates.

in the post cold war era,⁸⁸ and therefore this variable is incorporated to evaluate the impact of systemic variation.

Domestic Politics Model

The third model incorporates several domestic institutional variables that were present in the monadic level and thus are likewise incorporated into the dyadic model. Political constraints, regime type and size of the winning coalition are institutional variables that may impact international cooperation. Each of these variables stems from a growing literature on the role of domestic institutions on international outcomes. First, democratic cooperation at the dyadic level has been thoroughly analyzed, resulting in the democratic peace theory and credible commitment literature.⁸⁹ In short, this research points to inherent pacific cultural traits within democracies, or the role of institutional constraints such as transparency and accountability within a dyad.

The second institutional variable applies the veto player literature to international cooperation. Tsebelis (2002) looks comparatively across states and points to the role of the number of veto players on policy outcomes. The larger the number of veto players – often measured by government branches and ideological divisions across branches – the harder it is for governments to affect policy change. This assumes each actor within government works to pursue an agenda in accordance to her preferences. As preferences are bound to vary as the number of veto players increases, policy quagmire is likely to emerge. However, like any collective action problem, as the number of veto players decreases, policy change is facilitated.

⁸⁸ See Gowa (1999)

⁸⁹ See Brown, Lynn-Jones and Miller (2001) for the democratic peace debate and Martin (2000) for credible commitment literature.

Finally, Bueno de Mesquita et al (2003) also point to institutional variation, but opposed to looking at the number of actors with veto power over policy, they point to the size of the winning coalition to which the government is responsible. As the size of the winning coalition increases, the government must pursue policies that are in the interests of a larger portion of society. In turn, they are less likely to follow policies based on cronyism that favor only a small segment of society. While Bueno de Mesquita et al analyze the winning coalition with regard to regime survival and conflict, it is also applicable for cooperation. As they note (Bueno de Mesquita et al 2003: 225), “A polity’s institutional arrangements shape the selection criteria that supporters use to determine whether to retain the incumbent” and thus determine which outcomes a leader will choose to retain office. Therefore, as the size of the winning coalition increases, leaders are likely to pursue policies that make more people better off, thus improving their chances of remaining the incumbent. These policies may entail international cooperation, resulting in possible externalities from international agreements, such as increased capital flows through monetary stability or improved security through alliances.

Working on the weakest link assumption, I measure the lowest level of institutional constraints within the dyad for each of the three variables just discussed. I control for the smallest size of the winning coalition within the dyad, thereby inherently indicating the country with the smallest amount of domestic constituents to appease. Bueno de Mesquita et al (2003) argue that the larger the winning coalition, the more likely states are to cooperate and provide for the public good. In fact, they argue that findings on the democratic peace are more likely a result of large winning coalitions within a dyad. Therefore, as this variable increases, the dyad may be more prone to collaborate internationally. However, democratic governments (i.e. large coalition) may

also represent the quagmire of foreign policy and the inability of democratic governments to pass legislation due to competing interest groups, therefore decreasing cooperation. The winning coalition variable ranges from 0 to 1 and represent an index of institutional factors. Additionally, veto player literature also notes that the greater the number of actors with veto player over policy, the less likely policy is to be implemented. Therefore, I employ Henisz's variable for political constraints.⁹⁰ This variable estimates the viability of policy change based upon political constraints between the executive, legislative and judicial branches as well as political party composition and alignment over each branch. This variable ranges from 0 to .72, wherein the greater the political constraints, the more actors with veto power over policy. Divided government has been found to affect international commercial relations between states. However, security arrangements and economic arrangements impact the domestic constituents differently, and in many cases disparately, and may therefore exhibit contrasting effects of this variable on international collaboration. Finally, the lowest level of democracy within the dyad is included, similar to the liberal peace model. Democracies are arguably less conflict prone, and thus potentially possess a greater propensity to cooperate. Hypotheses 1-3, based upon extant literature, reflect the institutional constraints that may influence cooperation between states.

Hypothesis 1: As the number of veto players increases, cooperation is less likely to occur.

Hypothesis 2: As the lowest level of democracy within a dyad increases, states are more likely to cooperate together.

Hypothesis 3: The greater the size of the winning coalitions within a dyad, the greater the likelihood for international collaboration.

⁹⁰ See Henisz (2002) or www.management.wharton.upenn.edu/heinsz/POLCON/ContactInfo for construction of the variable.

I also employ two variables measuring the economic openness within the dyad. A variable measuring the size of the financial sector was obtained from Beck, Demirguc and Kunt-Levine's data on private credit by deposit money banks and other institutions. According to Solingen (1998), two countries with internationalist coalitions in power are more likely to cooperate than if either one has a state-centric coalition in power. In theory, those countries with large financial sectors are more prone to work towards international collaboration in order to reap greater returns on overseas investments through stability and diminishing transaction costs. Working on the weakest link assumption, this variable indicates the smallest influence of the financial sector within the dyad. In addition, I include the Penn World dataset's measure for economic openness, indicating the state's exports plus imports divided by GDP.⁹¹ Openness has been associated with peace (Oneal and Russett 1997), and therefore may also positively impact international cooperation. This variable indicates the lowest level of openness, as well as the power of the trade sector, within the dyad and arguably the lowest constraint to cooperation. Economic growth, often used in the early liberal peace literature, is incorporated into the domestic politics model. Reduced levels of economic activity have been associated with a rise in both external and internal conflict (Blomberg and Hess 2002). Therefore, economic growth may also impact a state's ability to cooperate, and therefore the low level of growth within the dyad is incorporated.

Measurements of military strength within the dyad are also included in the domestic politics model. First, the smallest military influence within the dyad is included. This variable indicates the lowest level of military expenditure proportional to its GDP within the dyad. As the strength of the military certainly impacts alliance formation, there

⁹¹ See http://pwt.econ.upenn.edu/php_site/pwt61_form.php for the complete dataset.

is reason to believe it affects cooperation in other realms as well. Furthermore, domestic instability, such as a coup, revolution or riot, is incorporated. Domestic conflict likely impedes cooperation in the economic realm, and may either increase alliance formation in the security realm as countries either flock or stray from aiding the government. This variable is coded as 1 if any sort of revolution, riot coup or revolution occurs and was obtained from Arthur Banks' dataset.⁹² Finally, the capability ratio is incorporated, similar to the liberal peace model. These variables represent sectoral influence and therefore must also be accounted for in the domestic politics model. Hypotheses 4 and 5 reflect the impact of domestic special interests on interstate cooperation.

Hypothesis 4: Large trade and financial sectors encourage cooperation between states.

Hypothesis 5: Dyad's with great influence from the military sector are less likely to cooperate.

In addition to relationship between domestic political institutions and interstate cooperation, I also evaluate the relationship between each agreement. Regionalism is increasingly congruent in the economic realm, but disparate in the political realm, therefore I evaluate the impact of international agreements on each other. This aspect of the model addresses the depth of regional integration, and offers insight into the strategic interplay between economic and security policy. Plausible explanations exist both for a direct and an indirect relationship between international agreements. On the one hand, states that form an agreement in one area may do so because cooperation in other realms is not regarded as viable, and therefore anticipate spillover effects into other realms. In addition, states may simply desire cooperation in one area and do not wish to tie their hands with additional agreements that may either eliminate domestic monetary

⁹² This, along with the winning coalition variable, can be obtained at the Logic of Political Survival website: <http://www.nyu.edu/gsas/dept/politics/data/bdm2s2/Logic.htm>

autonomy, pull them into war, or eliminate protection of infant industries. This would thus create an inverse relationship between international agreement formation within a dyad. On the other hand, states may form additional agreements together across issue areas to signal both to the international and domestic communities a partnership between states and additional resolve over certain policies. This is again a key argument of neo-functional and transnational arguments that point to the spillover effect of cooperation across realms. As there has yet to be empirical analysis of the relationship between alliances, trade agreements and currency unions, I explore both hypotheses in order to understand whether the agreements are instruments for one another (inverse relationship) or serve a complementary role (direct relationship).

Hypothesis 6: International agreements maintain an inverse relationship within a dyad, serving as instruments for one another or limiting cooperation simply to the issue area at stake.

Hypothesis 7: International agreements serve a complementary role, strengthening and reinforcing regionalism.

As mentioned, each international agreement is represented through a dummy variable in each distinct model. Therefore, I explore international collaboration through logistic regression analysis of pooled cross-sectional time series data. In addition, I incorporate cubic splines to control for temporal dependence (Beck, Katz and Tucker 1998). The results are listed in tables 2-4 for the gravity model, liberal peace model and domestic politics, respectively.

Table 2: Gravity Model, 1950-2000

	Dependent Variable:		
	Alliance	PTA	Currency Union
PTA	.813* (.063) [.001]	-----	1.408* (.134) [.000]
Currency Union	-.118* (.131) [-.000]	-.174* (.103) [-.010]	-----
Alliance	-----	.133* (.045) [.007]	2.535* (.142) [.000]
Contiguity	.348* (.101) [.001]	.141* (.075) [.008]	.078 (.167) [.000]
Distance	-.001* (.000) [-.000]	-.001* (.000) [-.000]	-.001* (.000) [-.000]
Common Language	1.650* (.059) [.001]	.175* (.035) [.010]	1.123* (.154) [.000]
Colony	-.355* (.123) [-.000]	.358* (.078) [.020]	3.638 (.196) [.000]
Common Colonizer	.059 (.108) [.000]	.439* (.053) [.025]	2.946* (.168) [.000]
Log Product of Population	.066* (.012) [.000]	.129* (.007) [.007]	.163* (.029) [.000]
Log Product of RGDP	.487* (.017) [.001]	.056* (.009) [.003]	-.029 (.044) [-.000]
Openness	-.018* (.001) [-.000]	.021* (.000) [.001]	-.007* (.003) [-.000]
Constant	-8.089* (.315)	-2.141* (.203)	-5.618* (.885)
R ²	.82	.64	.84

Note: Cubic splines not included in the table, but were incorporated in the regression. Standard errors are in parentheses. Marginal effects are in brackets. N=105379.

**p < .1, χ^2 test.*

Table 3: Liberal Peace Model, 1950-1996

	Dependent Variable:		
	Alliance	PTA	Currency Union
PTA	.557* (.557) [.001]	-----	2.282* (.119) [.001]
Currency Union	-.270* (.121) [-.001]	-.188* (.100) [-.005]	-----
Alliance	-----	.358* (.046) [.010]	1.564* (.113) [.001]
Bilateral Trade	.000* (.000) [.000]	.000* (.000) [.000]	-.000* (.000) [-.000]
Democracy _L	.047* (.003) [.000]	-.034* (.002) [-.001]	-.030* (.009) [-.000]
WTO	-.026 (.064) [-.000]	1.824* (.046) [.052]	2.389* (.210) [.001]
Affinity	2.097* (.080) [.001]	1.309* (.046) [.037]	.175 (.170) [.000]
Major Power	1.873* (.069) [.001]	.392* (.038) [.011]	3.167* (.155) [.001]
Conflict	-.189 (.238) [-.001]	-.596* (.176) [-.017]	.949* (.335) [.000]
Capability Ratio	.306* (.087) [.000]	-.097* (.050) [-.003]	1.517* (.196) [.001]
Contiguity	.228* (.088) [.000]	.412* (.070) [.012]	1.980* (.153) [.001]
Distance	-.000* (.000) [-.000]	-.000* (.000) [-.000]	-.000* (.000) [-.000]
Bipolar System	1.474* (.054) [.001]	-.576* (.029) [-.016]	.925* (.134) [.000]
Constant	-.638* (.099)	-.457* (.065)	-6.515* (.302)
R ²	.80	.62	.76

Note: Cubic splines not included in the table, but were incorporated in the regression. Standard errors are in parentheses. Marginal effects are in brackets. N=114789.

* $p < .1$, χ^2 test.

Table 4: Domestic Political Institutions Model, 1960-1997

Dependent Variable:			
	Alliance	PTA	Currency Union
PTA	1.281* (.057) [.001]	-----	1.858* (.097) [.000]
Currency Union	.933* (.198) [.001]	-.146 (.115) [-.005]	-----
Alliance	-----	1.576* (.052) [.049]	3.117* (.128) [.001]
Winning Coalition _L	-1.405* (.143) [-.001]	-1.361* (.068) [-.043]	-.474* (.221) [-.001]
Political Constraints _L	2.496* (.204) [.001]	-.281* (.108) [-.009]	-1.215* (.462) [-.002]
Financial Sector _L	-.797* (.082) [-.001]	-.445* (.040) [-.014]	-1.228* (.217) [-.001]
Openness _L	-.017* (.001) [.000]	-.002* (.000) [-.000]	-.023* (.002) [-.001]
Democracy _L	.045* (.006) [.000]	.029* (.003) [.001]	.029* (.012) [.000]
Economic Growth _L	.000* (.000) [.000]	-.000* (.000) [-.000]	.000* (.000) [.000]
Military Sector _L	.000* (.000) [.000]	-.000* (.000) [-.000]	.000* (.000) [.000]
Capability Ratio	.546* (.096) [.000]	.518* (.051) [.016]	.839* (.161) [.000]
Instability _L	.975* (.084) [.001]	-1.351* (.054) [-.042]	-2.429* (.420) [-.001]
Constant	2.178* (.101)	2.307* (.049)	-1.562* (.177)
R ²	.81	.65	.68

Note: Cubic splines not included in the table, but were incorporated in the regression. Standard errors are in parentheses. Marginal effects are in brackets. N=116684

* $p < .1$, χ^2 test.

Results

The regression analysis produces strong connections between international collaboration across issue areas as well as strong predictive utility for each of the models analyzed. The results for the domestic institutional model imply that institutional constraints do matter when it comes to international collaboration. Furthermore, the results across all three models indicate that international agreements are used as complements, strengthening relations between states and signaling additional resolve to the international community of the interdependence within the dyad. Countries that are members of the same alliance are likely to also partake in preferential trade agreements. Similarly, alliances and preferential trade agreements have a positive effect on currency unions, while members of preferential trade agreements are also likely to join alliances. However, the striking exception to the rule is that of currency unions on alliances and preferential trade agreements. Countries that are members of a currency union are less likely to form alliances or preferential trade agreements together. Of all the agreements, in the current era the currency union is arguably the most rigid and entails the highest exit costs. Therefore, once countries have reached that level of monetary integration, additional integration in the security and commercial area may be an inherent externality, thus rendering alliances or trade agreements unnecessary. For instance, Rose (2000) wrote an influential article on the impact of currency unions on trade. For the period 1975-1995 he found exchange-rate unification increased trade three-fold between states. Lopez-Cordova and Meissner (2003) and Flandreau and Maurel (2002) found similar results for the gold standard era. In this regard, a currency union may serve the role as an instrument for a military alliance or trade agreement, as inherent strategic and

commercial cooperation is a necessity in order for the currency union to successfully function.

As the results indicate, leaders have a choice between international agreements, but which agreement is chosen is strongly influenced by domestic-driven factors within each dyad, many of which have contrasting effects dependent upon the realm. Before discussing the domestic politics model, both the gravity and liberal peace model also exhibit great utility and provide insight into agreement formation. As represented in table 2, contiguity, distance, common language, country size, and colonial ties generally possess the expected relationship. Table 3 depicts the results for the liberal peace model, offering insight into democratic cooperation. According to this model, trade ties do increase the likelihood that states will form alliances or trade agreements, but decrease a dyad's propensity towards monetary integration. This is further evidence that the OCA argument omits the major political factors guiding currency union formation.⁹³ These results suggest cooperation is not just driven by economic determinants or diminishing transaction costs. Even those that are formed (in theory) to improve economic conditions are greatly driven by political factors. Dyads with similarity of interests are more prone towards cooperation, while conflict decreases cooperation in the political and commercial realms. Dyads with at least one major power are much more likely to form international agreements across issue areas. Again, this is intuitive as many smaller countries peg their currencies to major powers or depend upon major powers for security and protection. It also, however, influences findings on conflict that argues major powers are more likely to engage in militarized disputes. While those findings are evident, it should not be overlooked that major powers are also more likely to

⁹³ It also adds more explanatory power to Glick and Rose's (2002) work on currency unions and trade, indicating that the causal arrow stems from currency unions to increased trade, not vice versa.

collaborate internationally. Furthermore, international collaboration is also influenced by power ratios within the dyad. As dyadic capabilities approach equilibrium, states generally are more likely to cooperate together across.

Systemic structure also matters, as dyads were more prone to partake in alliances during the cold war, but are currently more likely to form trade agreements. Similar divisions are found with regard to the WTO. Dyads wherein both countries are members of the WTO additionally form PTAs and currency unions, but do not partake in alliance formation. This again may be indicative of the notion that states gain inherent security protection from other states with whom they are economically integrated, and therefore do not feel the need to form an explicit political agreement. Finally, democracies are more likely to ally, but less likely to cooperate together in the economic realms. This may be indicative of the overwhelming proportion of states of either institutional design that form trade agreements, as well as the number of autocratic regimes that fix their exchange rate in the current era. As discussed below, these results are inconsistent with those found in the domestic politics model.

The domestic politics model (table 4) perhaps offers the most novel insights into cooperation. For instance, those dyads with greater political constraints, and thus a higher proportion of veto players, are more likely to form alliances rather than currency unions or trade agreements. While alliances are largely viewed as beneficial to all sectors, the same is not true for economic agreements, which produce visibly unequal results to diverse sectors. Therefore, greater political constraints are more likely to produce political cooperation rather than economic, as they have an easier time muddling through the quagmire of political divisions and veto players. In contrast, fewer political constraints within a dyad facilitate economic cooperation, consistent with past literature

on veto players. Democracy similarly produces contrasting findings. The analysis indicates that democracies do tend to ally together and form preferential trade agreements, more consistent with past literature than those results in the liberal peace model. However, joint democracy does not have a statistically significant impact on currency unions.⁹⁴ Dyads with large winning coalitions consistently are less likely to form international agreements together. Countries with large winning coalitions need to provide public goods to a large range of people. These results suggest that they do not rely upon international cooperation as the tool to provide such goods. Furthermore, the results imply that while large winning coalitions deter conflict between states, the same may be true of cooperation as well, possibly due to the domestic audience costs, the necessity to appease diverse sectors of society, and the fear of renegeing on a commitment. In sum, these results suggest the significant role of institutional variation on both promoting and deterring cooperation between states.

Perhaps the most counterintuitive results spawn from the impact of economic openness and the financial sector. Both variables have a negative impact on alliance, trade agreement and currency union membership. However, these results are somewhat consistent with Henisz and Mansfield's (2003: 18) findings that relatively open countries are less likely to expand their openness (such as through international collaboration) than are countries that are relatively closed. Similarly, the financial sector coefficients are not in the anticipated direction. As the financial sector's influence increases in the dyad, international cooperation decreases. One explanation may be due to the strong role of the financial sector in large economies that prefer to float instead of fix following 1972.

⁹⁴ Again, these results do not change if joint democracy is included instead of low level of democracy.

In addition, the financial sector is often the first loser from a country's inclusion in war, the likelihood of which increases if a state is dragged into an alliance's war.

Turning towards domestic security variables, domestic unrest deters preferential trade agreement and currency union partnership, anticipated results, as few members of government are likely willing to invest in areas disrupted by political instability. However, the role of the military has contrasting influence on cooperation. Strong military sectors within the dyad promote alliance formation and currency unions but deter trade agreement formation. Military sectors, especially in smaller countries, may see the benefit of both forms of agreement, as they may help promote financial stability (thus more money to the military) or allow the government to benefit from military advances of other countries through alliances. These results mirror those of the final domestic economic variable, growth, which also is negatively associated with commercial cooperation but positively is associated with security and monetary collaboration.

In addition to the baseline model, I conducted similar regression analyses that included ideational variables from the Database of Political Institutions dataset.⁹⁵ Although this limits the data to 1975-1997, it offers additional insight into factors which impact international collaboration. Dyads that are controlled by the left are less likely to form preferential trade agreements, as dyads of the right have a higher propensity to cooperate in the commercial arena. In contrast, dyads that are controlled by right-wing governments are less likely to form currency unions, but are more likely to ally together. These results are robust across the gravity, liberal peace and domestic institutions models. This again is evidence that domestic factors help guide which international agreement is chosen.

⁹⁵ Beck, et al (2001). The results are the same whether I use the ideology of the executive or the legislature.

To ensure the robustness of the results, I also included lagged dependent variables in each model as well fixed-effects estimation. With the lagged dependent variable, the results remained virtually the same. The fixed-effects estimation did alter the results somewhat, but this is likely due to the large decrease in the number of cases due to the fixed-effects estimation. Furthermore, the goodness of fit of the results is evident across the models, as each form of international cooperation exhibits a relatively high R^2 across the gravity, liberal peace and domestic institutions models. This in turn illustrates the necessity to incorporate domestic political variables - as it arguably competes quite well with the more prominent models with regard to predictive utility – into the equation when attempting to understand the driving factors behind international collaboration.

Discussion

As international agreements continue to grow and impact all regions of the globe, it is quite timely to fully explore the driving determinants of international collaboration. The results suggest not only that there is strong interplay among alliances, currency unions and preferential trade agreements, but also that various domestic institutional factors limit the range of options available for collaboration. While the increase of economic integration and subsequent regionalism is often explained through systemic explanations such as diffusion, hegemony and power politics, the results from this chapter provide initial foundation for an expanding focus on the domestic determinants of cooperation as well. Again, although systemic level factors may limit the range of possible options, it is at the domestic level where the choice among viable options is ultimately made. As Gourevitch (1996: 350) notes, “international cooperation

turns on domestic politics.” Not only do domestic political institutions promote and deter cooperation, but their influence also transcends issue-areas, remaining equally salient with regard to high and low politics alike. For cooperation to exist in the security, commercial and monetary arenas, each state must agree to the conditions. In order for that to occur, cooperative agreements must make their way through the domestic institutions and maintain the support of prominent sectors of society. Otherwise, cooperation is not possible.

Although the notion that domestic politics matter is not novel, this chapter has provided detailed quantitative analysis of the impact of institutional variation on cooperation across realms. Domestic institutions not only determine the viability of cooperation within a country-pair, but moreover they impact what form of agreement is ultimately chosen. Additionally, dominant sectors such as the trading sector and military work within these institutions and are able to provide further domestic influence on the likelihood of international collaboration. While models such as the gravity and liberal peace models do contribute to our understanding of cooperation, the results confirm the key role that domestic institutions have on impacting relations in the international system.

The results from this chapter are especially relevant in the current world system, and may offer additional explanations for the rise of economic integration and the decline in scope of alliances. This is not to say that strategic security concerns are irrelevant, but more so they may manifest themselves in alternative forms of cooperation between states, as determined by the domestic institutional environment. In short, strategic and economic factors alike impact international collaboration. In the post cold war era states are more prone to opt for economic collaboration instead of strategic

cooperation, with the expectation that similar benefits may result. Similarly, as the results suggest, institutional factors ranging from regime type to political constraints to the size of the winning coalition largely guide which form of international collaboration exists within the dyad. This adds great depth to our understanding of international cooperation, as the results highlight those factors which promote cooperative relations between states, and which deter it.

The role of domestic institutions on cooperation is the key focus of this chapter. However, the analyses also manifest the transcendence of international agreements outside of their intended policy realm. While states may desire economic benefits, they may actually choose to form an alliance instead based upon the constraints of the domestic institutional environment. Across all three models, the results generally suggest that membership in a currency union decreases the necessity for an alliance or trade agreement within a dyad. In contrast, joint membership in an alliance or trade agreement is often accompanied by further collaboration, perhaps to further signal a relationship or provide additional nuance to the credibility of a state's commitment. Again, examination of the relationship between cooperative agreements offers further insight into those key trends in international cooperation that continue to reshape the world system.

While conflict between states continues to dominate dyadic analyses, the flip side of relations has been largely ignored. Again, it must be emphasized that cooperation does not simply imply the lack of conflict. Commercial, monetary and military agreements require the mutual coordination of policy – coordination that may be promoted or deterred between states depending on the domestic context. In this case, domestic political institutions account for variation among a dyad's response to the international environment. These results suggests those domestic conditions which are more prone to

favor cooperation in specific policy realms, as well as why cooperation may fail between a dyad when both states may benefit. Furthermore, factors that promote interstate conflict can also impact international collaboration. And, in the case of major powers and contiguity, although these variables increase the likelihood of conflict, they can also increase a dyad's propensity to cooperate. Furthermore, those factors that deter conflict, such as regime type, are also associated with cooperation, although the impact varies depending upon the policy issue at hand. In sum, this chapter illustrates the key role of domestic institutions on the viability of cooperation between states. A greater understanding of which states tend to cooperate together provides great predictive utility into global trends ranging from the expansion of the euro zone and dollarization to transitioning strategic arrangements and the spread of preferential trade agreements. In sum, these results provide the initial foundation for expanding our understanding not only of the domestic determinants of cooperation among states, but also the strategic interplay across issue areas within international collaboration.

CHAPTER 4

CHOOSING FRIENDS WISELY:
ECONOMIC AND POLITICAL COOPERATION IN THE WORLD SYSTEM,
1886-1996

In an anarchic world system, why does economic integration appear to be on the rise, and the depth of military alliances on the decline? Following the demise of the cold war, many realists discussed the newfound international climate and the adverse effects the new world system would have on cooperation.⁹⁶ However, in many ways, including the exponential increase of preferential trade agreements, cooperation among the major powers appears to be on the rise. As economic integration continues, scholarly attention has focused on the consequences of such developments. The last two decades have sparked increasing concern over the future repercussions of regionalism, whether benign or malign, in the international system. While trends towards regional blocs are certainly not novel, the consequences of regional collaboration have varied over time, producing both dire and optimistic predictions among scholars and policymakers alike. However, one significant difference between regional trends in the current era and those in the past may be the interaction among security and economic integration. Prior to World War II, economic integration did not necessarily imply strong political ties between countries. Alliances played a very significant role in shaping the world system, as security and economic cooperation oftentimes diverged between country pairs. The cold war system introduced much greater synthesis of cooperation in the security and economic realms, an overlap that generally persists today. Moreover, unlike past waves of integration, the current era is also characterized by a declining reach and influence of military alliances,

⁹⁶ For instance, see Waltz (2000).

and the oftentimes expanded role of economic agreements for political gains. The shifting magnitude and scope of political and economic cooperation not only impacts relations among states, but also could influence the repercussions of regional cooperation in the international system.

Commercial and monetary integration have not always been accompanied by an expansion of cooperative ties, evidenced by the import substitution driven regionalism of the 1960s and the malignant preferential trade agreements of the interwar period. Similarly, political and military cooperation among some states simultaneously leads to insecurity in others, generating well-analyzed armed races and subsequent security dilemmas. Why does cooperation among states sometimes produce relative international stability and prosperity, such as during the late nineteenth century, and at other times prompt deteriorated international collaboration, as evident during the interwar era? A focus on the causes of cooperation, wherein the choice of partners, as well as the extent of their integration across realms, may provide a more thorough understanding of the repercussions of trends among cooperation in the world system. In light of recent developments towards economic integration, as well as shifting alignments following the end of the cold war, it is essential to investigate the causes of cooperation over the last one hundred years. While it is too soon to predict the path the current round of regionalism will take, it is possible to look back over the past century and analyze which countries tended to cooperate together in order to gain insight into the future repercussions of regionalism, as well as conflict and cooperation in the world system. Focusing on the domestic institutional similarities and differences within a country-pair, including the role of government ideology and electoral timing as manifest through institutional framework, may reveal new insight not only into which countries tend to

cooperate together, but may also explain variation and similarities in international collaboration across the political and economic arenas. Furthermore, this analysis points to a key temporal distinction among the overlap of military and economic cooperation in the current era, and the lack thereof prior to 1945, which may explain why the repercussions of cooperation have diverged in the past.

Throughout the cold war, economic and security groupings generally remained congruent, but that has not always been the case. Furthermore, according to Kupchan (1997), although this harmonization of political and economic cooperation persists in the current era, the actual breadth of security groupings is currently shrinking while economic groups are increasing. This is a very different system than that of the late nineteenth century, wherein political, commercial *and* monetary cooperation shaped relations among states in a much more incongruent fashion. Most countries pegged their currencies to gold (at least temporarily) despite a lack of political or military cohesion. For example, the animosity concomitant with the Anglo-German rivalry is well known during the decades leading up to World War I. These countries relied upon tariff wars, price wars, and disputes over resources in Africa while pursuing protectionist policies (Kennedy 1980). According to James (2001: 14), the British were so unnerved over *German trade practices that there was an “almost hysterical reaction against the allegedly illegitimate competition of German producers”*. Nevertheless, despite this animosity in the commercial and political realm, Germany adapted gold in 1872, and generally participated in the British-dominated gold standard monetary regime through 1913.⁹⁷ Conversely, during the Bretton Woods monetary regime Franco-American relations were increasingly strained due to French aversion to the ‘exorbitant privilege’ the US gained

⁹⁷ Although it should be noted that Germany never fully adhered to the main principles of the monetary regime, largely in part due to domestic political reasons that will be discussed (Broz 2000: 214).

through monetary hegemony; nevertheless, these two countries maintained a tight alliance against the communist bloc. And currently, former enemies, such as Argentina and Brazil, are leading integration in South America despite a history of animosity and strife between the two states dating back to the early 1800s. While these are simply brief examples, they do provide initial evidence of inconsistencies among trends in international cooperation across issue-areas. Furthermore, these examples illustrate how poor relations in one area do not necessarily impede cooperation in other realms. When states cooperate they not only must consider with whom to cooperate, but also what form of agreement to pursue with distinct partners.

One explanation for these discrepancies of political and economic collaboration relates to the sources or causes of international collaboration. Returning to the previous examples, nineteenth century Germany was in dire need of a national currency to consolidate its empire and fledgling country. With victory over France in the Franco-Prussian war, Germany gained the ability to join the gold standard and create a national currency. However, the actual adherence to the regime was also influenced by domestic politics as the Junkers (powerful Prussian landowners) insisted on a monetary policy to protect agrarian interests above and beyond protecting the value of the reichsmark (Broz 2000: 216-7). Therefore, although they participated in the gold standard, the structure of the monetary policy and adherence to the standard was formulated in a manner to protect dominant sectors of society. Nevertheless, working in the national interest, Germany participated in a British-dominated monetary regime, despite the increasing commercial and political dissension between the two countries.

In contrast, the French distaste for America's benign neglect and her use of the dollar to expand the empire was still viewed as the lesser of two evils when facing

political alignments. France had already experienced an influential communist party immediately following World War II and did not want to risk such an occurrence again. Thus, despite economic tensions, domestic politics again helped mitigate the hostilities between the two countries and perpetuate the alliance.⁹⁸ And for many Latin American countries, economic cooperation may be the most viable means to greater power at the international level, and more stability at the domestic level. Security cooperation, such as the Argentine-Brazilian Agency for Accounting and Control of Nuclear Materials, was prompted by each country's desire to control the dominant power of the military and put military matters into civilian control. Argentina's Carlos Menem had already faced a failed coup, and both governments felt the best way to suppress a rising military threat was to institutionalize cooperation (Sotomayor Velazquez 2004). Furthermore, economic agreements between Brazil and Argentina in the 1980s gave way to rapprochement and arms control agreements, as changes in domestic and foreign policy paved the path for greater cooperation in both the security and economic realms (Hurrell 1998: 231). International power was also a desired externality of cooperation. As Gustavo Noboa, President of Ecuador, claimed in 2002 with regard to preferential agreement formation, "As individual countries we are like single fingers. Together we can form a big fist for the world to see" (Mansfield and Reinhardt 2003: 1). Therefore, even longtime enemies may view cooperation as the most viable means to greater power and wealth.

While these are merely examples, they do illustrate the influential role of domestic politics and its impact on cooperation among states. Due to domestic institutional constraints, the choice among potential collaborative partners is inherently limited, as is the form of international agreement – alliance, preferential trade agreement

⁹⁸ See Loriaux (1991) for more on French monetary policy.

or currency union. Moreover, the desired goals between states may not be achieved through conventional means, and therefore states opt for a more strategic plan. Economic motivations are not the only incentives that produce economic regionalism – military and security stability are often underlying factors. For instance, historical animosities, a desire to be less dependent on the United States, as well as China's expanding power, have all influenced economic regionalism within Southeast Asia (Mack and Ravenhill 1995).⁹⁹ Although several analyses claim preferential trade agreements are trade diverting at the aggregate level, many trade agreements may still be formed due to the pacific effects they have on relations between states and not on their net benefits to welfare.¹⁰⁰ In fact, Ravenhill (2003:309) notes that many recent East Asian trade agreements are signed between minor trading partners, and in some cases may negatively impact the economic welfare of some states. In these situations where states economically collaborate without expecting great economic improvements the underlying motivation may in fact be security concerns, coupled with domestic political constraints. In sum, while many preferential trade agreements may be trade diverting, countries employ them strategically to yield overall net political and security benefits within the group and instigate cooperative relations among its members. In the 1880s France decided to terminate its trade war with Italy and opted instead to ameliorate trade relations with the goal of prying Italy loose from the Triple Alliance – an alliance aimed against France (Brown 2003: 63). More recently, the EU was built based upon this notion of using trade policy for political results, with the desired goal of peaceful Franco-

⁹⁹ This will be discussed in more detail in the following chapter. Although systemic explanations for the rise in East Asian regionalism maintain prominence in scholarly literature, I note the role of domestic institutions and key sectors in the delay of regionalism in the area, as well as their impact on the choice of partner.

¹⁰⁰ Mansfield, Pevehouse and Bearce (1999-2000) and Mansfield and Pevehouse (2000) have found that preferential trading arrangements (PTAs) inhibit interstate conflict among members of the same agreement. On the potential trade diverting effects of PTAs, see Viner (1950) or Bhagwati (1990, 1993).

German relations through economic cooperation. And conversely, economic ties are arguably greater among alliances than non-alliances (Gowa 1994), therefore illustrating both directions of causality. In this manner, international agreements oftentimes transcend the policy objectives formally written into the agreement. Furthermore, the factors that push countries towards specific agreements, as previous examples illustrated, may in turn be a manifestation of domestic political institutional constraints.

Although numerous studies have investigated the determinants of regional cooperation through in depth case study analysis or short-term quantitative analysis, none have explored this issue over such a broad range of time or through a focused exploration of the international agreements behind the regionalism trends. In contrast, I investigate the dyad-specific factors that render the formation of certain international agreements more conducive than others as well as which countries are more prone to form these agreements together. The consequences of regionalism have varied over time, and a domestic level analysis may provide additional insight into regionalism's impact on the world system. International cooperation has occurred despite the extent to which the international system was conducive or inhibitive of cooperative agreements. This economic and political collaboration, however, has converged at times, but remained disparate at others. In light of recent developments, what impact does the current rise of economic cooperation, and the decline of political cooperation, have on international relations? I explore these questions through the lens of a domestic institutions framework, and seek to discover the determinants of alliance, preferential trade agreements and currency unions over the past century, as well as variation across the relationship to one another.

This chapter proceeds as follows. First, I provide an overview of the impact of international agreements on relations between states during the nineteenth century, interwar era, and post World War II period. Next, I describe the research design, followed by the results and discussion of the key findings. The analysis suggests that domestic political institutions have indeed played a prominent role in influencing cooperation between states over the last century. Furthermore, government ideology and the electoral timing, inherent within these dyads, additionally impacts whether or not states cooperate as well as the type of cooperation in which dyads partake. While the results reveal the role of domestic institutional factors on cooperation, they also provide an additional layer to our understanding of the interplay among international agreements themselves. A temporal break exists, wherein security and economic agreements were inversely related prior to 1945, but currently act as complements for one another in the current era of globalization. A disconnect existed among economic and political collaboration prior to 1945, as states that cooperated through agreements in one issue area were unlikely to expand that cooperation into additional arenas. While international agreements did not promote cooperation across issue areas prior to 1945, they have served a complementary role since 1945, as collaboration extends across issue areas and thus signals additional levels of cooperation between states. This current overlap may help explain the declining number of alliances in the world system, as they are often concomitant with, or are replaced by, economic integration.

International Cooperation Over Space And Time

Often perceived as the first era of globalization, the decades prior to World War I are frequently characterized as achieving unparalleled levels of diplomatic and economic cooperation. The gold standard is commonly described as an era of unprecedented growth and international cooperation during which many countries extended the most favored nation clause through a network of bilateral trade arrangements. By the time of World War I, Great Britain had 46 preferential trade agreements, Germany 30 and France 20. These led to tariff reductions, cooperation and free trade within the international system (Mansfield and Milner 1999: 596-7). The stability of the monetary system additionally helped instigate international cooperation, producing a system that epitomized the virtues of non-discrimination that can result from preferential trade agreements (Irwin 1993: 91). The interaction between commercial and monetary stability was evident, as a stable exchange rate system helped promote stability and cooperation in the commercial realm as well.¹⁰¹

Moreover, international norms, as shaped by British hegemony, greatly impacted the nature of these agreements. Due in large part to Britain, states opted for the aspects of Mundell-Fleming that would produce the highest net international welfare. In this unholy trinity, states can choose two out of the following three: a fixed-exchange rate, open capital markets and domestic monetary autonomy. A fixed-exchange rate to gold signaled credibility and a commitment to stability and therefore was a prerequisite for international trade. In addition, there was a strong norm against unfair trade practices,

¹⁰¹ It should be noted that trade policy was not entirely harmonious during this era. Trade and tariff wars broke out between France and Italy, Germany and Russia, and France and Switzerland in the late 1880s-early 1890s. However, the backsliding of commercial cooperation should not be exaggerated, as the degree of reciprocity and openness was unprecedented at the time (Irwin 1993: 101- 102).

and in favor of free capital flows. Thus, states participating in the system were often forced to act in ways that favored the international flow of capital and goods, regardless of whether it was in the best interests of domestic constituents. Disregard for domestic interests, of course, was much more viable during this era due to the great limitations and constraints of the electorate, as well as the small percentage of democracies in the world system. Furthermore, Mansfield and Milner (1999) highlight the fact that preferential trade agreements often serve as extensions of power politics. In this manner, Britain set the rules of trade to which the bilateral agreements adhered. This created a cooperative arrangement, wherein the international economic structure created constraints and opportunities on each state, demonstrating the merits of preferential trade agreements and membership in the gold standard monetary regime.

However, international integration did not stop in the economic arena. According to Gibler (2000: 157), during the late nineteenth century “major powers were adept at including all states, even potential belligerents, in the alliance system.” This complicated alliance system helped spawn the conditions that led to the absence of major power war following alliance formation.¹⁰² In addition, this era is marked by the emergence of a balance of power system with the rise of Bismarck. However, unlike the international agreements of the cold war, prior to the twentieth century there were not any alliances formed solely by democracies (Gibler 2000: 159). Nevertheless, alliances generally were not war prone during this era. This, of course, changed in the years leading up to the war, as Bismarck was replaced with the Kaiser, and the intricate web of alliances broke down into predatory agreements and the pursuit of expansionist policies. It should be noted that during this era the domestic and foreign policy of the major

¹⁰² Levy (1981: 597) claims that the nineteenth century is the anomaly over the last 5 centuries. During the other four centuries major power war consistently followed great power alliance formation.

European actors were inextricably inked, so that internal factors largely impacted conflict and cooperation on the continent (Levy 1988: 656).

In sharp contrast to the gold standard, the interwar period consisted largely of beggar-thy-neighbor economic blocs. Bi- and multi-lateral agreements were attempted in order to recapture the economic success of the gold standard era. However, these agreements often reflected more of an 'us versus them' mentality, excluding countries such as Germany while often restricting tariff preferences to colonies (e.g. the British empire) or regions (e.g. Scandinavia). Tariff levels reached as high as 82%(Germany) on certain commodities, as trade diversion was based on regional preferences (Irwin 1993: 110). The US Smoot-Hawley tariff of 1930 epitomizes the time period, unleashing unprecedented tariff levels as well as a drastic turn inwards by the US. Similarly, Britain issued the General Tariff of 1932, with tariffs ranging from 20-33%, but did not impose it onto its colonies (Eichengreen and Irwin 1996: 15). Eichengreen and Frankel (1995: 96) and Hirschman (1980) discuss how German regionalism in the interwar period was indicative of the malign and trade diverting effects of regionalism, as German economic statecraft manipulated smaller powers and expanded German military and economic clout.

Interwar bilateralism led to contraction of world trade due to power rivalries and a return to mercantilist policies. The League of Nations conceded that the MFN clause explicit in many bilateral negotiations tended to, "obstruct the reduction of tariffs" and that the multilateral negotiations on a global scale would not succeed (Irwin 1993: 111). In addition, the interwar institutions "were ill-equipped to restore commercial policy to its prewar basis" (Irwin 1993: 103). While the League of Nations promoted global free trade, the institution was too weak to fight the mercantilist norms of the period. In short,

regionalism was driven by international instability and political rivalries between Britain, France and Germany (Eichengreen and Frankel 1995: 97). As long as the policies of the US and Britain remained protectionist, there was little hope for global free trade, despite the efforts of the League of Nations.

Nevertheless, attempts at cooperation did emerge. For instance, in 1933 Belgium, France, Switzerland and the Netherlands created the 'Gold Bloc', a cooperative agreement designed to defend existing fixed parities (Simmons 2000: 576). The Reciprocal Trade Agreements Act in 1934 allowed the US to negotiate tariff reductions with specific countries, largely in Latin America. And following Britain's departure from the gold-exchange standard, imperial preferences were granted favorable trade policies following the Ottawa Conference of 1932. However, these agreements did have negative international repercussions, as evidenced by Germany's use of bilateral trade and emphasis on a reichsmark bloc to dominate smaller powers (Hirschman 1980). Not only did German strategy rely on economic agreements for the purpose of high politics, but the grand strategy also intensified deteriorating relations and hostilities with France and Britain (Ranki 1983).

Alliances during this time period maintained idealistic traits in the years following the war, similar to attempts to reinvigorate the gold standard in the monetary realm. The Locarno Treaties of the late 1920s aimed at pursuing world peace through establishing borders between Germany, France and Belgium. In fact, by 1929 the major powers were at peace, and the major conflict in the world system was a border dispute between Paraguay and Bolivia.¹⁰³ The Kellogg-Briand Pact between the US and France was similarly optimistic, and vowed that those who signed the treaty agree not to use war as a

¹⁰³ <http://west-teq.net/~dmf/treaty.htm#loc>

means to resolve disagreements. By 1929, 65 countries had signed the pact. In general, though, the majority of alliances during this time period were temporary arrangements among blocs of powers, and lacked high degrees of integration and credibility.

Following the Second World War, states yet again attempted to create the economic and political integration of the late nineteenth century. From the Bretton Woods institutions (IMF, IBRD, GATT) to monetary union to NATO, the division between the capitalist and communist countries was well established following the war. For the most part, preferential trade agreements were largely absent during the Bretton Woods era, as less than 50 agreements were notified to GATT. Conversely, over 250 agreements have been notified over the last decade.¹⁰⁴ The importance of preferential trade agreements quickly rose following the end of the Bretton Woods monetary system, and continues to exponentially increase subsequent to the demise of the cold war conflict. Similarly, monetary integration has also been on the rise over the past 15 years, ranging from dollarization and the euro bloc to basic monetary pegs to the major currencies. In contrast, many question the continuing significance of the major alliances with the demise of the bipolar system, and failure of NATO to quickly respond to the Balkan crises. According to Bertram (1995), the bond between the US and Europe, institutionalized in NATO, is bound to disappear with the end of the cold war and the disappearance of a Soviet threat.

As this discussion illustrates, regionalism and international cooperation have had diverse effects on the world system over time. Because of the uncertainty of regionalism's repercussions, perhaps Woodrow Wilson's advice to be wary of, "the establishment of selfish and exclusive economic leagues" is as prescient now as it was

¹⁰⁴ http://www.wto.org/english/tratop_e/region_e/regfac_e.htm

almost 100 years ago (Brown 1917: 850). However, despite current trends in political and economic cooperation, and concern over the impact of current economic integration, there has yet to be long-term, empirical analyses of these trends, nor the domestic institutional factors that led to the formation of each agreement. As noted earlier, domestic political factors may play a large role in determining both with whom a country cooperates, as well as the form of cooperation – whether alliance, trade agreement or currency union. Failures, as well as successes, in cooperation may be the result of underlying policy differences as determined by the domestic institutional environment such as political constraints or government ideology. In short, domestically entrenched interests as well as institutional design may facilitate or impede cooperation between states. While international factors certainly play a prominent role in explaining cooperation, domestic level explanations may offer more insight into the causes of cooperation as well the important decision of with whom to cooperate. Furthermore, the interaction among these agreements, whether used individually or in unison, also has attracted little attention. Do states that cooperate in one issue area expand that cooperation into other arenas as well? Or, in contrast, do states prevent additional loss of domestic autonomy by pursuing cooperation only in one issue area? In the latter case, states may simply desire specific benefits and refuse to abandon the autonomy that may be lost through additional collaboration. The next section investigates these questions, and examines the driving factors behind international cooperation, as well as the strategic interaction of international agreements, over the past century.

Methodology

As discussed, the international agreements behind international collaboration and regionalism remain underexplored. Relying upon data from 1886-1996 for 27 countries, I investigate those dyad-specific factors that encourage or deter international agreements between states.¹⁰⁵ There are three distinct models, with preferential trade agreements, alliances and currency unions as dependent variables in their respective models. As each dependent variable is binary, I employ logistic analysis and cubic splines to control for duration dependence.¹⁰⁶ This research design not only reveals the role of domestic institutional constraints on international collaboration, but also manifests the relationship among the international agreements to each other. The key goal of this analysis is first to uncover those domestic institutional variables that impact dyadic cooperation. Assuming governments desire to stay in power, they are often constrained in their policymaking by both institutional constraints as well as interest group pressures. Variation among domestic institutions likewise may determine which form of cooperation is most viable to a government given specific domestic conditions. While there has been much focus on democratic cooperation, the domestic level has yet to be quantitatively disaggregated to account for both political institutions as well as interest group factors. The following domestic level hypothesis is tested:

Hypothesis 1: Domestic institutional factors, such as regime type, veto players and the size of the winning coalition, influence cooperation between states.

¹⁰⁵ The countries are: Argentina, Australia, Austria, Belgium, Brazil, Canada, Chile, Denmark, Finland, France, Germany, Greece, Italy, Japan, Mexico, Netherlands, New Zealand, Norway, Portugal, South Africa, Spain, Sweden, Switzerland, Turkey, United Kingdom, United States, and Uruguay. Due to the introduction of some countries into the international system, as well as data availability, data for a few countries begins in the early 1900s.

¹⁰⁶ Beck, Katz and Tucker (1998).

In addition to uncovering the domestic variables that impede or promote cooperation, I also explore the role of international agreements to one another. Do states that cooperate in one issue area, also cooperate in other areas, as many spillover arguments in the functionalist literature may claim? Or do they prefer to limit cooperation to one specific arena in order to limit additional loss of domestic control over policymaking? In this regard, a state's main objective is to maintain sovereignty cooperating only when viewed as a necessity to achieve a desired goal. As both outcomes are plausible, it is essential to investigate both possibilities

Hypothesis 2: Countries that cooperate in one issue area are more likely to cooperate in other realms as well.

Hypothesis 3: Countries limit cooperation to one issue area, and therefore are unlikely to form additional agreements in other realms.

Finally, as this analysis covers such a broad length of time, both spatial and temporal factors may also play a role in determining cooperation between states. The majority of conflict literature finds that contiguous countries are more conflict-prone, while distance tends to decrease the probability of conflict between states.¹⁰⁷ Main explanations for these findings point to territorial disputes and closeness of contact, or lack thereof, in both cases. Nevertheless, contrasting claims could also point to closeness of contact as an impetus for cooperation between states. Similar to arguments from the conflict literature, states are unlikely to cooperate with other states with which they have little common ground or interests. Cooperation is more likely to result from countries that are geographically contiguous, as transaction costs are lower and the most productive means to achieving similar goals may be through cooperative agreements.

¹⁰⁷ See Midlarsky (2000) or Vasquez (2000) for detailed discussion on the role of contiguity and distance on conflict between states.

Temporal factors may likewise produce variation among trends in cooperation. As discussed earlier in detail, congruence among political and economic cooperation has not always existed, and in fact countries prior to World War II were likely to cooperate economically with political rivals, or politically with economic rivals, more frequently than in the post-World War II era. Nevertheless, as there has yet to be quantitative analysis of the relationship among international agreements over time, any generalizations of the (in)congruence of cooperation across issue areas remains speculation at best. Therefore, a final goal of this analysis is to explore whether or not there is an empirical basis for the claim that the synthesis of political and economic cooperation exhibits a temporal break.

Hypothesis 4: States that are geographically contiguous are more likely to cooperate, as the probability for cooperation between states decreases as the distance between them increases.

Hypothesis 5: Since 1945, political and economic cooperation tends to overlap, in contrast to their incongruence prior to World War II.

Dependent Variables

The alliance variable indicates whether or not a defense pact, entente or neutrality pact exists within the dyad. The alliance data is from the Correlates of War dataset, and was obtained using EuGene software.¹⁰⁸ The preferential trade agreements data stems from 3 different sources. For the post-1945 era, the data was obtained from Jon Pevehouse and from Robert Pahre for the years 1886-1914. There is not, to my knowledge, a dataset of interwar trade agreements. However, following Eichengreen and Irwin (1995), I create dummy variables for trade blocs centered around the British

¹⁰⁸ Bennett and Stam (2000). Additional Correlates of War variables obtained from EuGene include: contiguity, distance, major power status, capability, and conflict.

Commonwealth, the Reichsmark and the Western Hemisphere. The currency union data was acquired from Rose for the years 1946-1996, Eichengreen (1995) for the interwar years and Meissner (2002) for the years prior to World War I.¹⁰⁹

Control Variables

I account for domestic institutional and ideological influences that may impact the formation of international agreements. Election years influence foreign economic and strategic policy, and therefore likely influence the timing of international agreements. Smith and Hayes (1997) and Milner and Rosendorff (1997) discuss the impact elections have on a state's decision to form international agreements, as they can either encourage or deter cooperation depending on the agreement and how the electorate views it.¹¹⁰ According to Gowa (1998), the election cycle has no impact on a state's use of force, running counter to any diversionary theories of war. However, alliance formation may be different in that it overall is viewed as a means to increase power without devoting domestic resources to the military. This will leave more money to invest in other areas, such as education and infrastructure, and therefore may serve as a positive policy change during an election year. This variable is coded 1 if it is an election year, otherwise zero. However, the election cycle may have the opposite effect on preferential trade agreement formation. Milner and Rosendorff (1997) contend that ratification procedures occurring during the electoral cycle are more likely to fail. With regard to monetary policy, Frieden, Ghezzi and Stein (2001: 51) note the role of elections in determining the timing of devaluations. Usually devaluations are delayed in the run-up to the election as they

¹⁰⁹ Data is available at Andrew Rose's website: <http://faculty.haas.berkeley.edu/arose/RecRes.htm#Topic>

¹¹⁰ See Smith and Hayes (1997) for a game theoretical discussion on how elections impact agreement formation and provide information to the electorate of government policy.

reduce the real income wealth of citizens, but occur more frequently following the election. Electorally motivated delays occurred in Brazil in 1986, Argentina in 1989 and Mexico in 1992. Similarly, politicians may wish to float the national currency during an election year to gain more flexibility and try to promote growth, while after the election they may fix the rate to impose discipline (Bernhard and Leblang 1999: 83).

Both preferential trade agreements and monetary policy are not immune from domestic institutional constraints. However, one key area where currency union and preferential trade agreements differ is that while preferential trade agreements are subject to debate in the legislature, exchange-rate regime decisions are rarely subject to votes there (Broz and Frieden 2001: 327). While the exchange rate regime is no longer a heated agenda for election that has not always been true. Prior to World War I the choice of exchange rate regime was very contentious. In the US, there were local debates as to whether or not to go on gold, a bimetallic system, or stay on the greenback. After the Civil War, President Grant and Secretary of the Treasury Hugh McCullough favored restoration of the gold standard. However, with a slump in the business cycle there was growing demand for an increase in greenbacks. In 1874 Grant vetoed an "Inflation Bill" to expand the greenbacks, resulting in the loss of many Republican seats in Congress in the 1874 elections (Wilson 1992: 169). In the 1896 election, William Jennings Bryan lost the presidential election to William McKinley, who ran on a platform favoring gold, while Bryan favored bimetallism and a silver standard (Wilson 1992: 173). In nineteenth century America, where you stood in monetary policy during an election year greatly impacted your election bid. The same is still true for countries in the EU, especially in countries such as Denmark or the UK, which have consistently voted against joining a

currency union. And dominant sectors of society throughout Latin American countries continue to debate the merits of dollarization.

In addition to the election year, I incorporate three domestic variables that measure the impact of domestic institutions on cooperation over the last century. First, I draw upon research from the veto player literature, which argues that the more cohesive and unified the government, the easier it is to pass policy (Tsebelis 2002). I incorporate the lowest level of political constraints, and thus the lowest impediment to cooperation, from Henisz's political constraints dataset.¹¹¹ In addition, leaders also have to satisfy a large range of interests, especially in democracies. Therefore, I include the smallest winning coalition within the government, which in turn indicates the smallest interests that need to be satisfied. According to Bueno de Mesquita et al (2003), as the winning coalition size increases, additional public goods need to be provided, which may be less costly and appeal to wider audiences through international agreements.¹¹² Next I include regime type, which is consistently linked with pacific relations between states. I utilize the Polity IV dataset and control for joint democracy within the dyad, in line with the democratic peace arguments. As democracies have been found to cooperate more, I expect joint democracy to have a positive impact on cooperation across issue areas. Finally, ideology is extremely relevant, especially when considering foreign economic policy. Ideology has been linked to monetary policy (Eichengreen and Leblang 2003; Simmons 1994) and preferential trade agreements (Milner and Judkins 2003), and likely impacts alliance partnership as well.

¹¹¹ The dataset is accessible at Henisz's website: <http://www-management.wharton.upenn.edu/henisz/>

¹¹² Both of these variables are loosely based upon the weakest link assumption, wherein the lowest level or greatest impediment to cooperation is measured. See Dixon (1993, 1994) for more on the weakest link as viewed through democracy and conflict. Data on the winning coalition was obtained at: <http://www.nyu.edu/gsas/dept/politics/data/bdm2s2/Logic.htm>.

Relying upon dyadic analyses of conflict to instrumentalize the converse, cooperation, the following explanatory variables control for factors that have similarly been found to promote conflict – thus arguably producing the opposite effects on international collaboration. Geographical neighbors are indicated through the contiguity variable, while distance between capitals is considered as an inherent obstacle to cooperation. Similarly, joint language is considered an implicit barrier to cooperation and, like contiguity, is a dummy variable measured as 1 if both countries in the dyad share the same language. Joint language data was acquired from Leeds et al (2002) for years prior to 1946, and from Rose for 1946-1996.

In addition, bilateral trade levels have been linked to greater diplomatic relations (e.g. trade follows the flag).¹¹³ For the years prior to World War II, the data was obtained from Katherine Barbieri, while the subsequent years are from Andrew Rose. Economic openness is often concomitant with trade, and serves as an additional indication of a country's willingness to cooperate. This variable was obtained from Barry Eichengreen and David Leblang.¹¹⁴ Similarity of interests within the dyad accounts for diplomatic affinity between countries within the dyad. This data was obtained from Sweeney (2003) for 1886-1946, and from Tucker et al for 1946-1996.¹¹⁵ Gibler (2000: 157) notes that those countries with similar affinity to Britain had peaceful alliances, while Sweeney (2003) contends those countries with greater similarities have less severe disputes. Similarly, Gartzke (1998) claims that diplomatic affinity is the guiding factor behind the democratic peace. I expect diplomatic affinity to have a positive impact on international collaboration. Conversely, militarized interstate disputes between states, coded 1 if a

¹¹³ See Pollins (1989).

¹¹⁴ Additional variables acquired from Eichengreen and Leblang include ideology and election year.

¹¹⁵ See the United Nations Voting Affinity Dataset website:
<http://www.vanderbilt.edu/~rtucker/data/affinity/un/similar/>

MID exists within the dyad, is expected to decrease the likelihood of cooperation. In addition, I control for power ratios within the dyad. The capability ratio represents the ratio of the lowest capability to the largest within the dyad. Obtained from the Correlates of War Composite Index of National Capabilities, discrepancies in capabilities could be indicative of either dependence or free riding. In fact, according to Sweeney (2003) those countries with dissimilar interests, but balance of power, are likely to have less hostile disputes. Finally, I control for whether or not a major power is present within the dyad. Major powers are consistently linked with greater conflict, but the converse may also be true. This is a dummy variable coded 1 if either country is a major power. The results are listed in table 2 and descriptive statistics for all variables are listed in table 1.¹¹⁶

Results

The baseline results in table 2 produce interesting findings regarding the interaction among international agreements. However, the baseline model only manifests part of the story. Both preferential trade agreements and currency unions have a statistically significant effect on whether or not an alliance exists within a dyad. However, members of a currency union are less likely to form an alliance, while those of a preferential trade agreement are more likely. This again adds depth into the notion of whether or not agreements are used as instruments for one another. These results change, however, when also incorporating interactions of preferential trade agreements and currency unions with the pre-WWII era. The inclusion of these interactions changes

¹¹⁶ The Correlates of War variables, major power, contiguity, distance, MID, and capability ratio were acquired through Bennett and Stam's (2000, 2004) EuGene software at www.eugenesoftware.org.

Table 1: Summary Statistics

Variable	Obs	Mean	Std. Dev.	Min	Max
Alliance	21425	.1680019	.3738735	0	1
Preferential Trade Agreement	21425	.1337182	.3403543	0	1
Currency Union	21425	.1256739	.3314863	0	1
Contiguity	21425	.1024387	.3032289	0	1
Joint Language	21425	.0941907	.2920985	0	1
Distance	21425	4387.371	3261.509	0	12347
Bilateral Trade	21425	5.13e+08	3.54e+09	-999	1.58e+11
Similarity of Interests	21425	.7585429	.2606173	-1	1
MID	21425	.0089538	.0942014	0	1
Political Constraints _t	21425	.2575685	.1911479	0	.6526247
Winning Coalition _t	21425	.709995	.3128744	0	1
Major Power	21425	.3241046	.4680462	0	1
Democracy _t	21425	2.014613	6.97616	-10	10
Capability Ratio	21425	.325134	.2707089	.0021565	.9999021
Openness	21425	.3822908	.3022681	.0049476	1.802605
Election Year	21425	.0990516	.2987357	0	1
Left	21425	.1058259	.3076192	0	1

Table 2: Domestic Determinants of Alliances, PTAs and Currency Unions, 1886-1996

Dependent Variable	Alliance	Alliance Interaction	PTA	PTA Interaction	Currency Union	C.U. Interaction
Alliance	-----	-----	.723* (.128)	.736* (.140)	.048 (.099)	.012 (.156)
PTA	.685* (.099)	1.551* (.149)	-----	-----	.682* (.085)	.935* (.163)
Currency Union	-1.221* (.096)	1.053* (.251)	.449* (.019)	1.990* (.202)	-----	-----
Alliance*pre-1945	-----	-----	-----	-.780* (.342)	-----	-.062 (.206)
PTA*pre-1945	-----	-2.815* (.240)	-----	-----	-----	-.358* (.184)
Currency Union*pre-1945	-----	-2.440* (.261)	-----	-1.958* (.276)	-----	-----
Contiguity	.171* (.101)	.195* (.148)	.741* (.139)	.596* (.141)	.310* (.085)	.322* (.085)
Joint Language	.299* (.109)	.399* (.114)	1.557* (.133)	1.604* (.135)	-.381* (.119)	-.378* (.119)
Distance	-.001* (.000)	-.001* (.000)	-.001* (.000)	-.000* (.000)	-.001* (.000)	-.000* (.000)
Bilateral Trade	.000* (.000)	.000* (.000)	.000 (.000)	.000 (.000)	.000* (.000)	.000* (.000)
Interests	-6.278* (.225)	-6.048* (.226)	-.2313* (.218)	-2.351* (.224)	3.670* (.356)	3.879* (.379)
Militarized Interstate Dispute	-.079 (.227)	-.149 (.241)	.541 (.430)	.563 (.433)	-.794* (.270)	-.778* (.269)
Political Constraints _L	-.415* (.251)	-.441* (.256)	-.685* (.320)	-.809* (.323)	1.529* (.169)	1.520* (.169)
Winning Coalition _L	2.165* (.144)	2.173* (.147)	1.739* (.169)	1.702* (.169)	.817* (.102)	.814* (.102)
Major Power	.121 (.077)	.264* (.079)	-.301* (.103)	-.289* (.106)	.616* (.069)	.643* (.072)
Joint Democracy	.292* (.089)	.190* (.092)	.389* (.109)	.333* (.110)	-.362* (.066)	-.374* (.067)
Capability	-.062 (.143)	.084 (.147)	-.160 (.188)	-.145 (.190)	-.179 (.115)	-.176 (.116)
Openness	-.405* (.155)	-.779* (.171)	1.449* (.171)	1.348* (.168)	.696* (.095)	.676* (.095)
Election Year	-.133 (.117)	-.127 (.120)	-.328* (.137)	-.357* (.138)	.212* (.094)	.211* (.094)
Left	.121 (.108)	.184 (.113)	.231* (.132)	.247* (.132)	-.269* (.081)	-.262* (.081)
Constant	4.843* (.241)	4.727* (.245)	1.439* (.148)	1.650* (.274)	-4.332* (.370)	-4.514* (.389)

Note: Standard errors are in parentheses. N=21425.

*p<.1. Temporal splines at 4 knots are not included

the results, demonstrating that both economic agreements had a negative and statistically significant impact prior to 1945, but positive and significant post 1945. This illustrates a strategic nature behind international collaboration, and a strategy that has changed overtime. Furthermore, the divide between economic and political cooperation insinuates the possibility that prior to 1945 states either gained similar protection and integration through economic agreements and political agreements, or were unwilling to abandon more autonomy to another state, especially if animosity exists in other policy realms. However, during the cold war the world was significantly divided, and great overlap existed with NATO, the Bretton Woods regime and currently the rise of preferential trade agreements. Therefore, countries additionally signaled, and continue to do so, their relationship with other countries through both political and economic agreements.

Similar temporal breaks exist when analyzing the preferential trade agreement results. For the entire sample, alliances and currency unions are positive and statistically significant. However, prior to 1945, alliances and currency unions were less likely to also form preferential trade agreements, similar to the results for alliances. The same temporal break exists in the currency union model, as well as a sign flip on the coefficient. While preferential trade agreements and alliances have a positive impact on currency unions for the entire sample, the direction of the impact varies over time. Prior to 1945, an inverse relationship existed, while post 1945 a positive relationship appears.

In short, for each form of international collaboration a temporal break emerges within the relationship of each agreement to the other agreements. While political and economic integration seem to coincide since 1945, that same level of integration was non-existent in the previous era. This may help explain contrasting findings on alliances

and integration over time. First, analyses of alliances on conflict have remained unresolved (Gibler 2000), as they at times cause peace and others are followed by war. Similarly, while the vast literature contends economic integration produces peaceful relations between states, there have been some discrepancies over time, where the pre-1945 era arguably produces a positive relationship between conflict and economic integration (Barbieri 2002).¹¹⁷ One reason for these findings may be due to the fact that economic and political integration were disparate during this era, and therefore the additional restraint was lacking to prevent the outbreak of war. This is the basis of functionalist claims, which contend that both political and economic cooperation are essential for peaceful relations between states.¹¹⁸ Furthermore, World War I is often the infamous example of economic integration leading to war. Perhaps these findings provide some evidence that the political collaboration did not coincide with economic collaboration and therefore was unable to prevent the onset of war. Since 1945, there has not been a major power war. Of course, the countries in this sample were not communist countries, but they do indicate that when collaboration in both the economic and political sphere coincides, peaceful relations result.¹¹⁹

While one key goal of this analysis is to understand the interplay and relationship among international agreements, another was to manifest those domestic institutional conditions that encourage or deter cooperation between states. Similar to chapters 2 and 3, this model focuses on the role of domestic political institutions on each form of international collaboration. Again, as table 2 illustrates, these variables influence a state's propensity to cooperate. Dyads with large winning coalitions are more likely to

¹¹⁷ However, subsequent research by Oneal and Russett was unable to replicate her results.

¹¹⁸ See Deutsche (1957), Haas (1961) and Mitrany (1943) for classic examples.

¹¹⁹ It must be emphasized the majority of countries in this sample are OECD, or greatly dependent on an OECD country.

cooperate, similar to findings by Bueno de Mesquita et al (2003), across all three policy realms. In addition, as the number of veto players within a dyad increases, and each state exhibits a policymaking system lacking a centralized authority to quickly change policy, commercial and military cooperation is less likely to occur. The results for these agreements are consistent with the veto player literature, which argues that increasing constraints render policy change more difficult. However, political constraints are positively associated with a dyad's propensity towards joint membership in a currency union. This is inconsistent with veto player literature, as the additional political constraints actually render monetary cooperation more likely. One explanation may point credibility and the role of membership in the gold standard, both prior to World War I as well as the interwar era, as the gold seal of approval.¹²⁰ Credibility likewise emerged from membership in the Bretton Woods regime. Similarly, states with bipartisan support, and thus additional political constraints, may have reaped additional credibility benefits of membership. If the majority of political parties supported adherence to a currency union, then partner states are less likely to worry about renegeing on the monetary commitment. In short, in the monetary realm, the role of political constraints may not be as straightforward as much of the veto player literature suggests. The results may rest upon the interplay among interests and institutions, and the credibility that emerges through the decision making process. Finally, regime type has a nuanced impact on collaboration, as democracies tend to ally and form preferential trade agreements together, but are less likely to form currency unions. These results may be driven by the current trend among democracies to float their currencies, as well as the fixed exchange

¹²⁰ See Bordo and Rockoff (1996) and Bordo, Edelstein and Rockoff (1999) for discussion on how adherence to the gold standard signaled domestic market credibility to the international community.

rate standards of the gold standard and interwar period that existed during a time of few democracies in the world system.

This model also includes additional indicators of institutional constraints. Election timing influences cooperation, and is positively linked with currency union formation, but has an inverse relationship with preferential trade agreements. As noted, exchange rate policy is often delayed until following (often immediately) an election, which may explain the results. A temporal divide exists for the impact of ideology on international cooperation. For the entire sample, governments of the left are less likely to form currency unions, but are more likely to form preferential trade agreements. However, these results also vary over time. Since 1945, leftist dyads are more likely to form currency unions, but less likely to form alliances or preferential trade agreements. Prior to 1945, leftist dyads were more likely to ally together, as well as form preferential trade agreements, but were less likely to form currency unions. These results, when controlling for temporal range, coincide with past findings on preferential trade agreements and currency unions.

The additional control variables drawn from the conflict literature and gravity models produced the anticipated results. Contiguous countries are more likely to cooperate, while distance deters cooperation. Major powers within a dyad, while linked to conflict in the past, also improve the chances that a dyad will form an alliance or currency union together. And those countries with greater bilateral trade levels are also more likely to cooperate – politically and economically. However, economic openness is positively associated with preferential trade agreements and currency unions, and actually decreases the likelihood of alliance formation. Economically open countries may opt for economic arrangements, with the hope of receiving spillover into the political arena as

well. Finally, the capability ratio negatively impacts cooperation, while joint language increases the chances that a dyad will form a preferential trade agreement or alliance, but decreases the likelihood of monetary integration between states.

Additionally, conflict between countries only has a statistically significant impact on currency union formation, decreasing the likelihood that states will integrate in the monetary realm. However, when altering the variable from a binary MID to hostility levels between states, both preferential trade agreements and alliances are less likely to be formed the greater the hostility level. Thus, greater insight is gained by inclusion of a 5-point conflict variable, instead of grouping all forms of disputes under the umbrella of conflict. In addition, similarity of interests actually decreases the likelihood that states form alliances or preferential trade agreements together. The cause may be two-fold. First, countries with similarities may feel no need to abandon sovereignty through an alliance as they already know their interests are consistent. Second, this may provide support for Simon and Gartzke (1999) who claim opposites attract when it comes to alliance formation. In contrast, similarity of interests is a guiding factor behind currency unions, demonstrating that money tends to link countries that have a similar outlook on international relations.

In order to verify the consistency of the results regarding the impact of the international agreements on one another, I ran a number of additional estimations including clustering the data and fixed-effects estimations. The results remain consistent with one exception – alliances on currency unions become negative and statistically significant. While this finding differs from the baseline model, they allude to the possibility of an inverse relationship among currency unions and alliances, wherein causality in both directions may exist between monetary and political integration.

Nevertheless, the baseline model remains the most suitable estimation and is most consistent with research on time series for binary dependent variables.¹²¹

Discussion

This initial analysis demonstrates not only that domestic institutional factors influence the likelihood of international collaboration, but moreover that the relationship among international agreements is not static over time. These findings may shed new light on the various repercussions of regionalism over time. While economic and political collaboration were less likely to coincide prior to 1945, the modern era indicates that countries that cooperate in one area are also likely to cooperate in other areas as well. This chapter, however, does not address whether political collaboration leads to economic integration or vice versa. Nevertheless, it does illustrate the complementary role of international agreements in the current era among the major players in the world system. Moreover, this additional degree of cooperation was lacking prior to 1945, which may explain the inability of the great powers to prevent the outbreak of war.

In addition, along with changing relations over time, domestic institutional factors also play a strong role in either promoting or deterring cooperation. For the most part, many of the factors that impact conflict also influence cooperation, such as contiguity, distance, major power status and trade levels. However, this chapter takes the analysis a step further and points to those institutional and ideological factors that also impact collaboration. Domestic leaders are responsible to their constituents, and

¹²¹ See *International Organization* 55(2) for detailed debate on binary times series cross sectional analysis.

therefore their choice of international agreement, as well as its timing, is largely driven by ideology, election years and institutional constraints within the government.

In sum, these findings add great depth to our understanding of conflict and cooperation in the world system. One key question that emerges from this chapter is whether or not the distinction of major power relations in the current era of globalization is the security and economic arrangements among great powers. In the first era of globalization, the major powers integrated economically, but not politically. Conversely, today the major powers are linked through international institutions, alliances and economic agreements. The notion of international agreements as complements in the current era of globalization may provide some optimism on future relations among these states as long as recent trends continue to follow the current path.

CHAPTER 5

INTERNATIONAL COOPERATION IN THE CURRENT WORLD SYSTEM

The preceding chapters have illustrated the role of domestic institutions in shaping international cooperation across a broad range of issues. From regime type to political constraints, the domestic institutional environment shapes a state's foreign and economic policy and thus has great impact on international cooperation in the world system. The following discussion represents a close look at three of the most influential trends in international cooperation today in each of the issue-areas addressed – the rise in East Asian regionalism, Latin American dollarization, and the transatlantic tensions stemming from the Iraq intervention. Each of these developments epitomizes important changes in the world system in the realms of commerce, monetary policy and strategic policy. Furthermore, each of these three cases is more often than not explained through systemic explanations. Thus, due to their relevance to the current world system, as well as existing explanations based on structural factors, they are key cases to which any argument of domestic institutions must uphold. In addition, they also indicate the interplay among policy issues and a government's use of international cooperation in one policy area to achieve goals in other areas as well.

The Rise of East Asian Regionalism

Currently every country that is a member of the World Trade Organization (WTO) is a member of at least one preferential trade agreement. This dramatic increase

in preferential trade agreements has largely occurred over the past fifteen years, but by no means has the proliferation of trade agreements permeated throughout each region equally. In fact, by the end of 2001 Japan, China, Mongolia, Taiwan, Hong Kong and Korea were the only WTO members that did not participate in at least one regional trade agreement. Since 2001, each of these countries has formed at least one preferential trade agreement, as over 20 new trade agreements have since been signed in East Asia (Ravenhill 2003: 291). This dramatic rise of regionalism within East Asia is arguably one of the most important trends in international economic relations, as it consists of some of the world's largest markets (e.g. China, Japan, Korea), but for so long refrained from jumping on the preferential trade agreement bandwagon that spread throughout the rest of the globe. Why would a region with such dependence on international trade abstain for so long from collaboration in the commercial arena? Systemic arguments pointing to diffusion, unease over international handling of the East Asian currency crisis, and international security concerns certainly are key factors prompting the current rise of East Asian regionalism. However, these explanations are incomplete. A detailed look at the domestic politics – and interaction between domestic institutions and the preferences of policymakers within those institutions – behind commercial regionalism's East Asian expansion may illuminate why these countries refrained for so long from the global trend, as well as explain the choice of trade partners within the region and the overall timing of the rise in trade agreements in the area. The domestic institutional environment mediates each state's response to the external stimuli, and thus creates the variety of responses that have impacted East Asian regionalism during and after the cold war.

While there is no clear consensus over which countries are part of the East Asian region, for the sake of simplicity and the most frequent categorization I refer to the ten ASEAN countries plus China, Japan and Korea (ASEAN plus three).¹²² Nevertheless, the choice of partner frequently extends beyond this region, including states such as Australia, New Zealand and Chile leading to various interpretations of the limits of the geographic region.¹²³ The precursor to current East Asian regionalism is the Association of Southeast Asian Nations (ASEAN), which originally emerged in 1967 as an informal diplomatic agreement. ASEAN is indicative of the region's political-strategic response to the dominating cold war politics that was dividing the region, as well as the desire to feel more secure against the rising power of communist China. ASEAN lacked any formal security agreements between the states, although the underlying goal was to promote economic, security and cultural cooperation (Mack and Ravenhill 1995: 3).¹²⁴ Largely spurred by economic growth in the following decades, ASEAN changed from a diplomatic club to one focusing more on commercial cooperation as well. Trade and cooperative ties were stalled for most of the 1970s and 1980s due largely to the protection of infant industries during these decades. Attempts towards economic integration made during this time were greatly hindered by the rejection of a formal free trade area by most members due to fears of the distributional effects and preferences of policymakers within the institutions (Nesadurai 2003b: 1). For example, preferential trade agreements were attached to ASEAN in 1977, but because countries were allowed to exclude specific products from the agreement it had little effect (Panagariya 1999:

¹²² Others see the region extending to Russia, Australia/New Zealand, or the Americas.

¹²³ The extension of preferential trade agreements beyond the region is not unique to East Asia. The United States and European trade agreements are hardly limited to their respective regions, for example.

¹²⁴ Although economic cooperation was a desired outcome, there was no original vision for a free trade area or customs union within the ASEAN bloc (Yue 2004:8).

127). Each country chose to protect specific domestic preferences in order to maintain power, which in turn manifest itself in a wide range of industries that were excluded from integration. Domestic preferences weakened and ultimately rendered ineffective early attempts at commercial integration within East Asia. In this manner, blocked attempts at integration were thus sparked by dominant preferences within the domestic institutions of the East Asian governments.

Prior to the 1990s East Asia lacked formal regional trade agreements, but took the first steps towards formal economic integration when ASEAN introduced the ASEAN Free Trade Area (AFTA) in 1991 (Yue 2004: 4).¹²⁵ From 1985-1990, East Asian trade expanded from \$116 billion to \$265 billion, initiating discussion that an East Asian trade bloc could potentially rival NAFTA or the EU in terms of world trade (Petri 1993: 21). AFTA originally consisted of Brunei, Indonesia, Malaysia, the Philippines, Singapore and Thailand and was initially used as a 'carrot' to attract foreign direct investment into the region (Nesadurai 2003a: 235).¹²⁶ Nevertheless, its aims were much more limited in scope, as compared to free trade agreements in Europe or North America. Furthermore, the goals of AFTA were initially scheduled to come to fruition in 2010, dragging far behind those in other global regions. Similarly, the Asia Pacific Economic Cooperation (APEC) was created in 1989 to promote trade and financial liberalization between the six original members of ASEAN as well as Korea, China, Hong Kong, Taiwan, Mexico, Chile, Papua New Guinea, Japan, Canada, Australia, New Zealand and the United

¹²⁵ As discussed in chapter 4, the current round of regionalism has historical predecessors. This is true in East Asia as well, which experienced regional integration through Asian treaty ports in the nineteenth century, Japan's imperial expansion prior to World War I and during the interwar era, and the regional focus of the so-called East Asian tigers during the 1960s and 1970s (see Petri 1993 and CITE for a detailed discussion of the historical roots of regionalism in the area.

¹²⁶ Vietnam, Laos, Burma, Cambodia joined AFTA later in the decade once they became members of ASEAN.

States.¹²⁷ In 1994 APEC vowed to create a free trade area by 2010 for the developed countries, and 2020 for the developing (Panagariya 1999: 115). Due to East Asian goals of liberalization based on MFN, and US goals of liberalization based on reciprocity, major advances within APEC remain slow moving and uncertain, especially considering the diverse interests of governments and unique institutional constraints represented within the member-states.

APEC still lacks formal institutionalization, while AFTA was implemented in 2004. In addition, as table 1 indicates, a series of bilateral trade agreements, sparked by the Japan-Singapore agreement of 2002, have emerged over the past few years.¹²⁸ Why have so many more agreements been successfully ratified over a 3-year period, when the East Asian region was unable to clearly make great advances in regional integration over the previous decades? Common realist explanations for the rise of regionalism in the area, and the lack thereof prior to 2002, point to the role of the cold war, US influence in the region, the rise of China, diffusion or lack of regional hegemon.¹²⁹ In general, international level obstacles to cooperation draw largely on security concerns as the driving impediment and instigator for integration in the region depending upon the era. For example, many claim that underlying ideological divisions created during the cold war persist, thereby preventing a common identity from forming within East Asia as it has in other regions. Grieco (1997) explains the dearth of institutional depth as a result of a 'relative disparity shift', wherein capability disparities within regions shift over time, rendering disadvantaged states less willing to institutionalize. He notes the rise of China as a key impetus driving these disparities in East Asia. Economically, scholars point to

¹²⁷ APEC currently has 21 members with the addition of Russia and Peru.

¹²⁸ Source: Yue (2004: 5)

¹²⁹ Hamilton-Hart (2003), Yue (2004), Nesadurai (2003b) and Grieco (1997) discuss these international level explanations for the rise of East Asian regionalism in more detail.

Table 1: East Asia's Regional Trade Agreements

	Membership	Status as of January 2004
ASEANs AFTA, AFAS, AIA	ASEAN-10 – Brunei, Indonesia, Malaysia, Philippines, Singapore, Thailand, Cambodia, Laos, Myanmar, Vietnam	Implemented.
ASEAN-China Comprehensive Economic Cooperation (with FTA)	ASEAN-10, China	Framework Agreement signed in November 2002, official negotiations ongoing; early harvest implemented.
ASEAN – Japan Comprehensive Economic Partnership (with bilateral FTAs).	ASEAN-10, Japan	Framework Agreement signed in October 2003. Bilateral Japan-Singapore agreement implemented in 2003; other bilaterals under negotiation.
ASEAN-South Korea Comprehensive Economic Partnership (with FTA)	ASEAN-10, South Korea	Negotiations ongoing.
ASEAN +3	ASEAN-10, China, Japan, South Korea	Implemented Chiang Mai initiative on monetary and financial cooperation.
East Asia FTA	ASEAN-10, China, Japan, South Korea	Recommendation of East Asian Vision Group Report; the proposal is under study by ASEAN +3 governments
China bilaterals	With Hong Kong, South Korea	China-Hong Kong implemented; with South Korea, ongoing negotiations
Hong Kong bilaterals	With China	Implemented
Japan bilaterals	With Singapore, Malaysia, Philippines, Thailand	Only Japan-Singapore implemented; others under negotiation
South Korea bilaterals	With Japan, Singapore, China	Ongoing negotiations
Malaysia bilaterals	With Japan, US	Ongoing negotiations
Philippines bilaterals	With Japan, US	Ongoing negotiations
Singapore's bilaterals	With Japan, South Korea	Singapore-Japan implemented; ongoing negotiations with South Korea
Thailand's bilaterals	With Japan, South Korea, China	None implemented yet; negotiations ongoing.
AFTA-CER Closer Economic Partnership	ASEAN-10, Australia-New Zealand	Ministerial Declaration September 2002.
ASEAN-US Enterprise for ASEAN Initiative (with FTA)	ASEAN-10, US	US announced EAI in October 2002, with prospects for bilateral FTAs. Bilateral FTA with Singapore Implemented January 2004.
ASEAN-India Comprehensive Economic Cooperation (with FTA)	ASEAN-10, India	Framework Agreement signed in October 2003; negotiations began in January 2004
Asian Cooperation Dialogue (ACD)	18-country members stretching from East Asia to South Asia and Gulf States	Dialogue initiated by Thailand
Asia Pacific Economic Cooperation (APEC)	21 economies in Asia Pacific including ASEAN-6, Vietnam, China, Hong Kong, Japan, South Korea, Taiwan	Established in 1989 with initial membership of 12. Not an FTA as it espouses open regionalism, with free trade in 2010 for developed members and 2020 for developing countries.
Hong Kong bilaterals	With New Zealand	Ongoing negotiations.
Japan bilaterals	With Canada, Chile, Mexico	Ongoing negotiations.
South Korea bilaterals	With Australia, New Zealand, Chile, Mexico, US	Ongoing negotiations.
Malaysia bilaterals	With US	Ongoing negotiations.
Philippines bilaterals	With US	Ongoing negotiations.
Singapore bilaterals	With Australia, New Zealand, Canada, Mexico, US, EFTA, India, Sri Lanka, Jordan	Bilaterals with Australia, New Zealand, EFTA and US implemented; other negotiations ongoing.

the impact of the East Asian crisis, and unease with the way the International Monetary Fund, as well as the United States handled and intruded upon the crisis. This led many East Asian states to turn towards economic cooperation in order to prevent such a large loss of sovereignty in the future. Finally, diffusion of regional blocs, and the fear of losing trade and foreign direct investment to other markets included in regional blocs, is said to prompt the recent movement towards regionalism in East Asia.

Each of these international economic and political forces certainly plays a role in triggering recent changes in the region. Nevertheless, domestic political and economic forces are also apparent, and are especially evident in the variety of responses to international trends.¹³⁰ It would be hard to ignore the dividing power of the cold war or the impact of China within the region. But systemic level explanations cannot explain the range of responses to such external impulses or, as just discussed, why many states blocked integration in previous decades. Grieco (1997: 185), largely placed within the neo-realist camp, concedes when discussing East Asian regionalism, "A focus on systemic factors must be complemented with attention to domestic factors." One key domestic factor that has in the past limited economic integration can be found in the wide array of domestic political institutions within the region. For the majority of the postwar era, East Asia has exhibited great heterogeneity with autocracies, semi-liberal democracies and democratic states. Institutional similarity, as revealed in the empirical analyses, is a strong predictor of cooperation between states. With recent democratization in countries such as Thailand, Cambodia and then Indonesia, regional political institutional similarities are emerging (Acharya 2003), and therefore provide a more solid foundation on which cooperation can occur. Democratization in many East

¹³⁰ MacIntyre (2001) discusses the variation in the number of veto players within East Asian governments as a key determinant to divergent responses to the East Asian crisis in the late 1990s.

Asian countries has introduced new levels of transparency, accountability and institutional stability that were lacking prior to the movement towards regionalism. These institutional changes, while not the only instigator of improved cooperative ties, do have a dramatic impact on cooperation in the region.

Not only did institutional dissimilarities impede cooperation prior to the recent era, but so too did a nexus of institutional design and the interests of key sectors within East Asian states. Many studies point to the lack of a regional hegemon in East Asia as a major constraint on regional cooperation. The most viable hegemon, Japan, has been dominated by a strong agricultural, protectionist sector over the previous decades. Japan failed to ratify the Early Voluntary Sectoral Liberalisation (EVSL), proposed by Malaysia in 1998, largely due to its historic desire to protect agriculture interests (Austria 2003: 19). Sectoral and institutional constraints combine to limit the amount of cooperation deemed viable in Japan. Dominated for the majority of the postwar era by the Liberal Democratic Party, who in large part is dependent on support from local workers in the small business sector (Frieden 1993), Japanese government officials pursued policy aimed at protecting those specified interests. Furthermore, a sort of 'rural bias' is inherently built into Japan's electoral system, providing little insulation for government officials from agrarian interests (Hamilton-Hart 2003). In fact, Japan's recent initiation into the world of preferential trade agreements was largely guided by the dearth of a competitive agricultural sector in Singapore. Institutional preferences thus guided the timing as well as the choice of partner for Japan. The domination of the domestic sector may partly explain Japan's earlier lack of interest in forming a regional trade area, as empirical research conducted in the early 1990s provided initial evidence that Japan was not making any strategic or economic policy aimed at promoting a yen bloc (Frankel

1993). In short, the preferences of key interest groups within each country are aggregated through formal and informal political institutions, such as the electoral system and one-party system, frequently have a significant effect on cooperation outcomes.¹³¹

Japan is by no means unique in its desire to protect domestic industries. Nesadurai (2003a: 243) explains the use of developmental regionalism, wherein government's insure preferential treatment of domestic industries over their foreign counterparts. She notes the Malaysian trade minister's refusal to promote investment regulations under the WTO because the Malaysian government prefers to implement "national level policies ...to enable [domestic firms] to grow and be able to compete with large established foreign investors." Malaysia had similarly altered the format of AFTA, refusing to allow the automobile industry to be subject to the Common Effective Preferential Tariff (CEPT) discipline within the agreement. Domestic concerns are perhaps strongest in Malaysia and Indonesia. Each country is dominated by elite coalitions concerned about the impact of global market competition. Thus, Indonesia spearheaded the drive towards developmental regionalism, especially in areas outside of manufacturing. Malaysia, sharing similar concerns within the dominant elite coalition, quickly supported the move (Nesadurai 2003b: 172). One example of the developmental regionalism inherent within ASEAN is the bias towards intra-bloc investors. A clause is included that allows for special treatment of ASEAN investors within the areas of manufacturing, agriculture, forestry, fishing and mining. ASEAN members originally intended to incorporate this clause by 2010 for intra-bloc states, and by 2020 for foreign investors, despite protests from states external to ASEAN. However, the dates were later accelerated to 2003 and 2010 respectively (Nesadurai 2003a: 241-242). In short,

¹³¹ See Gourevitch (1996) for more on the intersection of institutional and sectoral constraints on cooperation.

domestic interests frequently take priority over foreign interests within East Asia, thus impacting cooperation within the region. Domestic constraints thus shaped the structure of the agreement itself, as governments reacted to interests embedded within the domestic political institutions of each member-state.

I have so far addressed the impact of domestic institutional constraints on the timing of cooperation as well as the structure of commercial agreements. However, these constraints also impact the choice of partner and the perceived viability of cooperation in general. The reliability of partners is a major concern among many of the East Asian countries and in the past has served as a major barrier to cooperation. Since East Asian countries possess such a wide array of languages, religion, regime type, economic institutions and historically rooted animosity, cooperation is often impeded due to the natural barriers to cooperation.¹³² Furthermore, due to the fear that crony capitalism or protectionist interests prevail within specific countries, potential partners do not believe attempts at cooperation will truly be mutually beneficial. According to Hamilton-Hart (2003), with regard to the perceived reliability of partners in the region, “other states in the region are likely to be concerned that many cooperative initiatives will founder on domestic implementation problems, leaving them the costs of cooperation without the benefits.” In short, domestic institutional gridlock and lack of durability are two driving factors that historically have hindered cooperation in the region.

The rise of East Asian cooperation is not limited to the economic sphere, but is ongoing in the security realm as well. In November 2001, the ASEAN countries agreed to look into a free trade area with China. Despite ambivalence from a number of

¹³² These are many of those factors discussed with regard to the gravity model. See Yue (2004: 9) for a table of economic indicators that illustrates the variation of East Asian economies across a wide range of variables such as population and GDP.

ASEAN governments, the agreement would have been hard to reject given many members desire to engage China in political and security issues (Nesadurai 2003: 180). In this manner, economic cooperation was pursued to achieve the positive externality of improved diplomatic relations with the rising power. The region is finding common ground in other security areas as well. The Indonesia bombings in Jakarta and Bali illustrated a mutual threat to many East Asian countries. While the cold war may have created an ideological divide within East Asia, the most prominent threats in the post cold war era – terrorism and a nuclear North Korea – have in turn created a common foundation upon which East Asian countries can cooperate in the security arena. In 2001, ASEAN passed the ASEAN Declaration on Joint Action to Counter Terrorism, which was followed by additional regional agreements, and continues to evolve as Australia formed a cooperative regional anti-terror agreement with ASEAN in July 2004 (Borgu 2004). Furthermore, much has been written of the pacific culture of East Asian countries, therefore preventing them from cooperative or offensive strategic policy.¹³³ Nevertheless, as Lind (2004) contends, Japan has actually outspent its European counterparts on military build-up and alliance trends are more so a result of buck-passing as opposed to pacifism. And discussion over North Korea has further sparked many intra-region summits illustrating the region's ability to unify against a common threat.

In sum, as Frieden (1993: 429) notes, the past failure of economic cooperation in the East Asian region is most likely the “result of underlying policy differences – of domestically entrenched interests with divergent preferences.” Therefore, while international events may provide the major impetus for regional integration (e.g. the currency crisis, diffusion of regionalism, end of cold war), the actual structure and timing

¹³³ See, for instance, Berger (1996).

of those agreements, the choice of partner, as well as persistent resistance to cooperation rest largely at the domestic level. While AFTA certainly was a turning point in many regards, the underlying constraints of domestic political factors continue to shape not only the structure but also the timing of the regionalism with East Asia.

Dollarization in Latin America

The United States has a history of dollar diplomacy that first appeared at the turn of the twentieth century. Following the expansion of the US military throughout Latin America, the United States relied upon the dollar to extend American influence, as dollar diplomacy remained an influential policy leading up to World War I. However, with the onset of war, the great depression, and a change in US strategy following World War II, dollar diplomacy virtually disappeared from the political discourse.¹³⁴ That is, until recently when countries as diverse as Argentina, Ecuador, Honduras, Mexico and Costa Rica have all gone on record as either dollarizing their economy, or debating the ramifications of such a policy. This newfound interest, as I will discuss, is not the result of renewed US interest in dollar diplomacy, but more so reflects the institutions and interests of the domestic political environment in each country. The future ebb or flow of dollarization will similarly be impacted by domestic political concerns, both within the United States and within the Latin American countries themselves.

Dollarization refers to the complete abandonment of a national currency in exchange for a foreign currency.¹³⁵ Originally coined with regard to the new trend among

¹³⁴ See Helleiner (2003) for more discussion on the history of dollar diplomacy.

¹³⁵ Dollarization can be viewed as a form of extreme peg. Nevertheless, it entails some gray areas when discussing formal versus informal dollarization, wherein countries use a foreign currency parallel to their own currency instead of completely replacing their own currency. Many Latin American countries have

Latin American countries, dollarization can also describe the adoption of other major currencies, such as the euro. Although a relatively new global phenomenon, general work on dollarization tends to be normatively based, and focuses strictly on the economic impetus or economic performance of such a policy.¹³⁶ This work commonly points to whether or not a currency union would exhibit those properties of an optimal currency area, wherein labor mobility and an elimination of transaction costs, as well as the desire for increased foreign investment and trade, price stability, and decreased inflation, provide the major stimuli driving a country's decision to dollarize. However, this work largely ignores the fact that of those Latin American countries that have thus far dollarized, very few actually exhibit the characteristics that would render it an optimal currency area. And, in contrast, many countries that are prime candidates, such as Nicaragua or Honduras, that have relatively small, open economies and have attempted to integrate regionally but fail to attract foreign investment, are unable to dollarize.¹³⁷ Finally, many analyses argue that the actual economic benefits accrued through dollarization remain substantially small or highly uncertain (Rochon and Vernengo 2003: 139). So why do countries debate, or adopt, dollarization?

Ecuador (2000), El Salvador (2000), and Guatemala (2001) are the most recent additions to the list of Latin American countries that have thus far formally dollarized.¹³⁸

informally dollarized, but nevertheless lack a national policy of dollarization. Countries that have officially dollarized their economies include the fifteen-member CFA franc zone, seven members of the Eastern Caribbean Currency Area, the use of the Belgian franc by Luxembourg, the Swiss franc by Liechtenstein and the Israeli shekel in the West Bank and Gaza (Alesina and Barro 2001: xviii).

¹³⁶ Edwards and Magendzo (2003), Alesina and Barro (2001, 2002), or Calvo and Reinhart (2002) for more on the dollarization debate from a cost-benefit, economic perspective.

¹³⁷ In the case of Nicaragua, many domestic coalitions are opposed, generally due to US support for the Sandinistas in the 1980s, while in Honduras the government is opposed due to domestic opposition and potential dislocation that may occur (Hira and Dean 2004: 466).

¹³⁸ Panama was the first to dollarize in 1903 (Jameson 2003: 645). Chile considered dollarization in the 1970s but did not due to domestic opposition, largely stemming from the military (Cohen 2004: footnote 1). See table 2 for a list of dollarized economies.

Table 2: Examples of Dollarized Economies¹³⁹

Country	Currency Used	Country	Currency Used
Andorra	French franc and Spanish peseta	Mali	CFA franc
Anguilla	Eastern Caribbean dollar	Marshall Islands	U.S. dollar
Antigua & Barbuda	Eastern Caribbean dollar	Mauritania	CFA franc
Benin	CFA franc	Micronesia	U.S. dollar
Bhutan	Indian rupee	Monaco	French franc
Burkina Faso	CFA franc	Montserrat	Eastern Caribbean dollar
Cameroon	CFA franc	Nauru	Australian dollar
Central African Republic	CFA franc	Niger	CFA franc
Chad	CFA franc	Niue	New Zealand dollar
Channel Islands	Pound Sterling	Norfolk Island	Australian dollar
Cocos Islands	Australian dollar	Northern Marina Islands	U.S. dollar
Comoros	CFA franc	Palau	U.S. dollar
Congo	CFA franc	Panama	U.S. dollar
Cote D'Ivoire	CFA franc	Pitcairn Island	New Zealand and U.S. dollars
Cyprus, Northern	Turkish lira	Puerto Rico	U.S. dollar
Dominica	Eastern Caribbean dollar	Saint Helena	Pound Sterling
Ecuador	U.S. dollar	Saint Kitts & Nevis	Eastern Caribbean dollar
Equatorial Guinea	CFA franc	Saint Lucia	Eastern Caribbean dollar
El Salvador	U.S. dollar	Saint Vincent & Grenadines	Eastern Caribbean dollar
Gabon	CFA franc	Samoa, American	U.S. dollar
Greenland	Danish krone	San Marino	Italian lira
Grenada	Eastern Caribbean dollar	Senegal	CFA franc
Guam	U.S. dollar	Togo	CFA franc
Guatemala	U.S. dollar	Tokelau	New Zealand dollar
Guinea-Bissau	CFA franc	Turks and Caicos Islands	U.S. dollar
Guinea	CFA franc	Tuvalu	Australian dollar
Kiribati	Australian dollar	Vatican City	Italian lira
Liechtenstein	Swiss franc	Virgin Islands, British	U.S. dollar
Madagascar	CFA franc	Virgin Islands, U.S.	U.S. dollar
Luxembourg	Belgian franc	West Bank	Israeli shekel

¹³⁹ These are countries that are, or have in the recent past, dollarized their economies. Some, such as Madagascar, are no longer dollarized. And many now have adopted the euro in lieu of currencies such as the French franc. Source: Alesina and Barro (2001: xviii) and the World Bank website - <http://lnweb18.worldbank.org/External/lac/lac.nsf/0/f5e36dd32f6ba6c7852568ce005d2805?OpenDocument>

Why have these countries opted for dollarization, while so many other Latin American countries have yet to do so? The choice to dollarize is greatly influenced by domestic political factors, such as institutional constraints and the preferences of prominent members within those institutions. As Cohen (2000: 2) notes:

The political dimensions of dollarization cannot be ignored. At a minimum, they may explain why most countries still hesitate to dollarize, despite all the economic arguments in favor. At worse, the political dimensions could throw an insurmountable roadblock, making dollarization infeasible in the near term or perhaps even impossible under any circumstances.

Variation across Latin American policies on dollarization provide a telling example of how domestic politics shape the way states respond to similar external stimuli – such as the currency crises of the late 1990s and the resulting economic instability. Thus, the political aspects help clarify variation across national policy, explaining why countries dollarize when not necessarily economically advantageous, or refuse to dollarize when it may prove economically beneficial.

For example, El Salvador is an interesting case wherein at the time of dollarization the country was not experiencing rapid inflation or relative economic instability, the usual factors that lead to discussion of altering monetary policy. El Salvador experienced 12 years of civil war, ending in 1992, during which time it was forced to devalue from the peg of 2.50 colones per US dollar. The government subsequently debated a currency board to prevent future devaluations and regain confidence in the currency. Due to domestic opposition based upon the role of national identity and increasing nationalism, the discussion was quickly dropped (Bogetic 2000: 208). Nevertheless, in 2000 the El Salvadoran government unilaterally adopted the dollar

following reemergence of the debate in Argentina, and implemented the policy in 2001. As noted, El Salvador failed to exhibit many economic characteristics that would render it a likely candidate for dollarization. Instead, the decision to dollarize greatly reflects the interests of the National Republican Alliance (ARENA) and its key supporters – the financial sector. ARENA has dominated the political system for the last fifteen years, and will continue to do so after winning another five years in power following the 2004 elections.

The political institutions greatly reflect the economic and political polarization within El Salvador, giving little voice to the underprivileged. The greatest opposition to dollarization, Farabundo Marti National Liberation Front (FMLN), in theory represents the poor and low-income section of society that has been adversely impacted by the new monetary policy.¹⁴⁰ However, internal disputes within the FMLN led to party fragmentation in 2002. Although they had significant representation in the legislature, the FMLN lacked veto power over policymaking and, coupled with the 2001 earthquake, was therefore unable to provide consolidated opposition to dollarization (Towers and Borzutzky 2004). Dollarization in El Salvador epitomizes those instances when a lack of political constraints (i.e. small number of veto players) concomitant with a dominant party whose preferences can be manifest through a stable exchange rate, together yield the ideal domestic institutional environment wherein a quick policy change to dollarization occurs. In short, power is concentrated within the hands of the elite minority, who adopt policy in line with their key constituents, the financial community. According to Hira and Dean (2004: 476), the vast majority of Salvadorans do not believe

¹⁴⁰ Towers and Borzutzky (2004: 46-51) lay out the negative impact of dollarization on the poor. For instance, they explain, the colon exchanges at 11.4 cents, so the population is charged 12 cents. Thus the poor, who often buy in small quantities, are hit by a greater inflationary effect than those who buy in bulk.

dollarization has helped them. If economic conditions continue to unevenly affect the poor, the groundwork for political unrest and instability and thus protest may occur.

The El Salvador example demonstrates the strong role of domestic institutions, party ideology and interest group preferences in shaping not only the decision to dollarize but the timing as well. Ecuador was similarly driven by domestic interests, as the key supporters of dollarization were the banking and financial sectors. After a border war with Peru in 1995, Ecuador faced a large budget deficit as well as a political corruption scandal that forced the vice president to flee to Costa Rica. The following years exhibited general strikes as new corruption scandals and instability within the government persisted, and the economy continued to deteriorate, resulting from high oil prices and crop damage from El Nino. Instability within the financial sector culminated with a freeze on bank deposits in 1999, the resignation of the finance minister, a unilateral decision to float the sucre and government postponement of payments on Brady Bonds (Jameson 2003: 650). Although 73% of the population opposed dollarization, Ecuador was able to dollarize due in large part to the power of these key interest groups (Cohen 2000) as well as the belief that dollarization was a last resort to stabilize the economy. This is especially evident when considering President Muhaud's popularity declined from a high of 60% to 7% at the time of policy implementation.¹⁴¹ The policy continues to draw domestic critiques, deepening divisions between those in favor of dollarization – in the financial sector interests of Quito and key export groups in Guayaquil – and those of the coastal communities, leading to problems implementing the policy countrywide (Fischer 2001: 2).

¹⁴¹ Muhaud was removed from office during a coup two weeks following dollarization.

In contrast, large countries with consolidated democracies such as Argentina and Mexico have had much more difficulty in dollarizing the economy and giving into pressures from the business community. Consolidated democracies face greater difficulties selling the abandonment of a domestic currency, and subsequent subordination of domestic policies to defend the peg, to the constituents, who can protest in the streets or at the polls.¹⁴² Furthermore, they are faced with a broad winning coalition, and therefore must cater to a much wider variety of interests than in small winning coalition governments. President Carlos Menem first reintroduced the dollarization debate in 1999. Prior to that time, Argentina was ruled largely by statist-nationalist coalitions consisting of the iron triangle – military and its state enterprises, protected industries, and inward-oriented labor (Solingen 1998: 120). Menem's election in 1989 ushered in a new era of an internationalist grand and economic strategy and led to the implementation of the Convertibility Plan under a wide coalition in government (Diaz-Bonilla and Schamis 2001: 69). The Convertibility Plan was passed in 1991, rendering currency stability a major goal of the new administration. This plan worked as a currency board, allowing the use of the dollar (and other currencies) for transactions and legalized contracts formalized in dollars (Guidotti and Powell 2003). The Convertibility Plan reduced inflation from 5000% to 5% between 1989-1994 (Cohen 2003: 6), and was generally supported until the high employment and growth achieved under the plan waned in light of the currency crisis and devaluation of the peso in 2001.

Dollarization has since been used as a tool by nationalistic forces and other segments of the population who oppose it, believing it serves as a legacy of American

¹⁴² For instance, Vicente Fox in 2000 came to power in Mexico largely due to the peso crash and well-organized opposition groups to the dominant PRI party (Kessler 2000: 57-67). The PRI had maintained a crawling peg in order to recover the support of key constituents, but it was not enough to suppress growing domestic opposition and unrest.

imperialism. Nevertheless, the Convertibility Plan was popular for a large part of the 1990s. The think tanks, financial companies and large business corporations generally favored the monetary regime, while those who initially were hurt by the strict peg to the dollar gained benefits from the government. The Argentine government shaped its monetary policy as a sort of quid-pro-quo in order to gain support from the 'losers' of the Convertibility Plan. In this regard, the Argentine government offered a slow-down of labor reform legislation, delayed fiscal adjustments in specific provinces, and allowed exporters to shift their production. Appeasement of the workers through a heavily regulated labor market, and delay in implementing liberal market reforms, made the Convertibility Plan politically viable (Hira and Dean 2004: 474; Wise 2000). Nevertheless, as soon as the Convertibility Plan failed to stabilize the economy or reduce inflation, opposition grew and continues in the aftermath of the 2001 currency crisis. Menem's election in 1989 was also notable as it was the first time that a democratically elected leader passed the torch onto another democratically elected leader, thus providing the constancy often required to allow domestic politics to stabilize and economic strategies to change course (Wise 2000: 111). The domestic politics reveal the potential roadblocks to dollarization, even when they may be economically beneficial. For instance, Argentina was informally dollarized in the late 1990s, with over half of the bank deposits denominated in US dollars (Cohen 2003: 5), and thus maintained the foundation for such a policy change.

Dollarization was also a hot topic in Mexico in 2000, but since that time public opinion has been vocal in opposition to such monetary integration with the United States. Nevertheless, some form of monetary cooperation remains up in the air (Dean 2003: 166). Mexico's currency was almost completely determined by the US dollar from

1979-90, but the government opted for a fix over dollarization (Jameson 2001: 8). Larger countries maintain greater bargaining power vis a vis the United States and, similar to Argentina, the Mexican government demands US concessions in turn for dollarization, such as US abandonment of the dollar to create a more equal euro-type situation (Hira and Dean 2004: 468). Of course, due to similar roadblocks in the US, such concessions would be greatly opposed by the government and electorate alike. Brazil has likewise strayed from the dollarization debate in recent years, largely impacted by the collapse of the real in early 1999 as well as the fact that Brazil does not allow the use of foreign currencies for domestic use (Cardoso 2000). Historically, Brazilian leaders have faced large opposition to the privatization and market reforms that occurred in some other Latin American countries. During the early nineties, President Collor faced strong opposition in Congress as well as from the military. Corruption quickly ended his presidency, bringing in a more statist-nationalist coalition in 1992, which was replaced with Cardoso's liberalizing agenda in 1995 (Solingen 1998: 148), while the recent election of populist Lula de Silva continues the flip-flop between nationalist and internationalist oriented coalitions within the government. Nevertheless, despite these transitions, and due to a relatively open economy, there are members of the business community in Brazil that are calling for dollarization, although domestic opposition remains too large for a dollarization debate to come to fruition in the near future (Cardoso 2000). Venezuela is equally unlikely to dollarize in the near future, following economic shocks in 1997-98 as well as the 1998 election, which placed highly populist and nationalist Hugo Chavez Frias on the national platform. After a series of economic shocks and the demise of the party system, Venezuela was able to defend the bolivar in 1998, but its future remains skeptical as policymakers avoid making market reforms (Corrales 2000).

As this brief overview of the experiences of various Latin American countries with dollarization, or a debate thereof, it must be noted that dollarization is not the best policy option for every country, nor do I make a normative claim as to whether or not dollarization should be promoted. Dollarization has either succeeded or failed to come to fruition in large part due to political objectives within the domestic institutions of each Latin American country. In a recent study, the most de facto dollarized countries in Latin America are Bolivia, Nicaragua, Argentina, Peru, Venezuela and Costa Rica (Dean 2003: 166). These countries have yet to dollarize, potentially due to the lack of a winning coalition in favor of such a policy and the public opposition to such a policy. Nevertheless, with widespread informal dollarization within these countries, a swing in the domestic institutional environment may reinvigorate discussion for official dollarization of the economy. In discussing Ecuador's dollarization, Stanley Fischer notes "When you get right down to it, the benefits of having your own currency are much smaller than we used to think, especially for countries that already to a considerable extent are using the dollar."¹⁴³

While dollarization is certainly a heated debate among many Latin American governments, the role of increasing commercial integration – and its relationship to monetary integration – should not be ignored. A strong peso prior to the tequila crisis may have simultaneously contributed to support for NAFTA in the US Congress, as well as placated the Mexican business community, which did not want the debt to increase with a devalued peso. Moreover, the Mexican government used both monetary and commercial policy to regain the ruling party's political advantage and appease the financial sector (Kessler 2000: 47-50). Domestic monetary policy further impacts

¹⁴³ Dean (2003: 167), quoted in the *Wall Street Journal*, May 17, 2000.

commercial agreements as exhibited through the Mexican and Brazilian devaluations. Changes in monetary policy which adversely affected trade agreement partners – specifically the US and Argentina, respectively – undermine that trade agreement and possible cooperation more generally (Frieden 2003: 324). The overvaluation of the real in the early 1990s led to tit-for-tat commercial retaliation between Argentina and Brazil, inducing anti-dumping duties and safeguards against Brazil exports, which were followed by tariffs from Brazil. This commercial behavior continued until the Argentinean devaluation in 2001 (Eichengreen 2004: 1). After the collapse of the real, Menem introduced the possibility of a MERCOSUR common currency, although it was met with strong opposition in Brazil and the smaller partners who feared domination by the larger regional superpowers. In short, monetary and commercial policies remain intrinsically intertwined for many country-pairs.

Not only do domestic institutions and preferences matter within the Latin American countries, but those within the US significantly also impact the ebbs and flows of the dollarization debate. Brazil's devaluation in 1999 led to the rumors of exchange rate flexibility in Argentina. Despite increased speculation in America regarding a possible change in Argentine monetary policy towards more flexibility, Menem denied rumors of a policy change and stated that dollarization was more likely to occur rather than abandonment of the currency board (Wise 2000: 104). Nevertheless, the US stance on dollarization quickly emerged, epitomizing one more so of benign neglect due to both the lack of domestic support and willingness to make concessions in line with Menem's aspirations for dollarization. The US also lacked strong investment or commercial ties with Argentina, and was unwilling to provide the seignorage concessions demanded or sign a formal treaty with Argentina. US policy on dollarization, thus far, is indicative of a

passive bystander, neither supporting it nor opposing it. For large countries like Argentina that demand concessions in return for dollarization, fears of moral hazard problems and increased responsibility deter US policymakers from supporting dollarization. Nevertheless, Menem's introduction of a dollarization discussion in 1999 led to similar, albeit limited, discussion, in the United States. In 1999, Senator Connie Mack of Florida created the International Monetary Stability Act (a.k.a Mack Bill), representing the most recent attempt at formalizing US policy. Senator Mack was the chairman of the Joint Economic Committee in 1999 when he proposed a bill to formalize US support for spreading the US dollar to increase trade, investment, and stability in Latin America.¹⁴⁴ This bill entailed, however, additional steps beyond the promotion of dollarization, and would include repayments to compensate for the loss of seignorage. Moreover, the bill did free the US of any obligations to serve as lender-of-last resort to dollarized countries, a role the US continues to hesitate to play today. The Mack Bill was reported out by the Senate Banking Committee on a voice vote in July 2000, and was never actually fully debated in the Senate. A similar bill introduced at the 107th Congress in 2001 and proposed by Representative Paul Ryan of Wisconsin, also met a similar fate, but went nowhere (Cohen 2002, 2003).

Since that time, and with continued opposition for a formal policy by both the Treasury and Federal Reserve, dollarization is unlikely to return to the US agenda in the near future. Furthermore, without the backing within the government itself, as well as the lack of politicization of dollarization within the interest-group sector, there is little

¹⁴⁴ An sample of Senator Mack's key arguments can be found at:
http://www.dallasfed.org/news/latin/00dollar_mack.html

domestic pressure to reinvestigate the merits of dollarization from the US perspective.¹⁴⁵ Thus the lack of interest within the US points to both the institutional environment and interests of key actors within the government institution itself. In contrast to the Federal Reserve or Treasury, the most intuitive institutions with regard to monetary policy, the State Department may be the section of government that may be the most inclined to promote dollarization in the near future (Cohen 2002: 79). Although the State Department rarely intervenes in financial policy, a viable threat may alter policy. As Kirshner (1995: 29-31) asserts, "Monetary power is a remarkably efficient component of state power...the most potent instrument of economic coercion available to states in a position to exercise it." A renewed interest may stem from the declining value of the US dollar and the desire to reinstate American interests abroad through monetary hegemony. With US policy focusing on the war on terror and maintenance of hegemony, one key stimulus for a reinvigorated debate within the United States could come from a clear threat from the euro.¹⁴⁶ In 2004, the dollar reached its lowest point against the euro since its introduction in 2000. While the value of the dollar continues to be disregarded as a priority within the US government, continued decline could spark concern about the power and reach of the US via the dollar.

Furthermore, many Latin American countries are becoming increasingly integrated with Europe through trade deals such as a comprehensive agreement with Mexico, and the discussion of a MERCOSUR plus Chile-EU agreement has been

¹⁴⁵ While the United States may not gain substantially economically from dollarization, it would gain from the seignorage revenues, as well as increased power and prestige in the Western Hemisphere. Robert Mundell notes the historic connection between great powers and great currencies (Jameson 2001: 7), wherein an increased role in the currency is also correlated with increased state power. Thus, dollarization may be one instrument of the United States to renew or reinvigorate its power abroad if it feels it is waning or threatened.

¹⁴⁶ In fact, Cohen (2002, 2004) argues that the only way dollarization will return to the agenda table would be from an imminent threat to the dollar from the euro.

negotiated since the 1995 Interregional Framework Cooperative Agreement, and would eventually create a TAFTA-South (Schott and Oegg 2001: 746). While recent proposals between Latin America and Europe are not yet as comprehensive as the Free Trade Agreement of the Americas would be, it nevertheless may lead many Latin American countries to contemplate the possibility of fixing to the euro at a minimum, with the future possibility of adopting the euro.¹⁴⁷ Furthermore, major markets such as Brazil and Chile now list the EU as their major trading partner or major source of foreign investment. In addition, China is slowly inserting its presence into the region, signing accords with Venezuela, investing in Peru and exploring investment opportunities in Brazil, Bolivia, Ecuador, and Colombia (Ferrero 2005). As Latin American countries create greater ties to either the EU or China, the combined possibility of losing control over the Western Hemisphere monetary order, and the threat of a new monetary hegemon may spark newfound discussion within Washington circles, instigating the formation of a winning coalition in favor of the active promotion of dollarization, similar to the dollar diplomacy prior to World War I. Or, conversely, increased instability within many Latin American countries may provide the impetus for reinvigorated debate on dollarization in order to gain the monetary seal of approval for investment from the international community. In short, preferences within the domestic institutions of both the United States and Latin American countries are likely to impact the future of dollarization.

¹⁴⁷ Europe and the Southern Cone have recently made some headway in their negotiations. At a summit on May 28, 2004, many concessions were made, although the desire for protection of many Southern Cone industries, as well as pressure from European agricultural sectors does hamper the pace of negotiations. Negotiations are also underway between the EU and the Andean Community (Bolivia, Ecuador, Colombia, Peru and Venezuela) and the EU and Central America. See <http://europa.eu.int/comm/trade/> for the most recent status of these negotiations.

Transatlantic Tensions and the Iraq Intervention

“There’s a feeling that perhaps now we have to cool things down and the moment for diplomacy has come,” stated Dominique Moisi of the French Institute of International Relations.¹⁴⁸ The recent European tours of President George W. Bush, Secretary of Defense Donald Rumsfeld and Secretary of State Condoleezza Rice exhibit a newfound resolve on both sides of the Atlantic to improve relations and focus on diplomatic cooperation. Nevertheless, the height of tensions achieved in the months leading up to and during the Iraqi war illustrates how deep the divide remains between the historical cold war allies in Europe and the United States. Two years have passed since Rumsfeld sparked controversy, noting a shift in US strategy away from the “Old Europe” and towards the “New Europe”,¹⁴⁹ further embroiling the already tense relations between the Bush administration and dominant European countries such as France and Germany. While tempers seem to be calming following the generally perceived successful elections within Iraq in January, there nevertheless remain new challenges, such as Iran’s nuclear program, that will again test transatlantic diplomatic relations. This final case study provides an overview of the role of domestic institutions, and the preferences of those embedded within domestic governments, on transatlantic relations. Although Europe and the United States have a history of disagreements (e.g. Suez Canal, handling the Bretton Woods regime), none have created such a nadir in diplomatic relations as what was experienced in 2002, and will likely to continue to affect the fate of NATO, arguably the most prominent alliance in the international system.

¹⁴⁸ *New York Times*, February 9, 2005.

¹⁴⁹ Rumsfeld claimed “Now you’re thinking of Europe as France and Germany. I don’t. I think that’s old Europe.” January 22, 2003.

<http://www.cnn.com/2003/WORLD/europe/01/24/france.germany.rumsfeld/>

The end of the bipolar, cold war system is the obvious culprit for the apparent tensions between Europe and the United States. Most neo-realists point to the cohesion across the Atlantic prior to 1989 as a result of a common enemy, the Soviet Union. Fear of the spread of communism fostered cooperation following the Second World War, as NATO rivaled the Warsaw Pact alliance of the communist bloc, and helped unite Europe and the United States despite times of economic disagreements and diplomatic quarrels. In addition, neo-realists note that the context of the new world system exhibits a United States unrivaled for power and a lack of a common enemy that has led to the antagonized relationship and an increase in anti-Americanism in Europe.¹⁵⁰ As I have frequently argued, while the systemic level provides the initial environment, states' responses to challenges in the international system vary dramatically based upon the domestic institutional environment. Current transatlantic tensions provide an informative example of the interplay between levels of analysis. The divide not only across the Atlantic, but the variety within European responses to the conflict in Iraq illustrate the persuasive power of domestic institutions in shaping a state's foreign policy and its responses to the ever-changing international community.

As Thomas Risse (2003) notes, books such as "The Troubled Partnership" (Kissinger 1965) and "Allies in Crisis" (Sherwood 1990) illustrate the not always smooth sailing of diplomatic relations between the United States and Europe. Europeans marched to protest Reagan's 'evil empire' diplomacy in a manner similar to the protests over Bush's 'axis of evil'. And relations were at times strained under Clinton as well, as Bush inherited trade and regulatory disputes over issues such as bananas and genetically

¹⁵⁰ Mearsheimer (1990, 2001), Waltz (1993, 2000), Kagan (2003).

modified food.¹⁵¹ Systemic explanations alone are not sufficient to account for past, as well as future, disagreements. Furthermore, the election of George W. Bush immediately ushered a change in foreign policy, with obvious disregard for international institutions through the denouncement in 2001 of the Kyoto Protocol, the Anti-Ballistic Missile Treaty, Biological Weapons Convention and International Criminal Court (Dunn 2003: 286).¹⁵² At the same time, European states are increasingly integrated and institutionalized, expanding the union eastward and deepening integration through adoption of a common currency. This has led scholars such as Kagan (2002, 2003) to claim that the US views the world through Hobbesian lenses while Europeans rely upon a Kantian framework to evaluate international relations. Or, in other words, the US is from Mars and Europe from Venus.¹⁵³ Distinct views certainly exist across the Atlantic and are sufficient to cause concern. While I do not argue that they are deep enough to completely dismantle the transatlantic partnership that has developed over the last 60 years,¹⁵⁴ the rising tensions over the past few years can best be understood through domestic political developments, and cannot be explained through systemic analyses alone.

The bitterly debated US election in 2000 ushered in a new government facing little opposition in either the legislative or judicial branches, a shortage of veto players that was extended following the 2004 elections. Lacking political institutional constraints,

¹⁵¹ However, Clinton increased dialogue to a far broader array of issues than when he took office, dealing with the EU as a whole instead of individual countries (Peterson and Pollack 2003: 4-5).

¹⁵² While beyond the scope of this chapter, many of these withdrawals from international institutions were also prompted by domestic institutional design. For instance, Bush originally withdrew from Kyoto largely due to pressure from the coal industry, without whose support Bush could not win West Virginia, and thus the presidential election (Bodansky 2003: 68).

¹⁵³ Smith (2004) similarly points to the ideological divide across the Atlantic, but prefers to contrast the ideologies based upon those of a warrior state (US) and trading state (EU).

¹⁵⁴ See Peterson and Pollack (2003) for discussion on the persistence of the relationship despite disagreements or Carpenter (2003) for arguments on why the relationship is slowly dissolving.

the Bush administration believes it has achieved a 'mandate' from the American public to continue to pursue the policies of its first term. The goal of Bush's 2002 National Security Strategy (NSS), like every past hegemonic power, is to perpetuate America's dominance within the world system. Democracy promotion, foreign aid, and nation building (strategies he opposed in his first election campaign) provide the foundation of the NSS, with pre-emption as a feasible tool used to achieve these goals (Carpenter 2003: 514; Heisbourg 2004).¹⁵⁵ Surrounding himself with cold warriors such as Paul Wolfowitz, Donald Rumsfeld, Richard Perle, Dick Cheney and Condoleeza Rice reinforced the realist emphasis on states as the primary actors within the government as well as the neo-conservative policy on unilateralism, and in turn shapes US foreign policy.¹⁵⁶ In short, this lack of political constraints within the domestic institutional government has provided virtual free reign to pursue the aforementioned policy agenda.¹⁵⁷

When discussion regarding intervention in Iraq emerged, Bush maintained the support not only within the cabinet, but also from most sections of Congress as well as the military (Risse 2003).¹⁵⁸ While those in power solidified their policy objectives, the opposition within the United States remained disorganized at best. Coined the

¹⁵⁵ To be fair, although most Europeans focus on the unilateral nature and focus on pre-emption within the NSS, there is a section on cooperation. The NSS states, "there is little of lasting consequence that the United States can accomplish in the world without the sustained cooperation of its allies and friends in Canada and Europe" (Jones 2004: 611). In the build-up to Iraq, however, this section was pushed aside by policymakers within the administration in favor of pre-emption consisting of the coalition of the willing.

¹⁵⁶ Condoleeza Rice noted, "the threat of rogue regimes and hostile powers...[is] increasingly taking the forms of the potential for terrorism and the development of weapons of mass destruction" (Dunn 2003: 284). Thus without states, the potential for terrorism would not exist.

¹⁵⁷ It should be noted that many of these policies are not new to US foreign policy. The Bush administration has been self-described as neo-Reaganite due to the emphasis on moral certainty and American exceptionalism (Dunn 2003: 281). Similarities also emerge in Reagan's use of force to spread democracy in Latin America justifying pre-emptive action in Grenada. In addition, several members of Bush's cabinet also held posts under Reagan and helped transform US policy away from détente and arms control and towards arms build-up and the subsequent Reagan doctrine.

¹⁵⁸ Risse (2003: 184-187) does point out the divide between neo-conservative unilateralists and realists within the Bush administration itself. However, they are fairly close to each other on the political spectrum, with increasingly strong leanings towards the neo-conservative agenda.

'sleepwalking democrats', the unified US government was arguably as much a result of republican cohesion as it was of democratic lack of unification. The democrats failed to create a public dialogue (as existed in Europe) prior to the intervention in Iraq. In fact, in March 2003 the Senate voted 99-0 in favor of Bush's war policy with Bush as commander-in-chief. Failing this public debate, the US public was generally much less informed regarding the stakes involved than were the European counterparts. The institutional design further enhanced a lack of cohesion within the Democratic Party leading up to the 2004 election. As the American institutional framework does not nominate presidential candidates, the key democratic contenders were fighting one another for the nomination instead of unifying against a common opponent. Thus the institutional framework not only was able to provide the Bush administration a shortage of political constraints, it also aided in the disunity of the opposition (Huber 2003).¹⁵⁹

In addition to limiting the veto players within the government itself, the domestic instability within the United States stemming from the September 11th attacks also further provoked the foreign policy transformation, as well as to which regions of the world it would be applied. The threat of terrorism, and its link to rogue states, remains at the core of Bush foreign policy. While North Korea arguably revealed itself as a significant if not greater threat than Iraq, the connection between rogue states of the Middle East and terrorism remained a key justification for intervention in both Afghanistan and Iraq.¹⁶⁰ This also helped shift public opinion towards the neo-

¹⁵⁹ Huber (2003) discusses in great detail the effect the 'sleepwalking democrats' and dearth of debate has had on US policy. Again, I do not make a normative claim regarding the merits of the intervention. However, evidence from the CIA, academia and faulty evidence surrounding the uranium from Niger do imply that perhaps some form of debate should have occurred within the government system.

¹⁶⁰ Many point to the role of oil, a desire for revenge over the assassination attempt on Bush, Sr. and the image of a Texas cowboy as additional domestic explanations for the war in Iraq. While these arguments may have some validity, they overwhelmingly ignore the domestic politics and ideologies of those within the government as well as the domestic political environment itself. For more discussion on some flaws in

conservative framework of the Bush cabinet and provided a policy window for the pursuit of such an agenda.¹⁶¹ The switch from focus on geo-economics under Clinton to geo-politics under Bush quickly revealed changes in US foreign policy.¹⁶² The Clinton administration reinforced the US focus on economic security, replacing earlier administration's concern over military security (Gilpin 2000: 17). This focus quickly shifted again under the Bush administration and its response to the 9/11 attacks. The Iraq intervention revealed the new administration's lack of constraints and unilateralist stance towards international relations. Bush's unilateral leanings are even more candid within the privacy of his cabinet than in public. In his desire for Americans, not allies, to set US strategy, he claimed, "At some point we may be the only ones left. That's okay with me. We are America."¹⁶³ In this way, the domestic instability, coupled with a new administration facing little political constraints, represented a key shift in policy towards alliances.

Variation among domestic institutions, and the preferences of those within the institutions, influences foreign policy on both sides of the Atlantic. The dominant ideology within domestic institutions remains a key influence on European foreign policy. Historically, members of the European left have never liked the United States, not only in the communist parties in France and Italy following World War II, but also in the socialist states. The European right also disagrees with many US policies, disliking

these arguments see Dunn (2003). Carpenter (2003: 516-517) discusses in detail why US policy will focus on the 'Islamic Arc'.

¹⁶¹ Many note that the government responded to changes in public opinion following the terrorist attacks. While obviously influential, the 9/11 terrorist attacks are not alone sufficient to explain the changes in public opinion. Most polls of New Yorkers, where the attacks occurred, reflected a general opposition to the war in Iraq (Huber 2003: 394).

¹⁶² Clinton generally focused on the link between foreign policy and the economy, with the ability of the US to promote economic expansion as the key to peace and stability throughout the world (Holmes 1997: 115).

¹⁶³ Quoted in Dunn (2003: 283).

their focus on egalitarianism, and the perceived unruly and anarchic nature of American democracy. Even the European Catholic center found faults with the protestant ethic and focus of individualism within the United States government, as well as the divide between church and state (Fabbrini 2002). These ideological divides, although evolved from the postwar era, still hinder transatlantic cooperation today. European leaders of the center-left share the US neo-conservative beliefs in democracy and the spread of human rights, although they differ dramatically in their pursuit of multilateral institutions and cooperation. Germany is the most prominent member of the center-left, promoting a Kantian view (international institutions, economic integration and democracy) of world politics. Although this group focuses on cooperation, they are not opposed to military intervention, as witnessed through Schroder's support of intervention in Afghanistan. The center-right leans more towards the realist view, with traditional concerns over security issues. However, the European conservatives are more prone towards cooperation and a multilateral foreign policy than those in the United States. The French government under Chirac epitomizes this strain of political ideology as well as Britain's Tony Blair (Risse 2003: 187-189). These differences among the political elite who run the domestic political institutions are as great, if not greater, source of transatlantic tensions than those caused by changes in the international system and remain a key factor in explaining the various European responses to US foreign policy.

However, it is not just the political elite acting independently that has influenced the great political divide. Public opinion polls show that the leaders in power are responding to their domestic constituents.¹⁶⁴ Table 3 lists variation in public opinion on

¹⁶⁴ The intervention in Iraq is not the only issue wherein domestic politics has produced divisions and a variety of policies within the EU. In the economic realm, in 2000 Ireland reduced fiscal surplus despite saying earlier it would not. France later that year noted any commitment was not legally binding, and in

Table 3: Transatlantic Public Opinion Regarding Military Intervention in Iraq¹⁶⁵

	November 2002: Thinking about possible war with Iraq, would you favor or oppose [your country's] joining the US and other allies in military action to end Saddam Hussein's rule?		January 2003: Are you in favor of military action against Iraq?		
	Favor	Oppose	Under no circumstances	Only with UN sanction	Unilaterally by US and allies
Britain	47%	47	41	39	10
France	33	64	60	27	7
Germany	26	71	50	39	9
United States	62	26	21	34	33

November of 2003 the French and Germans suspended rules for fiscal constraint all together (Jones 2004: 599). This is nothing to say of the British, Danish and Swedish rejection of the euro. Thus unilateral moments do exist as well within Europe and are greatly influenced by the domestic institutional environment within each unique member of the EU.

¹⁶⁵ Source: Huber (2003: 393).

the Iraq conflict and illustrates the great divide in public sentiment over the intervention. Leaders such as Jose Aznar faced the repercussions, and loss of leadership, due to their stance on Iraq.¹⁶⁶ Or, conversely, leaders such as Schroder were able to win (re)election based upon a staunch, anti-interventionist stance. Even members of the US-coalition, such as Spain or Poland, that were strongly committed to the intervention are now withdrawing troops based upon public opinion and their desire to retain power. Poland remains often cited by the Bush administration as the next staunchest ally after Britain. Poland had committed troops in 2003, but the government now faces close to 75% of the population in opposition to maintaining troops in Iraq. Due to domestic pressure, the Polish government had announced intentions to withdraw 800 of its 2400 troops, with the rest returning to Poland by year's end (Wright 2005: A21).¹⁶⁷ As mentioned during the discussion on both dollarization and East Asian regionalism, democratic institutions are much more accountable to the whims of public opinion than leaders in authoritarian institutional environments. Regarding the Iraq intervention, many European leaders came to the conclusion that "allying with the US will reap few benefits and will cost electoral support" (Huber 2003: 393). Because of the democratic institutional framework in both Europe and the United States, the institutional constraints greatly shaped where countries stood with regard to intervention in Iraq.

Iraq not only exposed distinctions between the United States and Europe, but differences in opinion within Europe itself. I argue the key distinction rests on the

¹⁶⁶ Domestic instability resulting from the Madrid bombings also influenced the election, as many blamed the attacks on Spain's pro-American stance.

¹⁶⁷ However, after the successful Iraqi elections the Polish government may be changing its mind, and is currently discussing the future of Polish deployments with the Bush administration.

institutional environment within each country. Nevertheless, it would be simplistic to ignore the impact divisions within Europe have on the European Union as whole, which seemingly still lacks that common telephone number that former US Secretary of State Kissinger once complained was missing from European foreign policy. The EU increasingly is unified through economic integration, but still lacks the institutional depths to format a common foreign policy. However, there have been advances over the last decade that point to greater convergence in the security realm. A Common Foreign and Security Policy was included in Maastricht in 1993, and subsequently the Amsterdam Treaty and Nice Treaty in 2000 gave formal status to a common European military committee and created the position of High Post representative to intervene in case of disagreements (Crowe 2003: 533-535). Nevertheless, the Vilnius Group – the eight countries who wrote an editorial to the *Wall Street Journal* declaring their support for the Bush administration - adds an additional dimension to disunity within Europe (Carpenter 2003: 521). The EU is slowly making progress towards institutionalizing a common foreign policy, but continues to manifest the lack of cohesion in this area when faced with international crises such as the conflicts in Yugoslavia and Iraq. Expanding the institutional argument to the regional level, a wide array of institutional disunity and the ability of nation-states to act unilaterally manifest weaknesses still intrinsic in the regional institutions. Unlike the Bush administration, the EU lacked the political cohesion that facilitates policy changes and unity.

Finally, the role of the military must not be ignored when discussing transatlantic tensions. On the United States side, post 9/11 defense spending saw the largest increase in 20 years, indicating a US defense expenditure two and a half times that of the 15

members of the EU (Peterson and Pollack 2003: 8).¹⁶⁸ US policy also is slowly shifting military bases away from Europe and into more conflictual zones across the globe. With 80% of bases in Europe in Germany, and 75% of East Asian bases in Japan and South Korea, the United States is overdue for new strategic positioning of bases. Nevertheless, the timing of such removal of troops is only going to further antagonize transatlantic relations.¹⁶⁹ The announcement of troop relocation came at the heels of German, French and Belgian opposition to Iraq, the denial of access to Austrian rail lines to transport troops and Turkish refusal to grant US permission to use Turkish territory (Fields 2004: 81-82).¹⁷⁰ US troop relocation also coincides with European defense budget cuts over the last decade, largely stemming from domestic pressures. Germany's 2004 proposed defense budget was US\$26.3, hardly adequate to militarize the EU (Carpenter 2004: 521). Taken as a whole, Europe does have a significant military presence that can rival the US. The EU does have more soldiers (1.6 million) than the US (1.4 million), more tanks, artillery pieces and has a considerable array of combat aircraft. However, the EU only spends 40% of what the US spends on defense (\$150 billion to \$350 billion in 2002, with the gap rising), and less than 20% on research and design (Heisbourg 2004: 125). Cuts in defense spending largely spawn from domestic pressures within Europe, and the lack thereof (at least to date) within the United States.

In sum, systemic explanations alone cannot explain the rise in transatlantic tensions, as well as the assorted European responses to US foreign policy. Although a

¹⁶⁸ Prior to 9/11, Secretary of Defense Donald Rumsfeld was engaged in a battle with Congress and the White House for additional financial support for the defense program (Kagan 2002: 209).

¹⁶⁹ Discussion of troop relocation dates back at least to 1992, when Vice President Dan Quayle argued that continued US military commitment to Europe would be difficult unless the European Community proved more cooperative in the upcoming Uruguay Round trade negotiations (Holmes 1997: 112).

¹⁷⁰ One pentagon official stated that the relocation was "intended to strike a blow to German trade and commerce" and dissolve all agreements and cancel all contracts (Fields 2004: 85). While this is indicative of more extremist perceptions within the US government, it nevertheless underlines the use of a political stick for economic punishment, it also illustrates that some do tie the relocation to political motivations.

communist threat does not provide the glue to hold the relationship together, a common threat does still exist. The Madrid subway bombings illustrated the mutual threat Al-Qaeda and terrorist cells pose to both the US and Europe. And in France, arguably the staunchest opponent to US foreign policy, fears of terrorism are greater than in the United States. A 2002 public opinion poll asked European and US citizens alike how big a problem terrorism is to their respective countries. In France, 65% of those polled noted it was a very big problem, much higher than the 50% in the United States (Huber 2003: 394). While terrorism lacks the traditional characteristics of a mutual threat, such as a permanent state and borders, it nevertheless impacts Europeans and Americans alike. While the Bush administration is explicitly making visible efforts to mend past disagreements with European allies, the relationship is not going to be easily ameliorated. The 'Joint Declaration Renewing Transatlantic Partnership' signed on May 14, 2003 was viewed by many as too soon to be fully productive in light of the still simmering fumes created over Iraq (Heisbourg 2004: 123). Transatlantic trade remains the greatest bilateral trade in the world, and thus for the time being provides an impetus to improve cooperation in the security realm.

Moreover, the transatlantic tensions greatly impact the most prominent alliance in international relations – NATO. After invoking Article 5 in support of the Afghanistan intervention,¹⁷¹ European countries (to the dissatisfaction of the US government) blocked Turkish attempts at collective security in light of a possible attack on Turkey stemming from the Iraqi intervention. Iran also will remain a point of dissension, as European countries continue to follow diplomatic maneuvers of

¹⁷¹ The cooperation achieved during the invasion of Afghanistan is often overshadowed by the subsequent collapse of relations due to Iraq. In fact, Operation Enduring Freedom was comprised of 16,000 from 17 different countries (Peterson and Pollack 2003: 12).

engagement to remove the possibility of a nuclear Iran, while the United States has maintained a much harsher stance.¹⁷² Given the current international environment, NATO agreement on Iran is unlikely to be uniform. This speaks nothing to differences regarding the environment, international criminal court, trade disputes and protectionism, or the Israeli-Palestinian conflict.¹⁷³ Transatlantic relations are facing a crisis that some say is the worst since Suez in 1956 (Steinberg 2003: 113). Tables 4 and 5 illustrate the high levels of European anti-Americanism that still exist today, and thus likely will impact relations in the future.¹⁷⁴ Nevertheless, recent meetings in Europe indicate that a thaw is underway across the Atlantic. In a meeting in Warsaw, Secretary of State Rice claimed, "What we're hearing from Europe is a desire to move on to the next chapter in the history of this great alliance" (Wright 2005: A21).¹⁷⁵ Although tensions seem to have simmered for the time being, clear distinctions within the domestic institutional environments of the US and European countries is likely to impact future attempts at transatlantic cooperation on a broad range of issues.

Conclusion

The goal of this chapter is to illustrate the causal plausibility that exists between

¹⁷² Turkey invoked Article 4 of the NATO treaty, requiring the alliance to consult together and deem whether or not a threat existed to a member-state. France, Germany and Belgium blocked assistance, as they did not perceive a significant threat. The U.S. complained that these countries were giving into domestic pressures and ignoring their alliance duties (Gartzke and Gleditsche 2004: 775).

¹⁷³ There also may be an increasing cultural divide, as Europeans feel removed from an American society focused on the death penalty, gun ownership and large SUVs. In addition, demographic shifts may also enhance the divide, with an aging European population forcing added emphasis on welfare. In the United States, movement westward is changing the electoral map, and growing Hispanic and Asian populations within the US encourage more foreign policy emphasis towards Latin America and Asia (Kagan 2002: chapters 4 and 5).

¹⁷⁴ Source for Tables 4 & 5: Pew Research Center's Trends 2005: Global Opinion and the Spread of Anti-Americanism <http://pewresearch.org/trends/trends2005-global.pdf>

¹⁷⁵ Notice this is a dramatic change from 2003 when, as National Security Advisor, Rice commented "Forgive Russia. Ignore Germany. Punish France" (Scioline 2005).

Table 4: Transatlantic Perception Gap on American Unilateralism

	US Considers Others:		
	A Great Deal/Fair Amount	Not Much/Not At All	Don't Know/Refused
US	70	27	3
Great Britain	36	61	3
Germany	29	69	2
Russia	20	73	2
France	14	84	2

Table 5: European Views of America

	Rating of the United States:		
	Favorable %	Somewhat Favorable %	Very Unfavorable %
Great Britain			
March 2004	58	24	10
Summer 2002	75	12	4
France			
March 2004	37	42	20
Summer 2002	63	28	8
Germany			
March 2004	38	49	10
Summer 2002	61	31	4
Russia			
March 2004	47	29	15
Summer 2002	61	27	6

domestic institutional constraints and cooperation in the international system. The three cases chosen are three of the most influential developments in international cooperation across a wide range of issues. Often sidelined in lieu of systemic arguments, discussion on alliance formation rarely points to the variation within domestic institutions as impacting cooperation in foreign security policy. The recent strain on transatlantic relations offers a glimpse of the domestic causal factors that continue to shape this relationship. Similarly, the recent rise in East Asian regionalism is frequently explained through systemic events, such as the currency crisis or Chinese regional hegemony. Again, while certainly influential, these explanations are unable to elucidate the variety of responses to such external stimuli. Finally, debate over dollarization in Latin America has witnessed ebbs and flows over the last five years. Dollarization, and currency unions in general, are repeatedly viewed through the lens of economic, cost-benefit justifications and the economic rewards such integration may or may not reap. Governments certainly consider the economic repercussions of such a policy. However, the failure of many countries that may gain from dollarization to pursue such a policy, or dollarized economies that have not gained dramatic economic benefits, indicates that economic explanations alone are not sufficient. In short, these cases cross both high and low politics, and easily travel across geographical boundaries and regime type. They add depth to our understanding of several influential developments in the current world system, providing an additional nuance and explanatory tool in the realm of international commercial, monetary and security cooperation alike.

CHAPTER 6

CONCLUSION

This dissertation explores the relationship between domestic politics and international cooperation, as explored through preferential trade agreements, currency unions and military alliances. Traditional explanations for international cooperation focus on changes in the international system as well as power politics. This research does not aspire to supercede these explanations, but rather provides an additional nuance to our fundamental understanding of why cooperation occurs in the world system. Systemic level explanations inadequately address the issue of variation among states' responses to events in the world system. Recent international phenomenon – ranging from the East Asian currency crisis to terrorist threats to commercial integration – evoke inconsistent responses by states. A one-size-fits-all approach simply does not exist as governments react through a variety of policy responses to the same external stimuli.

In contrast to systemic explanations of cooperation, this dissertation has centered on the role of domestic political institutions, as well as the preferences embedded within those institutions, and their impact on cooperation across policy realms. I have argued that the domestic political environment should maintain a prominent role in discussions on international cooperation, yielding a more thorough analysis of a state's (in)ability to cooperate in the world system. To gain insight into variation among states' propensities to cooperate, I have focused on cooperation across the monetary, commercial and security policy arenas. The incorporation of this diverse range of issues is essential, as oftentimes the role of domestic politics on high politics is

ignored, and the relationship between economic and military policies largely underanalyzed. Independently, there is substantial literature on the consequences of currency unions, preferential trade agreements and military alliances. However, analyses that explore the *causes* of each agreement, specifically at the domestic level, are rather new to the cooperation research agenda. I thus apply modern theories of domestic politics to this previous research on commercial, monetary and security cooperation and reveal those domestic constraints that impact cooperation across policy realms.

Moreover, the diverse range of agreements covered in this dissertation reveal not only the role of domestic institutional constraints on international cooperation, but also their relationship to one another. As discussed in the introduction, a major development in the international system is the rise of economic agreements and integration towards regional blocs and the simultaneous decrease in scope of military alliances. These changing patterns in international cooperation require closer inspection and simply cannot be explained away as one of the many repercussions of the end of the cold war. Instead, these developments are greatly affected by domestic political constraints each government faces, which in turn steer leaders towards cooperation in certain policy realms, while deterring cooperation in other areas.

Milner (1997: 234) notes that, "domestic politics, even in its simplest form, made cooperation more difficult for countries." The results from this dissertation further corroborate not only this statement, but the converse as well. Domestic politics, as viewed through institutions and preferences, also facilitate cooperation and encourage some governments to pursue collaborative agreements that otherwise may not seem rational through a systemic level explanation. In this conclusion, the chapter summarizes the major findings at the monadic and dyadic levels. I consider their impact on current

developments in the world system, and discuss both the new puzzles that emerge from these results as well as their contribution to our understanding of commercial, monetary and political international cooperation.

Which States Tend to Cooperate, and With Whom?

The first empirical analysis of the dissertation centered on whether or not certain states have a higher propensity to cooperate, as established by the domestic political environment. Indeed, a range of domestic institutional measures illustrates the strong role of domestic constraints on cooperation across policy realms. All three indicators of institutional constraints impact cooperation across each policy realm. Table 1 summarizes the key findings, illustrating both the diverse influence institutional constraints have on cooperation, and the variation that exists across issue area. For instance, democratic regimes are more prone towards cooperation in the commercial arena, while states with large winning coalitions are less likely to form alliances or integrate their exchange rate.¹⁷⁶ As the number of political constraints increases, states are more likely to cooperate in the commercial realm, but less likely to fix their exchange rate or form alliances. The results for the preferential trade agreement generally contradict the veto player literature, as political constraints arguably render policy changes more difficult. However, an interesting finding from this chapter pointed to the interaction among the institutions and preferences aggregated within the institution. The findings suggest that future work on veto players must also be aware of interests within

¹⁷⁶ An empty cell indicates a statistically insignificant relationship. Ideology is also an influential variable that is addressed in the chapter 4 results. Although incorporated into chapters 2 and 3, the variable limits the time period and thus data covered. Therefore, I discuss those results in the historic chapter, as ideology was a key variable incorporated in the baseline model.

Table 1: Domestic Institutional and Sectoral Constraints
and International Cooperation

	Preferential Agreement	Trade	Alliance	Monetary Integration
Democracy	+		-	
Winning Coalition	+		-	-
Political Constraints	+		-	-
Military Sector	-		+	-
Trade Sector	+		-	

those institutions, and their diversity across issue-areas. For instance, countries with dominant military sectors have a lower propensity to cooperate in the commercial and monetary realms, while trade sector preferences point to a greater likelihood of preferential trade agreements. In sum, the monadic analysis indicates that both institutions and interests are key influences in shaping commercial, monetary and security policy. The next step is to further identify the interaction among these key variables now that it is evident that they influence developments in international cooperation.

While chapter 2 focused on the monadic level of analysis, chapter 3 moved to the dyadic level and explored which states tend to cooperate together across three policy areas. These results, summarized in table 2, add to the democratic cooperation debates, indicating that indeed democracies do tend to flock together, not only in the security realm, but also with regard to economic cooperation. When incorporating the results from chapter 1, this study suggests that although democracies are less prone to cooperate in general, when they do cooperate they choose to do so with other democracies. This extends our understanding of the democratic peace literature, which similarly argues that although democracies are not less war prone in general, they do not fight one another. This divide between the monadic and dyadic level findings furthers our understanding of democratic states' behavior in the world system. Democracies not only are less likely to fight one another, but also are more likely to cooperate together across a range of foreign policy issues. However, at the monadic level, neither their pacificism nor high propensity to cooperate across policy realms is apparent.

In contrast, large winning coalitions within a dyad-pair limit the amount of cooperation across issue-areas during the current era. One explanation for this may be

Table 2: Dyadic Level Results

	Preferential Agreement	Trade	Alliance	Currency Union
Democracy	+		+	+
Winning Coalition	-		-	-
Political Constraints	-		+	-
Military Sector	-		+	+
Openness	-		-	-
Financial Sector	-		-	-

due to the increased interests that must be considered in large winning coalition states. The results suggest that being accountable to large and diverse preferences limits a government's ability to form controversial cooperative agreements that may adversely affect small, but powerful, segments of the electorate. Political constraints similarly negatively impact economic cooperation, again a likely ramification of diverse preferences embedded within the institution. While veto players positively influence a dyad's propensity to form alliances, in the economic realm government leaders may be accountable to dominant sectors, such as the military or finance, which are opposed to the formation of specific agreements. Again, further analysis of this interaction between interests and institutions may provide additional insight into the relationship between domestic institutional constraints and international cooperation. In addition, in comparing tables 1 and 2, it is evident that although certain states are less prone towards cooperation in general, when partnered with a similar state, the dyad pair actually exhibits a higher propensity towards cooperation (e.g. democracy and alliances). Why the sign flip from the monadic to dyadic level analyses? Again, these results provoke a new puzzle, one that should be analyzed with additional research.

While the first two chapters focused on the most recent era, the final empirical chapter extends the data covered for 27 countries, and centers on developments in cooperation over the last century. Table 3 lists the baseline results for the entire sample. While leftist governments are more prone to form trade agreements (rather than monetary or military) for the entire sample, a temporal break exists. Since 1945, leftist governments have a greater propensity to form alliances and currency unions, but are less likely to form trade agreements. The reverse is true in the prior era. Also, dyads with

Table 3: International Cooperation, 1886-1996

	Preferential Agreement	Trade	Alliance	Currency Union
Democracy	+		+	-
Winning Coalition	+		+	+
Political Constraints	-		-	+
Left	+			-
Election Year	-			+

large winning coalitions in general are more likely to cooperate, consistent with Bueno de Mesquita et al's (2003) findings. However, these results contrast with those of chapter 3, likely due to the focus in this chapter on OECD countries. These countries may produce findings inconsistent with the previous chapter due to the inherent homogeneity within the sample selection. The countries within this model are largely European or developed countries that allied together during the cold war and the post cold war era, therefore influencing the results. Finally, the results for political constraints are largely in line with those of the veto player literature, except when discussing monetary integration. Again, the culprit may be government preferences, which emerge when creating an interaction between government ideology and political constraints, producing more intuitive findings. Democratic regimes are less likely to cooperate in the monetary arena, again a likely result of the sample included in this chapter, as well as trends among developed countries to float their currency in the modern era, as well as autocratic regimes to adhere to the gold standard prior to 1945. A final institutional variable incorporated in this chapter deals with whether or a given year is an election year. An election year produces changes in monetary policy, but deters countries from pursuing commercial agreements that may negatively impact segments of the population.

In addition to the domestic variables, this chapter also focused on the relationship among the three agreements and relationship's variation over time. The results suggest that economic and military cooperation exhibited an inverse relationship prior to 1945, but in the current era tend to co-exist within dyad-pairs. While again it should be stressed that the sample largely includes OECD countries, the sample nevertheless represent the most influential actors in the world system, both in the military and economic realms. The increased cooperation across this sample should

provide guarded optimism regarding the current era of regionalism, as political and economic integration have begun to co-exist, rendering conflict among these countries less likely in the future.

The results from these three empirical chapters were applied to three of the most recent critical developments in international cooperation – dollarization in Latin America, East Asian commercial regionalism and trans-Atlantic security tensions. In the past, each recent development has largely been attributed to systemic changes, such as the end of a bipolar system or dissatisfaction with international organizations. Again, this dissertation does not denigrate these previous studies, but takes the next step in illustrating why variation among states reactions to the same systemic stimuli exists. For the results to provide any utility, to policymakers and academics alike, they must be applicable to current trends in the world system. This chapter thus explored these three prominent developments, explaining variation within and across regions through a domestic politics lens.

For instance, until recently East Asia lagged behind other regions in commercial integration, but over the last few years has seen an exponential rise in the formation of commercial agreements within the region, as well as with key trading partners external to the region. While past explanations point to the role of the US, China, or cold war (to name a few), this chapter reveals the role of domestic constraints in previous decades, and changes within the domestic political environment as key impetus of these policy changes. Similar focus on institutions and preferences was applied to dollarization, illustrating the role of various institutional measures, and their diversity in countries such as Mexico and El Salvador that have opted for divergent paths in monetary policy. Finally, the rise in trans-Atlantic tensions is not attributed to the lack of a common

enemy, but more so electoral considerations within governments as manifest in the winning coalitions, as well as lack of political constraints in facilitating US policy trends towards unilateralism. In sum, exploring the role of domestic institutions and preferences on international phenomenon, in such diverse areas, illustrates the plausible causal connection between domestic constraints and their influence on international cooperation.

Final Thoughts and Implications

The empirical analyses and cases discussed in this dissertation demonstrate the influential role of domestic politics on international cooperation. Of course, noting that domestic politics matters is nothing novel to international relations. However, the role various domestic institutional variables play in *both* influencing and deterring cooperation across policy realms does offer new insight into international cooperation. These results have significant implications for international political economy and security studies alike. First, discussion of alliances generally focuses on the repercussions of alliance partnerships, or those systemic constraints that are responsible for the formation of alliances. This dissertation suggests that simply focusing on balancing or bandwagoning does not account for variation across government responses to external events. Similarly, commercial and monetary integration are often viewed through an economic lens, and are generally perceived as a result of basic economic cost-benefit analyses by leaders. Although domestic politics are increasingly integrated into research in each of these policy realms, there has yet to be thorough analyses of domestic politics on collaborative agreements. This dissertation is a first step at filling that void, and through empirical

analyses and case study chapters manifests those domestic conditions that influence both a state's, and a dyad's, propensity towards international cooperation.

Furthermore, domestic politics influence the current variation that exists among the collaborative agreements themselves, encouraging states to opt for agreements in specific policy realms over others. As noted, collaborative agreements often co-exist in the current era among the major developed economies. However, this has not always been the case, and when analyzing a larger sample it becomes evident that monetary integration often occurs absent other forms of cooperation, while commercial and security arrangements tend to be directly related within dyads. This may help explain why externalities arise across issue-areas from specific international cooperative agreements. It also provides a more thorough understanding of leaders' decisions that may seem sub-optimal when viewed from the systemic level, but are in line with the constraints imposed by the domestic political environment.

In line with these findings, a puzzle emerges when comparing the chapter 2 and 3 findings and those of chapter 4 on the relationship of the agreements to one another. The results in chapter 4 diverge slightly from those of chapters 2 and 3, which found a largely inverse relationship between currency union membership and participation in either preferential trade agreements or military alliances. In chapter 4, a direct and statistically significant relationship appeared across all three policy issues. The culprit may simply be the case selection. As I have stressed, chapter 4 focuses on 27 countries that are largely developed OECD members. The findings may suggest the inherent homogeneity within this sample regarding the development and consolidation of domestic institutions and membership in international agreements across policy realms. Furthermore, these countries mainly adhered to the Bretton Woods system, and now in

large part are linked through the euro. This would explain why the inverse relationship does not appear between currency union membership and the other agreements.

The findings on currency union membership also produce another interesting research puzzle relating to the causality among these international agreements. Large-N analysis of the past 30 years, both at the dyadic and monadic level, generally reveals that although commercial and military cooperative agreements are intrinsically linked, the same is not true of monetary integration. First, why are states in the current era that are members of currency unions less likely to cooperate in other areas? Instead of arguing that these states may inherently be less cooperative, future focus on the externalities of currency union membership may reveal that additional agreements are simply rendered unnecessary due to the benefits in diverse policy realms that emerge from monetary integration. As I have already discussed, Glick and Rose (2002) point to the large increase in bilateral trade that emerges through currency union formation. Similarly, as Stasavage (2003) notes, membership in a currency union for developing countries oftentimes provides additional levels of security by the anchor country. In both instances, there is little incentive for these countries to abandon additional degrees of autonomy in order to reap those benefits that may be an inevitable externality of membership in a currency union.

Second, this dissertation has not addressed the issue of the direction of causality among cooperative agreements. The findings, however, provide the foundation for additional research on the causal link between foreign policy agreements. For instance, the results in chapter 3 suggest that although members of currency unions are less likely to form other agreements, the converse relationship points to membership in the other agreements as directly linked to monetary integration, thereby yielding one possible

direction of causality. However, the results point to a reciprocal relationship among trade and military cooperation and therefore should be further analyzed through a simultaneous equation model to reveal whether or not cooperation in one realm leads to cooperation in the other, or whether they are mutually reinforcing.

Furthermore, in some regards, the impact of specific measures of domestic political constraints on various policy realms remains ungeneralizable. For instance, in chapter 3 dyads with large winning coalitions are less likely to cooperate across issue realms, while the long-range historical analysis produced the opposite results. While I earlier noted the role of homogeneity within the sample, temporal distinctions may also spark the contrasting findings. Following the third wave of democratization, many more countries now exhibit large winning coalitions than in previous eras. As these numbers rise, dyads are faced with additional constraints within the domestic political environment of potential partner countries. It may currently be easier for countries with large winning coalition governments to form agreements with smaller winning coalition governments and avoid dealing with a broad range of interests. Again, this is a puzzle worth exploring in upcoming research.

In addition, the political constraints variable borrowed from the veto player literature also produces some interesting relationships worthy of future research. First, there seems to be an obvious interplay among the political constraints and interests within those institutions. A government devoted to infant industry protection is highly unlikely to promote a preferential trade agreement even in the absence of veto players. Thus the veto player literature is not as straightforward as often implied, but more so varies depending on the policy realm. That same government leader may instead work towards alliance formation over commercial agreement, which would still be facilitated

due to the lack of veto players, but is in an area much more in line with its preferences. Second, at the monadic level, political constraints increase a state's propensity to form preferential trade agreements, at the dyadic level they increase alliance formation, while in the historical analysis they are positively associated with currency union formation. Again, these results that stray from the more generalizable negative relationship from all other models introduces another intriguing puzzle. This dissertation does not address these anomalies, but instead leaves them open for additional exploration. An obvious first step is the incorporation of interests within those institutions in order to explain the variation across the policy realms and models.

In sum, when faced with the decision of whether or not to cooperate, government leaders cannot afford to neglect the domestic political environment. In fact, he may be largely constrained in his foreign policy decision-making based upon the interests and institutions embedded within domestic politics. These basic findings are important for policymakers and academics alike. While this dissertation generally focused on institutions and interests as independent variables, a next step is to evaluate the interaction effects of various measurements of institutional constraints with the interests of key portions of society. This again may yield results that further explain how and when domestic institutions influence cooperation at the international level. Furthermore, as economic agreements continue to expand across the international system, their strategic interplay with military agreements should continue to be analyzed. Their complementary roles in the current era among the developed countries should provide a degree of optimism regarding future relations among these states. However, as Eichengreen (2004) warns, if there is the slightest conflict between international cooperation on the one hand, and responding to the domestic environment on the other,

there is little question, as my results suggest, which policies will take priority. International cooperation, while influenced by systemic stimuli, remains subject to the whims and constraints embedded within the domestic political environment.

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DATA APPENDIX

Preferential Trade Agreements:

1950-present: Jon Pevehouse

1886-1914: Robert Pahre

Exchange Rate/Currency Unions:

De facto exchange rates:

De jure exchange rates: Carmen Reinhart and Kenneth Rogoff

<http://www.wam.umd.edu/~creinhar/>

Currency Unions, 1950-1997: Andrew Rose

<http://faculty.haas.berkeley.edu/arose/RecRes.htm>

Currency Unions, 1919-1939: Eichengreen (1995)

Currency Unions, 1886-1914: Chris Meissner (2002)

Alliances

Correlates of War Dataset, Acquired from Bennett and Stam (2000, 2004):

<http://www.eugenesoftware.org>*Regime Type*

Polity IV dataset, by Monty G. Marshall and Keith Jagers, principal investigators.

<http://www.cidcm.umd.edu/inscr/polity/>

Also accessible via Bennett and Stam's (2000, 2004) EuGene software.

<http://www.eugenesoftware.org>*Winning Coalition*

Bruce Bueno de Mesquita, et al (2003):

<http://www.nyu.edu/gsas/dept/politics/data/bdm2s2/Logic.htm>*Political Constraints*

Witold Henisz (2002):

<http://www-management.wharton.upenn.edu/henisz/>*Regime Durability*

Polity IV dataset, by Monty G. Marshall and Keith Jagers, principal investigators.

<http://www.cidcm.umd.edu/inscr/polity/>

GDP

GDP data aquired from the Penn World dataset:
http://pwt.econ.upenn.edu/php_site/pwt61_form.php

Military Sector (Military Expenditure/GDP):

Data on military expenditure acquired from Bennett and Stam's (2000, 2004) EuGene software. <http://www.eugenesoftware.org>
 GDP data aquired from the Penn World dataset:
http://pwt.econ.upenn.edu/php_site/pwt61_form.php

Trade Sector/Openness (states exports plus imports divided by GDP):

Penn World dataset: http://pwt.econ.upenn.edu/php_site/pwt61_form.php
 The economic openness variable in the historical chapter was acquired from Barry Eichengreen and David Leblang.

Domestic Conflict

Arthur Banks, accessible at <http://www.databanks.sitehosting.net/Default.htm>,
 or The Logic of Political Survival homepage:
<http://www.nyu.edu/gsas/dept/politics/data/bdm2s2/Logic.htm>

Militarized Interstate Disputes and Regional Conflict

Correlates of War Dataset, Acquired from Bennett and Stam (2000, 2004):
<http://www.eugenesoftware.org>
 The regional conflict variable was created from the MID variable, relying upon those MIDS in countries contiguous to a given country.

Common Colonizer

Andrew Rose's webpage: <http://faculty.haas.berkeley.edu/arose/RecRes.htm>

Colonial Ties

Andrew Rose's webpage: <http://faculty.haas.berkeley.edu/arose/RecRes.htm>

Population

Andrew Rose's webpage: <http://faculty.haas.berkeley.edu/arose/RecRes.htm>

Economic Growth

Constructed from the Penn World GDP variable, found at:
http://pwt.econ.upenn.edu/php_site/pwt61_form.php

Bilateral Trade

Andrew Rose's webpage: <http://faculty.haas.berkeley.edu/arose/RecRes.htm>

For years prior to 1945, from Katherine Barbieri's accessible at:

www.eugenesoftware.org

Contiguity

Andrew Rose's webpage: <http://faculty.haas.berkeley.edu/arose/RecRes.htm>

For the historical chapter, the contiguity variable was constructed from the Correlates of War Dataset, Acquired from Bennett and Stam (2000, 2004):

<http://www.eugenesoftware.org>

Distance

Andrew Rose's webpage: <http://faculty.haas.berkeley.edu/arose/RecRes.htm>

For the historical chapter, the distance variable was constructed from the Correlates of War Dataset, Acquired from Bennett and Stam (2000, 2004):

<http://www.eugenesoftware.org>

Joint Language

Andrew Rose's webpage: <http://faculty.haas.berkeley.edu/arose/RecRes.htm>

Major Power status

The Correlates of War Dataset, Acquired from Bennett and Stam (2000, 2004):

<http://www.eugenesoftware.org>

Capability Ratio

The Correlates of War Dataset, Acquired from Bennett and Stam (2000, 2004):

<http://www.eugenesoftware.org>

Similarity of Interests

See the United Nations Voting Affinity Dataset website:

<http://www.vanderbilt.edu/~rtucker/data/affinity/un/similar/>

For the years prior to 1945, the variable was acquired from Sweeney (2003) at the *Journal of Conflict Resolution* webpage.

Ideology

Thorsten Beck, et al (2001). Database of Political Institutions for the years 1975-1995. Accessible at: <http://econ.worldbank.org/view.php?type=18&id=25467>

The government ideology variable in the historical chapter was acquired from Barry Eichengreen and David Leblang.

Election Year

Acquired from Barry Eichengreen and David Leblang.