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Rethinking Regionalism?: Governance after Financial Crisis

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With the recent financial crises in Asia, Russia and Brazil, the resurgence of debate on the ‘management’ of globalisation has thrown into doubt a number of the ‘certainties’ which policy-makers constructed over the last decade or so to deal with the ‘uncertainties’ of a post-Cold War, globalising world order. These ‘certainties’ were centred around the dominance of the ‘Washington Consensus’, the euphoria of ‘globalisation’, the notion of the ‘information age’ and the ‘digital revolution’ which eliminated cumbersome national boundaries and ‘shrunk’ the world into something approximating a ‘global village’, and the elevation to pre-eminence of genuinely ‘global’ financial markets.

Academic and policy debate, a little bored with the monotony of this ‘hyper-globalisation’ discourse and, perhaps, with contesting yet again the alleged disappearance of the state, has turned with some vigour towards a ‘restructuring’ agenda: of, for example, the financial architecture, the regulatory role of the national state, the global marketplace, existing international institutions, and, crucially, the sorts of assumptions and paradigms we employ in our understanding of IPE. Neo-classical economists’ stubborn refusal to treat social (and political) variables as anything other than exogenous to the mainstream of market activity is being challenged by an increasingly self-conscious intellectual preoccupation among international political economists (and other social scientists) with the normative connotations of the particular configuration of economic and political power implied by the ‘globalisation’ of significant areas of social life. This emerging normative agenda has found particular expression in responses to the ‘crises of market fundamentalism’ occasioned by recent financial turbulence. The ‘no-alternative’ rhetoric of globalisation appears to have given way to a more nuanced understanding of processes of global change, and, moreover, to the socio-political consequences of the ‘commodification’ of economic and social relations. Most importantly, the financial crises have generated a renewed emphasis on the agency of state and non-state actors in directing, managing, perhaps mitigating the impact of the specific types of global economic activity that have dominated in recent years. In these ways, there appears to be a process of central rethinking underway in both policy and academic circles.

So where and how does regionalism fit into this picture? The literature on financial crises has tended to focus on the implications of turmoil for 'regions' — especially with reference to such phenomena as 'contagion' — with little sustained attention to the impact on regional *projects*. Intuitively, it seems obvious that if the global political economy (and the study of it) operates on three basic levels (global, regional, national), and if the regional level is in some ways the nexus or interface between the former and the latter, the central process of rethinking identified above will also find expression, of some sort, at the regional level. Much depends, however, on the ways in which this interaction between the three interconnected 'levels' (of analysis and of economic and political activity) is conceptualised. It is here, perhaps, that responses to the pertinent questions, and to the question posed in the title of this conference, will be determined or conditioned by sustained attention to the various alliance constructions to which we refer when we talk about a world order composed of 'regions'.

My paper is intended to focus on the ways in which financial crisis has altered conceptions and forms of regionalism in the global political economy, and compels a change in our theoretical understandings not only of regionalist dynamics but also of 'global governance' in the broader sense. To this end, clearly, my aim is to look at the ways in which the case of the South American region throws light on (or perhaps confuses!) the central issues involved in rethinking regionalism at the end of the 1990s. I propose to do this by setting out a series of three interconnected responses to the question of where regionalism fits into a 'post-globalisation' (Cox 1993), 'post-Washington Consensus' (Stiglitz 1998) reconsideration of key structures and policy issues.

The first of the three is that the financial crises, as an important part of what might be termed a 'globalisation backlash' (Helleiner 1996[1]) or 'crisis of neoliberal globalisation' have generated significant adjustments or transformations in the interests of states and the policy agendas through which these interests are pursued. The

[1] Susan Strange also predicted as early as 1986 a political backlash against what she termed 'casino capitalism': 'when a whole generation becomes disillusioned with the economic system and can see no escape from the roller-coaster alternation of deflation and stagflation, there are bound to be political reactions ..... these political consequences must sooner or later spill over into international relations'. (Strange 1986: 192-3).

regional dimensions of structural change have long been something of an inconvenience for the less reflexive of 'globalisers' who saw the hegemonic discourse of globalisation to drive a stake through the heart of any meaningful notion of a national state. But what amounted to an indisputable loss or surrender of significant discretionary control over key instruments of economic policy generated important new arenas of action for national states. Regionalisation, significantly, became widely perceived as an important mechanism by which states could recover a degree of the policy autonomy lost (or sacrificed) to globalisation (Higgott 1998b). This mechanism, together with transformations in the nature of state capacity and the redefinition of key policy agendas, point to a persuasive argument that the impact at the national level of recent global trends will necessarily involve a re-definition, or reconstruction, of the bases of regionalism in various parts of the world. If the central foundations on which contemporary regional arrangements are constructed are challenged, modified, or torn down, then it seems obvious to expect, supported by recent evidence, that the nature of the resulting regional projects will undergo a consequent and related process of fundamental change.

The second idea focuses on the articulation (or not) of regional responses to regional and global turmoil. There is an assumption in the literature that current trends favour a 'relegitimation of the containment effects of neo-regional arrangements' (Bach and Hveem 1998). In other words, global instability is most likely to generate a strengthening of regional strategies for containing or mediating its effects. This is an attractive proposition in that the attempts of individual countries to respond in meaningful fashion to financial crises have seemed rather pitiful given the scale of the instability in various regions. The idea of imposing capital controls, for example, seems intuitively more viable in the context of a concerted effort among various players, at least some of whom might hold sufficient 'structural power' to have some sort of significant impact on outcomes. And given the herd instincts of global investors, which account to an important extent for the financial crises themselves, solitary bravado may amount to nothing more than suicide. The wisdom holds, furthermore, that if regionalisation is assumed to capitalise on commonalities of interests amongst member states, the notion of collective responses to global instability similarly will be informed by a convergence of 'interests' reflective of common circumstances.

Nevertheless, the empirical evidence from the financial crises in Asia and Latin America does not bear out the contention that collective responses are either desired or viable. Contrary to what appears to be the consensus — that is, that the crises will strengthen regionalism in affected parts of the world — developments in APEC and in South America appear to suggest that *in the short term* possibilities for collective action are weakened and regional projects are as likely to fragment as to coalesce. However, if we distinguish between what appears to be a very clear atomisation of policy responses in the short run and a longer run perspective, it seems tenable to suggest for the latter that the consequences of this process of change will favour the articulation of stronger regional identification, which may well lead to a very fundamental redefinition of the nature of regionalism. In recent years (perhaps since the Mexican crisis), the 'credibility' effect of regionalism (in terms of locking in neoliberal reform) has become less relevant (IDB / INTAL 1997: 40), and regional integration has in significant ways expanded in importance as a way of shoring up national economies against the crisis-generating impact of globalisation. In this way, regional integration has the potential to double as a 'contingency plan' against the vagaries of global capitalism. In the context of current shifts in approaches to globalisation, the question is how some sort of reconstituted regionalism will relate to more specifically 'global' trends.

Which leads, neatly I hope, into the third idea about how regionalism is implicated in recent global instability. Pulling some of the above strands together, the central contention — and perhaps the 'wood' part of this collection of trees — is that the future of regionalism will be dependent on a re-accommodation of regionalism and globalism. A 'regionalisation' of the 'post-globalisation' world order potentially undermines the central principles of global liberalisation which depend crucially on the now threadbare idea of 'convergence'. A globalised world economy depends for its sustenance on a convergence of policy conditions at the national level, which the activities of international financial institutions remain oriented towards achieving. The progressive articulation of regional difference, as well as the 'regionalisation' of policy agendas, generates important questions about the future trajectory of 'governance'. The issues that concern us in this regard are centred on the interaction between new forms of 'regionalist' governance and the emerging 'global' governance agenda, and how the accommodation between these and other sites of authority in the global political economy will be reconfigured as a result of recent instability.

Having outlined the skeleton ideas, then, I propose to take each in turn and attempt to put some theoretical flesh on the bones, and also to take the case of South America to contribute an empirical perspective on how some of these ideas might work in a given region.

The 'Bottom-Up' Approach: States, Interests and Regional Alliances

Along with the long-standing debate in mainstream globalisation theory over the 'retreat' of the state[2] versus its rehabilitation in new areas of competence and authority[3], mainstream theories of regionalism have been somewhat divided on the significance of national states in a range of regional arrangements. An important strand of the research agenda on regionalism in recent years has been the concern with regionalist 'governance' which, for good reason, takes as its principal laboratory the European Union. The concern with supranationalism and, more importantly, the instructive notion of 'multilevel governance' (see Marks 1993; Marks, Hooghe and Blank 1996) have generated a theoretical movement away from traditional Westphalian understandings of states and sovereignty. The confluence of currents in comparative politics, which call for a more rigorous understanding of the complexity of state-society interactions in conditions of 'structured privilege', and currents in IPE, which emphasise the 'transnationalisation' of political activity and the diffusion of power away from its exclusive concentration in the structures of national states, have provided useful avenues for theorising the politics of regionalist governance (Payne 1999).

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[2] For examples of this literature, see Ohmae (1996), Griffin and Khan (1992), Camillieri and Falk (1992) and (though in a less 'extreme', 'purist' vein), Strange (1996, 1995).
[3] For example, Evans (1997), Garrett (1998), Cerny (1990, 1994, 1997), Weiss (1998), Scholte (1997), Doremus et al (1998), Boyer and Drache (1996), Berger and Dore (1996).

Ideas about the 'pooling' of sovereignty at the regional level[4] often fall into the same trap as arguments that equate globalisation with the disappearance of states. From a 'top-down', or perhaps 'outside-in' perspective, it seems indisputable that states have, as a result of the time-space compression in social relations and of the primacy of global (especially financial) markets, lost a significant degree of the policy-making latitude which formerly they were supposed to enjoy. In addition, the development of important transnational structures of power and highly visible networks of non-state actors (see Risse-Kappen 1995, Strange 1996, Mittelman 1996) lead to the conclusion that the national state has lost important elements of its traditional or former jurisdiction. But these arguments are not incompatible with more 'national' perspectives on the state which emphasise its continuing centrality in policy management, the monopoly over political legitimacy, and the arbitration of social conflict.

Regionalism can be approached in similar ways. From a 'global' perspective, regionalism constitutes a transnationalisation of economic and political activity, which implies the transcendence of state boundaries as a means of ensuring cooperation and reducing the potential for conflict, of whatever description, between geographically (and culturally?) proximate partners. On the other hand, from a more domestic-based perspective, the formation of a regional bloc is concerned with various dimensions of state-building. The rationale for regionalisation is invariably that there are common goals which can best be pursued in concert with other states or actors than by a string of increasingly dishevelled lone rangers attempting to fight the good fight without ammunition or back-up. The simple fact of membership of a regional grouping of countries (regardless of the extent or type of institutionalisation) does not automatically imply a loss of 'statehood', nor an emasculation of policy elites. On the contrary, regional arrangements allow not only for the elaboration of appropriate responses to the pressures of global liberalisation (Bach and Hveem 1998; Higgott, 1998b; Hirst and Thompson 1996; Palan and Abbott 1996), but also for the maintenance of some degree of 'discretion' in the management of domestic policy issues and the salvaging of effectiveness in specific policy areas. The 'regionalisation'

[4] For a broader discussion, see Moravcsik (1998).

of such concerns as social or industrial policy, or the regional negotiation of policy in sensitive areas such as agriculture or automobile industries, permit governments to attempt to reconcile in some constructive way priorities peculiar to the ‘national’ (and perhaps ‘regional’) setting with the internationalisation of economic activity under conditions of market globalisation.

Whether or not we choose to focus on the multi-level governance structures of the EU, then, we are drawn to Payne and Gamble’s definition of regionalism as a ‘state-led or states-led project’ (differentiated from the social *process* implied by the term ‘globalisation’), which remains crucially ‘statist’ in its various manifestations (Payne and Gamble, 1996: 2).[5] Clearly, states play a role of pivotal importance in promoting, perpetuating or else obstructing this ‘social process’ of globalisation, and the notion that the key policy foundations of globalisation (such as financial deregulation) are the result of the ‘consent’ of states, and ‘underwritten’ or ‘authorised’ by states, are now well-established (eg: Helleiner 1994, Strange 1986). Nevertheless, contemporary ‘globalisation’ now implies a process which reaches beyond the economic, and also beyond the individual policy tenets associated with various forms of state action in the post-war period, to constitute a more fundamental reorganisation of social relations. Thus, the ‘globalisation and the state’ debate differs from questions about the national state in regionalism, the latter departing from the notion that regionalism is a specific policy project propelled and directed by national states, notwithstanding complex relationships with non-state agency and the emergence of increasingly complex notions and structures of ‘governance’. The momentum of regionalism relies on ‘palpable’ manifestations of state action (treaties, trade agreements, formal and informal institutionalisation, intergovernmental decisions) which are in many respects lacking from contemporary manifestations of ‘globalisation’. Regionalism in these ways is crucially a state-led ‘project’, even though a purely state-centred approach to it often fails to capture the more complex reality.

South American regionalism is notable for the extent to which states occupy, almost exclusively, the epicentre of the regionalist project. The supranational structures of the

EU and the transfer of political authority from national governmental structures to specialist policy communities finds few parallels in the Mercosur. Both here and in Asia, governments have been much more reluctant than their European counterparts to devolve authority to either sub- or supranational levels as a result of the significantly closer linkages between the public and private sectors. In the same way as politics in South America (and, in different ways, in parts of Asia) remain inconveniently centralised and statist for those that wish to proclaim a decisive shift in the location of political power towards non-state sites of authority, regionalism bears the imprint of a particular type of state-society interaction. The observation of Asian regionalism that 'APEC has of necessity needed to develop a more flexible and accommodating architecture, which does not demand legalistic compliance' (Beeson and Jayasuriya, 1997) appears to refer with equal validity to the Mercosur.

The Mercosur, like APEC, is not entirely without institutions, but its institutional structure is entirely and strictly intergovernmental rather than supranational. The two inter-governmental bodies created by the Treaty of Asunción — the Common Market Council (CMC) and the Common Market Group (GMC) — are composed (in the case of the former) of the Foreign and (usually) Economy Ministers of each member country and (in the case of the latter) of representatives the Foreign Ministries, Economy Ministries and Central Banks. Virtually without exception the major summits between Mercosur countries in the 1990s have been dominated by presidential meetings and negotiations. Apart from the small bureaucracy of 'Mercocrats' which makes up the Administrative Secretariat, the integration process in Mercosur is handled by groups of officials in the relevant ministries in each of the member countries (Hirst 1995: 4). Therefore, the technocratic teams remain located at national level rather than at supranational level as in the EU, and they remain politically accountable to their respective governments, and responsive to other state agencies (especially those concerned with economic policy), provincial governments and business interests (Hirst 1995: 5-6).

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[5] This approach is reflected in the contributions to Grugel and Hout (1999), which locate regionalism in the context of state responses to globalisation.

Unlike APEC, however, business interests remain under-represented in the Mercosur, notwithstanding the formation of the Economic and Social Consultative Forum in 1994. The preference has remained for informal bargaining channels and lobbying activities as opposed to further regional institutionalisation that would give more formal expression to business interests (Hirst 1995: 9). As a result, business interests are articulated in regional negotiations through the structures of the states. That trade union input which exists is similarly mediated by national governmental structures. Other actors, such as political parties, small firms and social movements, remain of marginal importance in the Mercosur. As such, the South American case appears at the present time to approximate far more closely the arguments of the 'intergovernmentalist' camp in the literature on EU regionalism (see Hoffman 1966 and 1982, Moravcsik 1991 and 1993), than the neo-functionalist emphasis on supranationalism or the 'decisional reallocation' of multi-level governance approaches.

So where does all this lead us? First, to the conclusion that regionalist projects (and perhaps especially the South American) remain dominated by state actors and, by extension, the interests of the state at a given historical moment. (The extent and ways in which the states can be seen as an aggregation of interests, and the dynamics that we observe in the construction of what eventually become the 'interests' of states require empirical elaboration on the basis of individual cases). Second, to the particular historical moment in which global and regional orders — as well as domestic political economies — are currently situated. The financial crises since 1997 have led to a questioning of the dominant global orthodoxy at a variety of levels. One operates at the level of policy choice, in which the most important agents are national governments and state actors. The process of rethinking central policy tenets, and the ways in which states might engage in the pursuit of 'new' or modified policy agendas, necessarily involves a transformation of configurations of political and economic power and, consequently, a re-assessment of the basis for participation in global and regional orders. It is significant that national states are central to both of these mutually constitutive processes: the rethinking of policy ideas privileges a rethinking of the parameters of state action, state authority and state responsibility, which feeds into a state(s)-led project of change at the regional level.

Given that the latest 'wave' of regionalism was constructed to complement and reinforce neoliberal reform processes (notably in Asia and Latin America), it is reasonable to expect that the questioning of the fundamentals of neoliberalism will be reflected in the nature of regionalist projects. The zealous commitment to neoliberal restructuring in the early 1990s has been superseded by an awareness among policy elites and societies in the affected countries that adherence to a strict set of policy measures has not, for whatever reason, generated a solid basis for growth and development, nor, more fundamentally, for the continued dynamism of global capitalism. The disillusion occasioned by burgeoning social dislocations, consequent upon shifts in employment structures and tax burdens, has combined with a marked resentment in Asian and Latin American countries of their treatment at the hands of both private financial agents and IMF-Treasury elites to produce the first real backlash against globalisation (Higgott and Phillips 1999).

The result appears to be the emergence of a genuine debate, in policy and academic circles, on potential means of 'governing' globalisation and of making good the notion of the 'social market'. At the 1999 World Economic Forum and even at the 1999 G7 summit, much was made of the apparent trade-off between international competitiveness and the social and political priorities of democratic systems.[6] Privatisation and deregulation in welfare provision, especially, have contributed to rising levels of domestic inequalities, and the 'logic' of international restructuring has fed into an increasingly painful differentiation between rich and poor countries in the global political economy. Social injustice has come to be associated with the absence of effective economic regulation, or at the very least with the process of deregulation which most countries have been engaged in engineering for much of the 1990s. There are now a few (still muted) calls, some emanating from the discipline of economics, to recognise the negative correlation between social stability and 'purist' forms of neoliberal globalisation (Rodrik 1997; Krugman 1999; Higgott 1999). As a result, the objectives of market economics stand in need of re-evaluation as much as the functioning of the market economy itself.

'Reform fatigue' (Edwards 1997: 102) has become entrenched among Latin American electorates. While public opinion stops short of condemning the fundamentals of the economic model, support is becoming notably contingent on governments' commitment to mediating the socially deleterious effects of global liberalisation. What is needed, Latin Americans argue, is a novel approach to economic and social governance which displays flexibility and imagination — 'intelligent solutions', in short, 'even if they don't feature in Economics textbooks'.[7] The evidence thus far suggests that the future trajectory of policy in Latin America (and Asia) will reflect a trend away from 'automatic pilot' market strategies towards more active policies of the types enshrined in the Asian 'developmental state' model and advocated in Latin America by a growing number of governmental, societal and media voices. Although the traditional reliance on the state in Latin America as the principal distributory and regulatory mechanism has been replaced by a reliance on the private sector as the primary motor of capital accumulation, old reservations have surfaced concerning both the absence of effective regulation of capital and the absence of mechanisms for correcting market failures. Especially in the south of South America, the (at least rhetorical) search for a 'middle ground' inspired by European 'third way' currents (see Giddens 1998) favours an expanded regulatory role for governments, greater policy salience for social issues, and a more 'national' or possibly 'regional' approach to economic management.

This condemnation of the 'stateless market' points to a (re-)recognition (in policy intellectual circles) of the institutional and social embeddedness of markets as well as the ways in which the functioning of domestic and global markets depends on the generation of political consent (Polanyi 1944; Ruggie 1995). The presence of highly mobile international capital and processes of commercial and financial liberalisation have proved socially unworkable in emerging economies which are not possessed of the sorts of domestic compensatory mechanisms found in the industrialised countries (see Garrett 1998). The result has been, if not everywhere a 'politics of resentment'

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[6] 'Paying lip service to reform of a disruptive world system', *International Herald Tribune*, 5 February 1999; 'Third world woes dominate first world summit', *Financial Times* 27 April 1999.

[7] Mario Rodarte, 'El FMI en la crisis', *El Economista* (Mexico), 7 October 1998. Also see 'Hay que evitar el efecto contagio en la región', *El Cronista* (Argentina), 25 August 1998.

(Higgott 1998a), the emergence of significant sites of resistance to globalisation and a search for more or less radical policy alternatives. Romanticised perceptions in Latin America of the European 'new Left' favour a re-empowerment of the state in a 'globalised' market environment which has found only inadequate ways, if any, of dealing with the social and institutional dislocations it generates. At a policy level, the 'dangers' of openness to globalised finance and the observation of global contagion has revitalised neo-Keynesian ideas about the role of the domestic economy in producing growth. Long-term growth projects based entirely on the vitalisation of the external sector, particularly in places like Argentina where the external sector still accounts for less than 10% of GDP, are gradually (or not so gradually recently) losing currency among policy elites. And while concrete alternative policy agendas have yet to be articulated convincingly by domestic policy elites, the espousal of unorthodox strategies by prominent international economists is much less uncommon than in the pre-Thai devaluation days: calls for capital controls being the most obvious example[8], along with a recent defence of 'managed inflation' as a means of lifting economies out of a liquidity traps (Krugman 1999).

The implications for regionalism, in this light, rely on an openly intuitive inference that these changes in the constituent bases of regionalist projects (policy ideas and states) will, in ways which vary across regions and projects, alter the nature of regionalism and the uses to which it is put. This is not necessarily a suggestion that the consensus surrounding regionalism (among policy elites and the educated public) will unravel, but rather as an assertion that regionalism will be reconstituted. While financial crisis does not appear to have weakened support for free(r) trade, it has led to a questioning of the 'one-size-fits-all' policy formula, and consequently may strengthen articulations of regional 'identity' informed by political and socio-economic realities rather than by a globalised set of values and policy prescriptions captured under the banner of 'Anglo-American neoliberalism'. Numerous analyses have asserted that regionalism is an important weapon in the armoury of states concerned to mitigate the impact of political and cultural 'globalisation', as well as the economic impact of global liberalisation (eg: Sideri 1997). If this is the case, then it seems reasonable to assert

[8] Paul Krugman: 'Saving Asia: it's time to get radical', *Fortune*, 7 September 1998; George Soros:

that this reconstitution may well take a shape which introduces elements of a more explicitly 'defensive' strategy in response to the pressures of multilateralism and globalism. While this might not translate directly into open protectionism, key departures from the principles of unfettered competition or complete deregulation, for example, seem to be strong possibilities. In short, the compulsion to conform with the minutiae of the 'globalised' neoliberal policy package appears increasingly diluted by a concern to find policy strategies appropriate to specific historical-institutional and economic settings, and to implement policies to offset the raft of economic and political dislocations occasioned by global liberalisation.

These shifting sands of the policy ideas (and related conceptions of state action) that dominate the post-Washington consensus era continue, however, to arrange themselves in the same patterns as previously. In the same ways that one of the primary functions of regionalism in the heyday of neoliberalism was to 'lock in' policy reform and policy models, future directions of policy change are likely to rely on the same mechanisms of regional collective action to increase the costs of deviation and also to construct political legitimation for a particular policy agenda. This feeds into the second and third ideas that I would like to advance. The former relates to the changing dynamics of collective action in the aftermath of financial crisis, and the latter to the reconfiguration of the relationship between globalist and regionalist modes of governance.

Regional Responses to Financial Crisis: Coalescence or Fragmentation?

The suggestion, in this light, is that there are important ways in which regionalism will be strengthened by financial crisis, reliant on the assumption that regional cooperation will continue to be a pivotal mechanism by which domestic consensus, or acceptance, can be achieved for government policy agendas. Given the 'backlash' across Asia and Latin America against unfettered globalisation, some 'regionalisation' of policy ideas seems at this time to be likely as policy solutions sensitive to specifically local

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'The Case for Global Finance', *The Economist*, 12 September 1998.

difficulties are sought, putting paid (yet again) to the notion of ‘convergence’ on a single, globalised set of values and policy principles.

On what can we base this judgement? In terms of policy trends, what is notable in both regions is the degree of coincidence between countries on the fundamentals of what might emerge as a ‘new’ strategy. In Asia the spate of ‘toeing the line’ in the immediate aftermath of the crisis, when appeasing the IMF was crucial for generating the funds necessary to climb out of financial collapse and for reassuring foreign investors, was replaced (most notably Malaysia and Thailand) by an abandonment of agreed monetary and fiscal constraints.[9] Expressed most stridently by Malaysian Prime Minister Mahathir, but found to varying degrees throughout the region, public opinion favoured a (re)turn to strategies which reflected concerns and priorities indigenous to the Asian region, notwithstanding the indignant foot-stamping of the IMF. Interestingly, recent evidence indicates that this sort of self-conscious and often confrontational ‘ideological’ differentiation has not proved much of a deterrent to the return of capital over the last twelve months, *especially* to Malaysia and Thailand. While this can be explained in part by the ‘accelerator principle’ of recession and recovery (see Krugman 1999: 138), what it makes clear is that market confidence, contrary to the efforts of the IMF and U.S. Treasury to ‘blackmail’ countries into convergence, is not *solely* contingent on the adoption of the outward trappings of Anglo-American neoliberalism.

In South America, the story is still unfolding. Southern Cone countries most affected by the Brazilian collapse, and now by Argentina’s precarious condition, are still in the throes of appeasing the IMF, demonstrating commitment to deepening reform and courting the return of capital to the region. However, the consensus in favour of absolutely free trade and an absolutely deregulated financial system is clearly unravelling. ‘Meso-globalisation’ is hard to maintain in conjunction with an increased scepticism about the merits of financial deregulation or open competition. Significantly, this scepticism appears further to have prompted echoes in some quarters of pre-

[9] ‘Price may be high for spurning tough economic reforms’, *Financial Times* 24 June 1999; ‘Thailand ends IMF-inspired plans and boosts spending’, *Financial Times*, 27 March 1999; ‘Spending boost lifts

globalisation, pre-reform arguments that developing countries are neither ready for nor suited to globalisation.[10] Moreover, just as in Asia populist strategies have become important in 'resisting' globalisation (on Thailand see Hewison 1999), responses in Latin America to what we might call 'globalised volatility' and the threatened erosion of national or regional difference are tinted with many of the traditional peccadilloes of Latin American political economy that globalisation was supposed to have eliminated. While the Southern countries are pressing ahead with the search for a socially-conscious alternative to the 'hyper-globalisation' discourse, highly presidentialist forms of populism are resurgent in the northern countries, especially in Venezuela. In short, policy responses to financial crisis, and by extension to globalisation itself, exhibit strong 'regional' (as well as national) streaks in both Asia and South America.

Meaningful policy change, however, is not easy and, moreover, doesn't come cheap. Despite recent financial turbulence and the 'backlashes' associated with it, the world economy remains dominated by integrated trade and capital flows, unregulated financial markets and technological dynamism. Moreover, development strategies remain dependent on external capital resources, particularly in the aftermath of currency collapse. Political impetus for policy change in response to what we might call the 'globalisation of inequity' has a high price tag, especially in the absence of strong capital inflows or in the presence of strong capital outflows. As a result, incentives for collective action are heightened as countries seek to maximise the international credibility of whatever policy responses are politically expedient in a given situation. It is here that our arguments about regionalism come into play. Given the limitations on international cooperation in broader terms (see Milner 1997) and in light of the relatively insignificant role that Latin American and Asian countries play in international cooperation for the provision of public goods, regional collaboration may well retain its utility as a credibility-maximising and legitimacy-generating mechanism by which countries can pursue sets of similar goals in a globalising, currently volatile, international economy. As policy elites start to rethink their role in providing those collective goods associated with mitigating the worst impacts of socio-political

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Malaysian economy', *Financial Times* 24 June 1999; 'Asia's Economies: On their feet again?', *The Economist*, 21 August 1999; [reference FT Malaysia early 1999].

[10] Headlines in *El Nacional* (Venezuela), 8 October 1998 and *Excelsior* (Mexico), 7 October 1998.

dislocation — and indeed what those collective goods might be — the regional dimensions of that provision are decisive. And if states in Latin America and Asia are more concerned, for a variety of reasons, with the elimination or management of 'public bads' rather than the provision of collective goods (Phillips and Higgott 1999), then the regional dimension is all the more salient given the limitations on the political, institutional and economic capacities of these states to engage in this type of public policy.

If, for example, South American countries have an overriding concern with constructing a model which is more socially responsive and politically sensitive, the only apparent means of funding such a shift in public policy would be through increased or restructured taxation, which in itself is plagued with deep-seated infrastructural and political difficulties. Not discounting the significance of such a departure from the sacred cows of neoliberalism, tax structures have important implications for balances of external competitiveness. Changes in the distribution of tax burdens at the domestic level, especially in the presence of such structural imbalances as those which exist in the aftermath of large-scale devaluation, induce changes in the relative competitiveness of domestic industrial and external sectors. In the presence of a regional bloc, not only are perceptions of such competitive (dis)advantages heightened, especially in countries which are very significantly dependent on regional markets, but pressures for reciprocal coordination between member countries are likely to emerge. For this reason policy initiatives which affect external competitiveness generally will flounder in the absence of collaboration. Similar arguments could be made about the introduction of social charters, or about labour flexibilisation initiatives. Both economic and political objectives, in this way, may be seen to demand collective *regional* action in key areas of policy change.

Another illustration of this point may be found in current debates on regional currencies, for which support in some quarters is increasingly visible. The creation of the euro in the midst of regional chaos in other parts of the world is seen to have generated a strong case for monetary integration and the establishment of integrated currency arrangements, which may involve the creation of new units of currency (see Beddoes 1999). The rethinking of global exchange rate systems is inevitable given the annihilation over the last couple of years of most forms of semi-fixed regimes by highly mobile international capital. The sustainability of fixed exchange rates and currency boards in various countries has been called into serious question by volatility across the developing world and pressures to float the exchange rate are currently in the ascendant. The notion of some sort of triadic currency order — centred on regions currently structured around the dollar, euro and yen — is thus gaining ground in both national debates and discussions on the creation of a new 'global financial architecture' (see Eichengreen 1999, Ocampo 1999, United Nations 1999).

Developments in South America reflect these debates in the global political economy. Although pretty much a lone voice, Argentina's spirited defence of its own currency, which is fully convertible to the dollar in a currency board arrangement established in 1991, has been based on calls from government and some business elites for both the creation of a common Mercosur currency and/or the dollarisation of the Latin American region as a whole.[11] Quite apart from the fact that the Brazilians reacted with no small degree of dismayed amusement, the possibilities for European style monetary union in Latin America would appear to be at best limited. Although Argentine preferences might find some resonance with Mexican business, for example (see Beddoes 1999), the likelihood that such a project would find even swampy ground in South America is diminished by precisely those factors which complicate the generation of collective responses to financial crisis.

As outlined in the introduction to this paper, optimistic accounts of the 'strengthening' of regionalism overlook important short-term dynamics of collective action in the context of recent crisis, and furthermore neglect questions of the nature of the regional 'identity' which is likely to emerge (assuming, of course, that the short-term hurdles are effectively cleared). While we can accept that regionalism is a political project responsive to the manifold effects of global structural change — whether these are

[11] See, for example, 'Menem forces dollar plan to top of political agenda in Argentina', *Financial Times*, 27 January 1999; 'No more peso?', *The Economist*, 23 January 1999; Stephen Fidler: 'Dollarise or die', *Financial Times*, 19 January 1999; Anthony Faiola: 'A Yankee currency for Argentina?', *International Herald Tribune*, 4 February 1999; 'Una propuesta inconveniente', *Clarín* (Argentina) 30 May 1999; 'El largo camino hacia la desaparición del peso' and 'Todavía existen pocos incentivos para la moneda única', *El Economista* (Argentina) 14 May 1999; 'La dolarización divide opiniones en el gobierno', *Clarín Económico* (Argentina), 27 May 1999.

seen to be social degeneration, societal disarticulation, the profusion of new and traditional inequities, increased asymmetries in North-South relations, the disempowerment of developing countries, and so on — the inclusion of financial crisis in the picture alters the ways in which we understand collective action through regional cooperation. The commonplace assumption that regionalism is an important mechanism by which states (and other actors) make participation in an 'unequalising' global economy politically and economically feasible (for example, Mittelman 1999) is based on conceptions of the nature of regionalism which belong to an historical moment which, I think, we need to see as passed. While regionalism remains a political response to many of the vagaries of globalisation, and while its functions in policy-making terms remain the same, the context in which the political project is formulated and the goals which it is assumed to serve are no longer (if they ever truly were) associated with neoliberal 'convergence'.

In periods of crisis, moreover, the dynamics of collective action, regardless of whether the parameters of action happen to cross territorial boundaries, are crucially different. Short-run collective responses to financial crisis — seen in our South American case in the frenzy of summit meetings with the IMF, rhetorical commitments to 'support' from the U.S., bail-out packages and 24-hour hotlines between Mercosur presidents — only thinly disguise increased regional atomisation as governments formulate responses most suited to particular national situations. In Asia, this translated into a visible fragmentation of the APEC consensus. In South America, the tension between Argentina and Brazil and the exigencies of responding to domestic instability (economic *and* political), has pushed the regional agenda onto the back burner. While Argentina is screeching about dollarisation and macroeconomic policy harmonisation, Brazilian elites are concerned with its more specifically national priorities of dealing with the impact on inflation and interest rates, and, no less important, in trying to salvage the fortunes of the beleaguered president, rescue the reform agenda, and bring the belligerence of the provincial governments under some semblance of centralised control.

As *The Economist* recently put it, 'weak presidents make weak diplomacy'.[12] Given, as we have seen, that the Mercosur has to date been propelled by presidential summitry, it should come as no surprise that the fragility of the positions of both Cardoso and Menem at the present time would have at least a 'stalling' effect on the regional agenda. As it turns out, the effect has been to heighten hostility and generate the most profound crisis yet in the Mercosur, to the extent that Brazil is now on the brink of taking Argentina to the WTO[13], and former Argentine Economy Minister Cavallo has called for a 'suspension' of the Mercosur while countries engage in nationally-defined damage limitation exercises.[14] Despite strategic expressions of steadfast commitment from all governments, the significance of the questioning of the *desirability* of the continued existence of the Mercosur should not be underestimated. Despite some initial calls for unified policy responses from the U.S. government, then, the short-term pattern indicates a fragmentation of the existing consensus, greater dissociation between Mercosur countries and the pursuit of increasingly individualistic policy agendas rather than an enhancement of collective priorities.

However, the South American case differs from the Asian case in an important and telling respect. Even in the short term, Asian responses to the financial crises were driven principally with external reference to a 'common enemy' and to a considerable extent unified by nationalist reaction transposed to the regional level. Emerging narratives envisioning some sort of 'East-West synthesis' (Berger 1998), facilitated by the cultural-racial triumphalism of East Asian successes, appear to have been superseded by the fuelling of a new form of 'politics of resentment' (Higgott 1998a) as a result of the financial crises and their handling. In South America, on the other hand, while the same neo-dependency, neo-imperialism rhetorical reactions have been widely heard, the antagonism has been directed internally rather than externally. While open hostility to the IMF and the US has not emerged in such pronounced form as in Asia — as a result perhaps of the absence of significant Asian-style ideological divergence (for a discussion, see Higgott and Phillips 1999) and, more importantly, the particular early stage at which the South American crisis currently finds itself — the financial

[12] 'Sour Mercosur', *The Economist* 14 August 1999.
[13] 'Brasil va a la OMC por la disputa en torno del calzado', *La Nación* (Argentina) 3 September 1999.

crisis seems to have acted on internal rifts and created open antagonism between Mercosur countries to a far more noticeable extent than in Asia, even in the light of the battering of APEC over the last couple of years.

However, and crucially, these subregional dynamics cannot be treated in isolation from the process of putative (and tentative) hemispheric integration which is currently under negotiation. The notion of a Free Trade Area of the Americas (FTAA) has to date been secondary in importance (and vitality) to the development of sub-regional units and the vigorous pursuit of a patchwork of bilateral deals. These 'spoke-spoke' arrangements (Haggard 1997: 41) are of crucial importance in the pattern of power relationships established by sub-regional and hemispheric integration. Brazil's interest in the Mercosur stemmed in large part from traditional antagonism with the US and from the potentially 'threatening' creation of the NAFTA. The resulting focus of Brazilian attention on consolidating its role as sub-regional hegemon led to the proposition in 1994 of the idea of a South American Free Trade Area (SAFTA) as a collective negotiating platform in the FTAA negotiations, and as an alternative to the US's preferred country-by-country negotiating strategy.[15] Financial crisis is likely, in this light, not only to accentuate the divergences between North and South America, but also to strengthen the southern countries' desire to negotiate as a coherent bloc rather than as spokes around a hub, generating enhanced potential for collective action. Paradoxically, therefore, it is possible that the hostilities between Mercosur countries which complicate the generation of collective action will be diluted in the longer run by the greater oppositions between the north and south of the hemisphere, especially in the area of policy responses to globalisation. The nascent lineaments of a genuine regional identity that goes beyond the economic bloc, at present absent from the Mercosur, emerge most strongly in the context of the relationship with the United States and NAFTA.

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[14] 'Mercosul: Cavallo sugere interrupção', news bulletin from Agência Estado (Brazil), 6 August 1999 — http://www.agestado.com.br.

[15] For a discussion of Brazilian positions on the FTAA, see Wrobel (1998), Grugel and De Almeida Medeiros (1999) and Bouzas (1999). For a more general discussion of tensions between Brazil and the United States in the context of hemispheric negotiations, see Roett (1999).

To sum up, then, questions of collective regional responses to financial crises cannot be answered solely with reference to the prospects for cohesion which global instability might generate at the regional level, especially under emergent conditions of a 'globalisation backlash' and a rethinking of key policy principles. A distinction between the short- and longer terms in an assessment of the dynamics of collective action demonstrates important constraints on regional collaboration which are not generally acknowledged in discussions of the strengthening of regionalism supposed to be consequent upon the crises of globalisation. Furthermore, the forms of reconfigured regionalism that are just beginning to emerge in South America and Asia are distinctly sub-regional in flavour: the difficulties associated with the construction of an FTAA and the fragmentation of the APEC consensus have been accompanied by identities of a 'South' American and 'East Asian' (for example) flavour. While collaboration within these 'smaller' regional constructions is far from uncomplicated by problems associated with collective action, it appears clear that these are the lines along which regionalism will be 'rethought', informed by the domestically-rooted processes of rethinking state action and policy ideas.

Globalism and Regionalism: Rethinking Governance

So, moving to the third element of my discussion, what does all this tell us about the future of regionalism in a 'post-Washington consensus' era? The first and most obvious analytical conclusion is that we need to elaborate on the assumption that globalism and regionalism are 'mutually constitutive processes' (Hettne and Söderbaum 1998: 8) and consider the ways in which the relationship has been affected by the emerging reorganisation (post-financial crises) of global and regional orders. Increasingly dated ponderings (à la Mansfield and Milner 1999) on whether regionalisation and globalisation are compatible or not, or else on why countries integrate or whether the current 'wave' of regionalism will 'fragment' the global economy, obscure far more pressing and apposite questions about the dynamic *interaction* between regionalist and globalist dimensions of *governance*. The complexity of the relationship between globalism, regionalism and a myriad of other levels of political and economic activity is not captured in now sterile assessments of whether open regionalism can in fact be open and whether regional blocs work to the detriment of multilateralism. The re-accommodation of the relationship between globalism and regionalism, as the principal structural consequence of the financial crises, is therefore a question with its roots in issues of governance in the context of the reorganisation of global and regional (and domestic) orders. And regionalism itself constitutes an element of an increasingly complex system of governance operating at a variety of levels in which questions about public goods, welfare, economic organisation and political participation are addressed.

What is curious and telling, in this vein, that these two levels of 'governance' continue to be treated more or less in isolation from each other. In a recent volume on 'the political economy of world economic governance' (Michie and Smith 1999), for example, the regional dimensions of the future of governance are omitted almost entirely from consideration, and mentioned only twice (on two separate pages) in the context of the regional currencies debate. While most analyses of regionalism offer insights into its relationship with multilateralism or globalisation, very little of the global governance debate focuses on regionalism itself, beyond some sort of appreciation of a 'regional' (for which read 'triadic') approach to the architectural restructuring of global finance. If it is the case that regionalism in the first part of the decade — in its supposedly neoliberal, 'open' incarnation — became 'the primary tool of global governance' (Palan and Abbott 1996: 75), then the reformulation of regionalism must surely involve a reformulation of the bases of governance, both of the global economy and of political, institutional and territorial organisation in the broader sense.

Furthermore, the treatment of regionalism is still frustratingly 'aggregated' or undifferentiated. The various modes of regionalist governance which have emerged in various parts of the world are rarely recognised in the literature, and assumptions about the relationship between globalism and regionalism suffer not only from their static qualities but also from a propensity to treat 'regionalisation' as a single process and 'regionalism' as a homogenous phenomenon. Payne's (1999) illustration of the diversity of forms of regionalist governance — multi-level governance in the EU, 'hub-and-spoke governance' in North America and what he calls 'pre-governance' in Asia (which might, incidentally, apply usefully also to South America) — mean that simplistic conceptions of a single relationship between something called ‘regionalism’ and something called ‘globalism’ are analytically and empirically problematic.

It is precisely the recognition of these sorts of ‘complexities’ — and particularly those generated by the impact of financial crisis — which renders most of the salient contemporary understandings of ‘regional governance’ problematic. Most obviously, the notion that the restructuring of the financial architecture and, in the bigger picture, of power structures in the global political economy will be undertaken with a strongly ‘regional’ bent is flawed, or at best unreflective of the regional and domestic dynamics which would inform such a project. Not only does it underestimate the variety of social forces that need to be incorporated into analyses of ‘governance’ and the plethora of ‘levels’ at which sites of authority are increasingly located (Payne 1999), it also misconceives the dynamics of regionalism in the ‘aftermath’ (or else temporary lull) of financial crisis in various parts of the world. More specifically, reservations about this notion of the ‘regionalisation’ of the world order bring into play the observations made in the rest of this paper.

First of all, the supposed division of the world into a triadic structure paints lines of connection between ‘regions’, countries and actors which appear erroneous. While they make some (limited) sense in terms of currency arrangements, they have little coherence when we consider the other dimensions of cooperation (and conflict) in the global political economy. In the area of policy ideas, for example, there is some significant convergence between East Asia and Europe, and, crucially now, South America. The closer identification by South American government elites with key policy debates of the European ‘centre-left’ governments has lead to an enhanced convergence between these two regions, exacerbated by the continuing insistence by the US government and associated organisations on a deepening of neoliberal stringency. This is reflected, furthermore, in a smattering of calls in South American countries for the establishment of closer relations with Europe in preference to the United States[16], as well as in the current political negotiations for trade agreements between the Mercosur and the European Union. Similarly, the increasingly close connections of South American countries with the Asian region, as well as the convergence between the latter and the EU, highlight that the arrows of 'cooperation' point in directions not immediately consistent with a global triad of 'regional' constructions. While Europe's proposals for the construction of 'monetary zones' as a means of containing financial volatility are broadly supported in East Asia and received sympathetically in South America, it is far from clear that this might correspond to a structure of 'regionalist governance' in the wider sense capable of transcending increasing tensions in the 'regions' of the Americas and the Asia Pacific.

Second, and related, the idea of a triadic structure takes no account of the emerging importance of sub-regional identification as the apparently strongest basis for the future trajectory of regionalism. The fragmentation of APEC and continuing political-territorial tensions in the Asia Pacific, as well as continuing questions about the vulnerability of the Japanese, Chinese and Hong Kong economies to financial crisis, are not conducive to the construction of an 'Asian' bloc. Similarly, the dynamics of South American regionalism, along with the trends in policy thinking mentioned above, do not augur well for anything more than a loose network of 'hemispheric' relationships if in fact an FTAA does come to any sort of fruition. Perspectives on regionalist governance from a 'globalist' perspective do not sit well with considerations of specific domestic and regional dynamics which inform emerging structures of governance.

In this vein, and third, the 'globalisation backlash' has sharpened the 'north-south' dimensions of international relations, which are neglected by these globalist imaginings of new regionalist governance. We can argue that the most prominent trend of recent years has been the 'globalisation of inequity', both at the domestic level and also in terms of global justice, distributory or otherwise. In this sense, the financial crises generated resurgent perceptions of what we might call the 'restructuring of disadvantage' in the global political economy. Moral hazard, for example, shifted the liabilities of financial markets and the impact of their behaviour to those 'emerging' markets targeted by speculative capital. And the impact of massive capital flight exacerbated pronounced social dislocations in developing countries occasioned by

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[16] See, for example, 'La Alianza apunta hacia Chile, Europa, Asia y el Mercosur', *La Nación*

global neoliberalism. The reactions against inequity and disadvantage, therefore, is significantly bound up with power relationships in the global political economy, and would be most likely to militate against cooperation at the levels suggested by ideas of triadic governance, especially in the Americas. As we have seen at various points in the discussion, emerging patterns of 'south-south' interaction and the dynamics of 'spoke-spoke' regional relationships are potentially of utility equal to (if not greater than) 'north-south' or 'hub-spoke' interactions. If regionalism is strengthened as a means by which global polarisation might best be addressed, the notion of triadic governance structures is anachronistic to the sharpened appreciation, in South America and Asia, of the prejudicial 'north-south' dimensions of the globalist project.

Conclusion

The question 'what next for regionalism?' compels speculation. My aim here, and especially in the final section, has been to try at least to identify the questions which might lead towards answers, in the absence of answers themselves. The lines along which regionalism is being 'rethought', and the tentative predictions we might make about the nature of the 'rethought' regionalism which might emerge, need to be considered in the light of domestic responses to recent crises of globalisation, the dynamics of collective action at the regional level, and the larger questions of governance at the global level. While these are only three of the overlapping sites of governance which have emerged (and are emerging) in the global political economy, the 'what next?' for regionalism will be located in the future trajectory of these debates.

(Argentina), 16 May 1999.

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