How Do We Hang Out?
Regional Powers and Financial Cooperation

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October 11, 2012

Abstract

Regional integration has become a salient form of cooperation all over the world. Regional financial cooperation is now prevalent in almost every region of the world, and the depth and scope of cooperation vary across regions. Why do states create regional financial institutions? How do they have different types of such institutions? Despite its important implication in terms of how we cooperate, students of international relations pay little attention to political mechanisms of regional financial cooperation, while the economic literature focuses mainly on financial crises or economic background to explain how institutions are created. We focus on regional powers, which are often major initiators or strong promoters of regional institutions. As for the role of hegemonic powers in regional cooperation, the literature is divided: a hegemon is either opposed to or favors the creation of cooperative international institutions. Our theory, however, transcends this theoretical divide and presents systemic combinations of various factors in the literature. We argue that characteristics of a regional dominant power, which include power-aggregation capacity, power-sharing capacity, and commitment, are significant in explaining not only the creation but also the type of regional institutions. We employ comparative-historical analysis with the method of process-tracing to compare the cases of East Asia, Central Asia, and Eastern Europe. Our finding shows that the type of a regional financial institution depends upon the combination of actors determining the regional hegemon's willingness and opportunity.

Keywords: Financial integration, Regional institutions, Regional hegemonic powers

Introduction

The purpose of this study is to examine how states manage financial interdependence at the regional systemic level. Open regionalism has emerged as a sensible response to the ongoing turbulent and negative processes of economic globalization (Fawcett and Hurrell, 1995). The successful experience of the European Union has further made regional integration as an increasingly attractive option not only for the developed but also for the developing world. Consequentially, we see many regional financial cooperation arrangements in the world: for instance, to name a few, the Chiang Mai Initiative Multilateralization (CMIM) in Asia, the Anti-crisis Fund of the Eurasian Economic Community (ACF), the Latin American Reserve Fund in Latin America, and the Arab Monetary Fund in the Middle East. These phenomena bring us to the research questions: What brings about regional financial cooperation? What are the common causes that bring this sort of international institutions into existence? Why do some regions experience it, while others do not? Finally, what makes the types of institutions of regional financial cooperation distinctive?

The underlying idea of our argument is the world as interdependent (Rosenau, 1990; Keohane and Nye, 1977). Through various transmission channels of interdependence, the events taking place and the policies implemented in other places will affect the performance and, furthermore, the preferences of all the rest. This becomes more obvious with geographical approximation. Under these conditions, macro policy coordination as part of integration process, which necessarily involves political factors, appears to be a crucial means to manage interdependence (Starr, 2000). Thus, through integration, states come to internalize the negative effects of reciprocal interrelationships, while enhancing the positive effects of decision-making in each economy for all concerned.

What, then, are the political conditions under which states come to agree to form a certain type of integration? This study attempts to address the question, focusing on the role of regional hegemonic states. We argue different characteristics of regional great powers define the type of regional financial cooperation. Our theory specifies combinations of political conditions, which constitute distinct characteristics of regional dominant states.

Our findings indicate that regional financial cooperation in both East Asia and Eurasia has required great powers who have capabilities and regional strategies. Like other attempts to create an Asian Monetary Fund, the process toward the establishment of the CMIM strongly reveals the presence of power-consideration among member countries. However, unlike previous failed attempts, the development from rom the bilateral CMI bilateral swap network to the multilateral CMIM swap contract was realized due to China's leadership reflected in the first director of the ASEAN+3 Macroeconomic Research Office (AMRO), a Chinese national, Wei Benhua. In Eurasian cases as well, despite previous efforts to set up functioning regional financial arrangements, it was not successful until a regional power, Russia, partook in the projects and provided the large portion of its resources. All these achievements would have not been realized without economic and security resources as well as commitments of regional powers.

There is no book or report that makes a comparative evaluation of experience with regional financial arrangements in a consistent theoretical framework.[1] This study aims to fill the gap by offering and testing our theory, which may illuminate causal mechanisms for distinctive types of regional financial cooperation. Furthermore, we expect this theory to contribute not only to theories of regional integration but also to theories of cooperation in global politics.

Another contribution expected is our explicit consideration of the variety of regional financial cooperation. Along with the question of impact of political factors on the institutionalization of regional cooperation, this study attempts to distinguish itself by explicitly considering the variation in institutional types of regional cooperation. In other words, this study is explicitly concerned with the depth and scope of institutionalization. The diversity of regional cooperation has not been explored as much as the mere existence or absence of cooperation. The theoretical literature tends to focus solely on the occurrence of cooperation. This confined the discussion of political factors of cooperation to a superficial level. However, when we discuss regional cooperation, it is critical to consider the depth and scope of regional institutions because the implication of having deeper cooperation is certainly different from having one with a shallow degree of cooperation. Furthermore, looking at the variation of regional cooperation would allow us to elucidate more detailed mechanisms of political factors leading to a specific choice among the rich set of institutions. The benefit of investigating different types of cooperation is that we might be able to see diverse roles, influence, or combinations of the same political factors.

This paper proceeds as following. First, the need for power-oriented variables to explain regional

[1] There are some works that explore regional financial cooperation (e.g. Ocampo, 2006), but even those works suffer from the lack of consistent frameworks to explanation of the variety of the arrangements.

cooperation dawns from the lack of concern with power-oriented variables in the literature. Second, "complex theories" of regional cooperation lay out concepts of major variables and consequences of the conjunctions of the variables. Third, cases are examined in light of theory testing. Lastly, brief remarks about the limitations of this research are mentioned.

Definitions and Concepts

It is vital to be clear about what is meant by regional cooperation. According to Keohane (2005), the process of cooperation necessarily involves three watersheds of policy decision. First, policies of one state should be at odds with those of others which hinder the state from achieving its goals. Conditions where no inherent hindrance of policies exists are called "harmony," which is thus apolitical. Second, any attempts to make adjustment on the policies must be present. Otherwise, "discord" by conflicting preference naturally follows. Lastly, in order to reach cooperation, the states should make an effort to make policies become more compatible with one another. Thus, cooperation in and of itself is highly political. With regard to coordination of economic policies, Dobson (1991) puts independence and coordination under the range of cooperation, while having conflict and integration at the opposite ends of the '$< - - PolicyConflict - - Interdependence - [Coordination] - Integration - - >$' spectrum, as she attempts to define those fuzzy terms. However, we posit that interdependence itself cannot necessarily mean cooperation. Simply because interdependence can transmit bad influences as well as good ones, interdependence itself can lead governments to coordinate their policies or to put one's foreign policy in conflict with the other government. Accordingly, this study refers to (regional) integration as the ultimate expression of (regional) cooperation.

The term regional integration covers a wide range of different developments and processes. It runs the gamut from social or economic regionalization, the growth of regional awareness or identity, state-promoted political, military, or economic regionalism, the formation of inter-state regional institutions, or the emergence of politically cohesive regional blocs under supranational institutions. Therefore, we define and simultaneously analyze regional integration by three dimensions. The first is the locus of institutionalization, i.e., the legal or organizational basis of association among parties concerned. Possible modes of institutional association include international treaties, which may comprise some but not all countries in the region, and regional organizations, which may either be intergovernmental or supranational. [2] In the same vein, the volume of economic transactions between states may not indicate the extent to which a regional transnational economy is in existence (Keohane and Nye, 1975, 368).

The second dimension is the scope of activity, i.e., the number of issues covered by regional institutionalization. Neofunctional integration theory leads the discussion of scope and depth of regional cooperation. Depending on authors, terms and nuances vary. For instance, in search for conditions for spillover to occur, the scope of mutual commitment and the level of mutual commitment are suggested as faultlines to observe (Schmitter, 1969). Scope, furthermore, consists of a mixture of two dimensions: the number of social groups or policy sectors potentially involved and the importance of these policy sectors.

In terms of the issue scope, we typify regional financial cooperation by identifying two large types of regional financial institutions: (1) development financing institutions, including development investment funds and development banks; furthermore, we classify development banks into 1) self-financing multilateral development banks (SFMDBs) and 2) multilateral development banks (MDBs); and (2) arrangements for macroeconomic and related financial cooperation (e.g. liquidity financing during balance-of-payments crises), which include 1) mechanisms of policy dialogue and peer review, and 2) more elaborate systems of macroeconomic surveillance and policy consultation or coordination; 3) reserve funds and swap arrangements among central banks; and 4) monetary unions as the most developed form. Additional forms of cooperation include 5) regional payments agreements and 6) cooperation in the area of prudential regulation and supervision of domestic financial systems. This typology appears important as it sheds light on the reasons for the creation of regional financial institutions.[3]

The last dimension is depth of institutionalization, which indicates how much member states pool and delegate their sovereignty. Pooling and delegation of authoritative decision-making are two main ways to impose constraints on sovereignty (Moravcsik, 1998, 67). Sovereignty is pooled

[2] In the same vein, in spite of the extensive literature which sees trade volume as a good indicator of regional integration (e.g. Dixon and Moon, 1993; Gowa and Mansfield, 1993; Morrow, Siverson and Tabares, 1999, 1998; Mansfield, Milner and Rosendorff, 2000; Oneal, Russett and Berbaum, 2003; Long, 2003; Long and Leeds, 2006; Mansfield and Reinhardt, 2008, 2003), one needs to be careful because mere transactions are not necessarily related to institutionalization of cooperation between states. Certainly, transaction flows are not irrelevant to the attitudes of the political elite. However, "few of the usual transaction data directly concern high politics at the governmental elite level" and trade flow data in itself "do not serve for describing the degree of institutionalization achieved between two states" (Russett, 1974, 334).

[3] This typology mirrors Ocampo (2006); Mácsik (2003).

when governments decide matters through voting procedures other than unanimity. Sovereignty is delegated when supranational actors can take certain autonomous decisions from interstate or unilateral intervention via vote or veto. Following the lead of neofunctional integration theory, level is referred to the extent of commitment to mutual decision-making both in terms of regularity and in terms of the policymaking process (Schmitter, 1969, 163). Later, the concept is developed into level of institutional authority (Schmitter, 1970). According to this concept, devolving permanently control over a policy area to some autonomous supranational body belongs to the highest level of commitment, while negotiation between instructed national representatives corresponds to its lowest level.

These three dimensions, though they are not often covariant, are useful in that each dimension provides a benchmark to compare one with another. Employing three indicators of regional integration allows for the categorization of variation in institutionalization in major regions.

Bringing Systemic Sources of Power Back In

The literature on regional integration has been extensively developed based on the European experiences. Three prominent theories of European integration are neofunctionalism, liberal intergovernmentalism, and supranationalism.

Neofunctionalism focuses chiefly on the role of national elites in forming the Community (Niemann and Schmitter, 2009, 48). Although systemic sources of international politics are not popularly discussed, Neofunctionalism does not entirely ignore the aspect of power structure in the creation of regional integration. Major conditions for the units to join in the union are the size and power, which refer to the relative weight of military power or industrial capacity. What is emphasized with regard to the size and power is not the *absolute* military power or industrial capacity of the participants but the *relative* weight of these features (Haas and Schmitter, 1964, 711). According to their study, the degree of symmetry caused different regional organizations: a high degree of symmetry yielded to the EEC while a somewhat lesser degree of symmetry brought about the EFTA and the Organization for Economic Cooperation and Development (OECD) at the time of union (Haas and Schmitter, 1964, 717).

However, the symmetry of the size and power may not always be the conditions for states' integration. In fact, there are many cases in which a regional hegemonic state leads regional cooperation. That is, power asymmetry appears to be a necessary condition for those cooperation. Examples are, to name a few, Brazil in MERCOSUR (e.g Gómez-Mera, 2008, 297), South Africa in the SACU/Common Monetary Area (e.g. Bach, 2005, 181), and Russia in the Eurasian Economic Community (EurAsEC) (e.g. Libman, 2007). More importantly, causal mechanisms of the conditions, either of symmetry or asymmetry, for integration are not elaborated in Haas and Schmitter (1964).

Liberal intergovernmentalism goes back to the domestic level of state preferences. The preferences of national governments reflect concrete economic interests originating from various conflicting social groups rather than from other general concerns such as security or ideals.(Moravcsik and Schimmelfennig, 2009, 70). Liberal intergovernmentalism does incorporate some aspects of institution choice among supranational officials and officials of national governments. The interstate bargaining process, however, only considers the (a)symmetry of technical, political, and legal *information* as the sources of bargaining power (Moravcsik, 1998, 52). Evidently, liberal intergovernmentalism presumes an existing supranational (regional) institution and the prominence of the power of information in the states' choice of institutions (Moravcsik, 1995, 612). This approach reveals three shortcomings for the present research question: First, it gives only dichotomous variation in terms of the type of regional institution, either intergovernmental or supranational. Second, the scope of the power concept is limited. The distribution of information may not always be the crucial factor in the creation of regional cooperation. As will be argued in the following, states are often concerned about traditional sources of systemic power such as military power, market size, government type, and so on. Third, there may not be any significant previous (supra) regional institution. In fact, any regional institutions had to be built from scratch.

Supranationalism puts emphasis on the role of supranational organizations in the process of integration. It has rising interdependence between states as an important causal factor for integration. Its distinctive contribution is the revisiting of supranational organizations with centralized governmental structures. Supranationalism maintains that, instead of behaving as faithful agents of intergovernmental bargains in liberal intergovernmentalism, supranational organizations impact integration processes in autonomous and decisive ways (Sweet and Sandholtz, 1997). Similar to neofunctionalism or the transactionalist theory of Karl Deutsch, supranational organizations are formed responding to the development of transnational society. The supranational organizations are later consolidated through the emergence of (European) rules (Bache, Stephen and Bulmer, 2011, 14–16). The source of the power of the supranational organizations over national governments thus lies in the capacity to set and adjudicate rules. Though this approach may be useful in analyzing the integration process at more advanced stages, many regional organizations tend to embark on with varied degrees of interdependence and often remain powerless to the extent that regional organizations enact rules and resolve conflicting issues.

Beyond these Europe-centered attempts, there are other theoretical programs taking other regions into consideration. In particular, the transactionalist theory of Karl Deutsch and regionalism are prominent. The transactionalist theory of Karl Deutsch, who is one of the two founders of integration theory, puts emphasis on social exchange, communication and transactions. [4] The core argument of the theory is that increasing density of social exchange among individuals over prolonged periods of time would lead to the creation and development of new communities, which meet increasing social demands for supranational rules and for higher levels of organizational capacity. Deutsch et al. (1957) rather explicitly address system sources of power as a important causal condition and different types of integration. The amalgamated community come into being after a substantial increase in the capabilities of at least some of the participating units. Outstanding power measured by military, economic communicative capabilities in the core of leadership is the crucial condition in amalgamation Deutsch et al. (1957, 39–43) . However, regional cooperation may not necessarily involve a rising powerful state, which could rather kindle the angst of being dominated among neighboring countries and thereby hampers them to cooperate. Instead, there are cases where similarity in power among states seems to work more than asymmetry in power for the formation of regional cooperation, such as the irrelevance of France's possession of a nuclear potential in the European Economic Community (EEC), the equal of Italy and Germany in the Organization for European Economic Cooperation (OEEC) (Haas and Schmitter, 1964, 711), and the equal contribution of China and Japan in the Chiang Mai Initiative Multilateralization (CMIM) (Sussangkarn, 2011, 212).

In an attempt to learn for and apply lesson from one region to other regions, the program of

[4] The other founder can be Ernst Haas, whose neofunctionalism pays attention to the relationship between global interdependence, political choice, and the development of supranational institutions (Haas, 1958).

(comparative) regionalism has been resurged particularly since the 1990s. [5] The chief purpose of the regionalism literature is to clarify the main sets of theoretical ideas that have been used to explain and understand regionalism in different parts of the world.[6]

Some of the discourse of regionalism bears on the distribution of power at the domestic as well as at the international politics and its effect on regional cooperation. The distribution of power at the domestic political economy level is one of the most important factors explaining patterns of regionalist activity across different periods (e.g. Mansfield and Milner, 1997, 602–8). Globalization presses the state implement massive deregulation domestically while such domestic deregulation is substituted for immense re-regulation at the inter- or supra-state level, and thereby, an increasingly dense layer of administrative governance emerges. Winners and losers of the political economy of globalization is thus determined to a significant extent by the power to shape these these increasingly far-reaching and intrusive sets of rules, norms, and institutions. However, this level of analysis is ignorant of the power at the international systemic level stipulating the games of domestic politics.

At the international level, many regionalist arrangements are often dressed up with the character of an outwardly directed alliance or coalition. This idea has grown up with the notion that regionalism is a critical part of increasing bargaining power. Behind this notion of political capacity in negotiation lurks market size, which is a central part of regionalism. Along the line of this argument, Mercosur was formed with the strategic rationale for Brazil to gear up for counterpoising the United States leading the Free Trade Area of the Americas (FTAA) and the European Union, and maneuvering within the World Trade Organization (WTO) (e.g. Hurrell, 2005). Still, the discussion lacks who would wield the power to initiate and shape regional arrangements within a region.

[5] Theories of regionalism highlight the linkages between increasing cross-border exchange, patterns of institutionalization, and the character of the regional polity. The notion of the regionalism program is based on the perception that "regional politics seems to be impossible to understand within the old IR world of states, power and interest" and traditional modes of inter-state institutions are too limited to see regionalism (Hurrell, 2005, 39). In spite of its relative merits in explaining the complexities of regional integration with a coherent framework of institutionalism, the theory of regionalism dims the aspect of power as a fundamental force shaping systemic structure internationally and regionally.

[6] Despite its purpose, the study of comparative regionalism has been criticized as a corpus of Western theories. Theories of regionalism turn out to be ones based chiefly on a set of Western experiences with more abstract theoretical languages. A prominent scholar in the study of regionalism has gone so far as to say "[t]heories based on Western, and especially West European experience, have been of little use in making sense of Asian regionalism" (Katzenstein, 1997, 5).

Theories of Cooperative Regional Hegemony in Regional Financial Cooperation

Our theory argues that power-oriented variables are important in explaining regional financial cooperation. Accordingly, the theory is concerned more with the role of regional dominant powers. In order for a regional dominant state to lead regional members and create certain types of regional integration, it has to possess "willingness" and "opportunity" (of both capacity and constraints) (Most and Starr, 1989; Cioffi-Revilla and Starr, 1995). Hence the characteristics of the regional dominant powers largely dictate forms of regional cooperation.

The regional hegemon consists of two aspects of capacity: power-aggregation and power-sharing ("opportunities"). With the capacities, the regional hegemon possesses the willingness to commit itself to promoting regional cooperation. Power-aggregation capacity refers to the capacity of a dominant regional state to create and maintain a power gap with regional states. This capacity is often constituted of military capability and market size. Power-sharing capacity refers to the capacity of a powerful state to create and manage institutions in ways that resources, such as information or benefits, are allocated. This capacity is associated with the type of domestic political institution, which is often sources of knowledge of creating institutions at the international level.

There is another aspect of capacity, that is, of commitment ("willingness"). Commitment capacity means the capacity of a leading regional state to consistently establish and execute a (regional) grand strategy. [7] With these capacities, the regional hegemon interacts with constraints (or environment) settling down to a type of regional cooperation.[8] Each capacity and commitment have several components either explaining, constituting, or substituting a capacity or commitment.[9]

The three factors of power-aggregation capacity, power-sharing capacity and commitment vary in strength, which implies a variation among regional hegemons working on regional cooperation. Regional hegemons adopt a certain combination of power elements to achieve regional integration, depending on the nature (i.e., depth and scope) of institutionalization in the region, and thus follow

[7]A grand strategy is not limited to a region. Even if a grand strategy begins as a regional grand strategy, it is necessarily stretched to taking other regions into consideration and thus goes beyond a region. Thus, the capacity to establish and execute a grand strategy presumes enough power to deal with global issues out of regional ones.

[8]Later, we discuss not only how the capacities interact with the environment but also how they interact with one another and with the components of willingness.

[9]For the exposition of the relations in the conceptual structure, we draw on Goertz (2006).

certain pathways.

The theory states causal mechanisms along with the pathways in detail later, but the summary of causal conjunction is laid out here: Where power-aggregation is strong but power-sharing and commitment are weak, the theory of cooperative regional hegemon would expect a regional hegemon to shape an informal order at a minimal institutional level. The depth and scope of institutionalization would be fairly limited. Where power-aggregation and commitment are strong but power-sharing is weak, the theory of cooperative regional hegemon would expect at a moderate institutional level. The dominant state would deepen the level of institutionalization, but pursue the limited scope of institutionalization. Where power-sharing is strong but power-aggregation and commitment are weak, the theory would expect a regional hegemon to shade into a low institutional level. The dominant state would hold a broader scope of institutionalization but not pursue a deeper one. Where power-sharing and commitment are strong but power-aggregation is weak, the theory would expect the possibilities of moving toward a high institutional level. The dominant state would set up a broader scope of institution, but would not seek for the depth of institutionalization. Below we expound the causal mechanisms for various types of regional cooperation.

weak barely pooling nor delegating moderate pooling not delegating deep pooling and delegating

Power-aggregation

Power-aggregation capacity refers to the capacity of a powerful regional state to possess dominant power over neighboring states, so that they could provide the region with security as public goods. Military security is often discussed as one that is closely linked to economic exchange due to its externalities. States feel safe in economic integration, when economic gains from exchanges are not expected to be used against themselves.[10] Hence, patterns of states' economic behavior are focused, instead of patterns of states' security behavior, in theories of cooperative regional hegemony, and thereby the intersection between security and political economy is highlighted throughout the theories. In realities, the overlapping between the security and economy domains are the dominant phenomena; to name a few, the European Economic Community, the Association of Southeast Asian Nations, the Andean Community of Nations, the Gulf Cooperation Council, often promise

[10]There is the rich literature on the relationship between military alliance and economic trade (e.g. Gowa and Mansfield, 1993; Gowa, 1995; Mansfield and Bronson, 1997; Gowa and Mansfield, 2004). For a broader discussion concerned with regional order, see Lake (2009, e.g.).

the foundation for economic prosperity *and* security together.

Power-aggregation capacity is structurally determined to the extent that regional polarity, degree of asymmetry in power in the region, and external constellation constitute the capacity. Below is explained how the regional hegemon's power-aggregation capacity works to form regional cooperation in such three regional power structures in turn.

The polarity of an international power distribution (world or regional), which refers to the number of independent power centers in the system, affects power-aggregation capacity. Theories of cooperative regional hegemony are particularly concerned with the polarity at the regional level. The polarity concept encompasses both the underlying power of various actors and their alliance groupings. This concept is useful to illustrate configurations and power distribution of great and middle powers in the international system.[11]

Regional states participate in the polarity of an international system, either balancing or bandwagoning. Military alliance has been extensively studied as a typical tool of states in balancing a threat or bandwagoning on a predominant state, whereas other types of cooperation has been less explored.[12] Regional unipolarity facilitates power-aggregation through bandwagoning.[13] Bandwagoning is defined as joining with the most powerful state or coalition, while balancing indicates alliance with a state to offset power(s) (Waltz, 1979, esp. chap. 6.).[14] If a region features one great pole of power, which does not allow balance-of-power by regional countries, and bandwagoning against the great power is the only viable option, this regional polarity facilitates power-aggregation by the dominant state.[15] The power-aggregation capacity of the regional hegemon will be likely

[11] A multipolar system typically has five or six centers of power. Each state participates independently in the system on relatively equal terms with others. A tripolar system has three great power centers, which is rare because of the tendency for a two-against-one alliance to form. Bipolar systems have two predominant states or two great rival alliance blocs. At the far extreme, a unipolar system has a single center of power around which all others revolve. When this concept is applied to the regional system, this is called regional hegemony.

[12] The idea of balance of power and bandwagoning is distinct from the formation of alliances, which has long been associated with the idea (Snyder, 1997, 156).

[13] As assumed, in this case, the regional hegemon has the ability to provide sidepayments and execute differentiation of the integration system, which are effective ways of fostering bandwagoning.

[14] The bandwagoning and balancing concepts put forth earlier by Waltz (1979) is refined by Walt (1987, 263) through his theory of alliance formation, that is, balance-of-threat theory, including factors other than aggregate power. Balance-of-threat theory posits that states ally based on the threats they face rather than merely the total amount of material power they confront (Walt, 1987, 179). That is, the theory conceives of balancing as how states respond not so much to shifts in the balance of power as to threats. Walt (1987) makes four categories of the threat concept: aggregate power, geographic proximity, offensive power, and aggressive intentions. Thus, states will balance against the primary threat to their security as measured along the dimensions of the four categories, but one cannot determine a priori which one of these dimensions becomes most important (Walt, 1987, 26).

[15] Walt (1987, 28–32, 172–78) claims that, although bandwagoning behavior is rare, it is more likely to occur when a state is weak, when few or no allies are available, and when the outcome of a conflict appears certain. Other

to increase with bandwagoning through various reasons, which will be stated below.[16] The notion that strength attracts tells the story here.

Regional countries will climb on the bandwagon of the regional hegemon based either on belief or fear. In Waltz's (1979) structural model of balance-of-power theory, bandwagoning refers to joining the stronger coalition.[17] In Walt's (1987) balance-of-threat theory, bandwagoning refers to alignment with the source of danger, regardless of whether it is internal or external threats.[18] While these two theories are based on fear of regional states as impetus for bandwagoning, balance-of-interests theory maintains that states climb aboard the bandwagon based on belief in gain. In terms of Schweller (1994, 74), balancing is driven by the desire to avoid losses and to keep self-preservation; bandwagoning by the opportunity for profit and for self-extension. The picture of bandwagoning for profit rather security is that states will not be threatened or cajoled to climb on the bandwagon, and thereby they do bandwagoning willingly in the expectation of gain. A synthesizing effort made by Snyder (1997, 158) regarding the motive of security cooperation distinguishes bandwagoning patterns into offensive and defensive ones. Offensive bandwagoning is formed on the belief that the spoils of victory will be shared, while defensive bandwagoning predicates on states' ingratiation out of fear of being attacked by a powerful nation. This concept of bandwagoning is an expansion of balance-of-threat theory in terms that the previous concept of bandwagoning is defined too narrowly as giving in to threats, and the notion of profit as impetus for bandwagoning on top of threat is added.

The degree of asymmetry in power constitutes the power-aggregation capacity of the regional hegemon. Power-aggregation capacity is reflected in the degree of asymmetry. The capacity of keeping a certain degree of asymmetry is necessary for the regional hegemon to maintain the regional order. However, in order for a region to move towards certain levels of institutionalization, the power distribution in a region must not be too asymmetrical, in which the regional great power may expect to achieve its goals without the need for other regional countries (Maoz, 1990; Crone,

motivations such as ideology, penetration or foreign assistance do not serve as strong impetus as balancing does (Walt, 1987, chaps. 6–7).

[16] In reality, defensive bandwagoning can take various forms. For instance, it can take a form of appeasement by the weaker states because the weaker often make alliances with concessions on substantive issues. Oftentimes, the weaker concede to the powerful state's demands in order to settle issues under a quasi-alliance or entente framework (Snyder, 1997, 160).

[17] Balancing, on the other hand, means allying with the weaker side.

[18] Balancing, on the other hand, is defined as allying with others against the prevailing threat.

1993, 504).

In the same vein, Deutsch et al. (1957, 27) mention the importance of maintaining a kind of "balance-of-power" among the member states of a large union or federation. They specifically state that, if a member state is far stronger than all the rest together, its political elite lose responsiveness neglecting or ignoring voices of the smaller members and thus results in prevention or destruction of integration. More than the balance of power, however, they stress the importance of "cores of strength," which we interpret as hegemonic actors, around which security-communities often develop (Deutsch et al., 1957, 28).

On the other hand, if a regional power asymmetry is too small, it may also hamper regional institutionalization. That is, very small regional power-asymmetry is detrimental to regional institutionalization based upon a cooperative regional hegemon.

One reason would be that the dynamics of regional cooperation requires the existence of a regional hegemon with the capacity to forge regional bargains *inter alia* through sidepayments. Weaker regional countries would like to strike bargains with the regional hegemon absorbing the adjustment costs of the weaker countries as a result of their compliance with the hegemon's regional institutionalization. The member states would not concede to the regional hegemon's design of regional institutionalization, if there are no additional sidepayments (Yarbrough and Yarbrough, 1987, 23). Another reason may be that, if the regional core is composed of more or less symmetric countries, the internal and external posture of a regional unit is likely to be reactive. This is obvious from the collective action theory, in game theoretic terms, a large-N prisoner's dilemma (Olson, 1971; Hardin, 1982).

Finally, though implied in the previous discussion of the two factors, external constellation is another factor that promotes power-aggregation capacity. Regional hegemon's power-aggregation is affected by external constellation, *inter alia* of other great powers such as the global hegemon and other regions' dominant powers. Close relationship between the dominant power of a certain region with other powers in direct and indirect ways such as military alliances, trade agreement, the joint membership in IGOs, aid and policy affinity, may assist the regional hegemon's power-aggregation. The global hegemon or great powers from other regions may thus shift the power balance in a region in such various ways. Put differently, using Lemke's (2002) multiple hierarchy model, the local dominant powers in local hierarchies, which geographically are often very small, are constantly under the influence of dynamics in the overall global hierarchy system.

By contrast, external constellation can be hostile to a region. Similar to the logic of balance of power, external threats have been important in mobilizing support for a federal project particularly among the smaller entities (Riker, 1964). External threats may also affect the regional power distribution in such a way that smaller states become susceptible to a regional power asymmetry. As shown above, the external constellation is likely to affect the regional polarity and the degree of regional power asymmetry. Although these three factors are related to some degree, they have their own causal mechanisms to explain how power-aggregation capacity affects cooperative regional order.

Power-sharing

Power-sharing is another crucial capacity for the regional hegemon to build up cooperative regional institutionalization. The power-sharing capacity is based on the domestic polity and ideational structure of the dominant state.

The polity structure is an important factor in considering the depth and scope of regional institutionalization. It is widely recognized that democracies find it easier to share power not only domestically but also regionally than do dictatorships.[19] Institutionally, more reliable and responsible institutions, which may lead to deeper cooperation, can be set up by democratic countries. Domestic institutional soundness would be the foundation that props up regional institutions. Stable institutional domestic ground is conducive to the execution of, compliance with, and monitoring of regional cooperative agreements (e.g. Gaubatz, 1996; Leeds, Mattes and Vogel, 2009). Domestic experience of democratic institutions is apt to regional institutionalization of power-sharing. In terms of political survival, too, democratic leaders have a greater legitimacy than dictators because the latter are constrained by a relatively small portion of the winning coalition (Bueno de Mesquita et al., 2005). Legitimacy of leaders is a crucial resource in installing regional institutions (Hurrell, 1995). Thus, the polity structure of the most powerful as well as of the other regional states in a region is especially an important factor.

Domestic ideational factors are important for the power-sharing. Ideas affect policy. For in-

[19] This theoretical argument represents the regional aspect of the democratic peace theory literature. For the connection of democratic peace theory to integration theory, Starr (2006) demonstrates the democratic peace as a subset of more general integration processes, particularly, Deutschian "security integration."

stance, the idea of regional integration as a peace doctrine came to facilitate power-sharing in Adenauer's Rheinland Republic and in Catholic Italy (Pedersen, 2002, 690). Ideas of cooperative order may be embedded in the discourse among policy makers in the dominant states and serve as a vehicle for power-sharing.[20] This (collective) "principled beliefs" or "causal beliefs" can be the ideational structure with an embedded view of how to integrate with other regional states (Goldstein and Keohane, 1993). If the beliefs are prevailing in a society, then the leaders' ideas on integration are to be espoused by private actors as well as by the society. For instance, Eurasianism have dominated over Atlanticism, leading Russia into cooperation with countries in the post-Soviet space (Tsygankov, 2010).

The ideational complementarity of national elites is also important. Corresponding groups in the national settings that are inspired by similar values have more ideational complementarity than ones inspired by differing values. Likewise, similar groups sharing a common image of possible external threats may show the higher ideational complementarity. "What matters with regard to elite complementarity is whether *corresponding* elite groups think alike or not, even if they do not live in a functionally specific setting" (Haas and Schmitter, 1964, 712). Hence, marked elite complementarity of the ideational aspect would be extremely favorable to institutionalization of previous relationships, if combined other favorable conditions.

Commitment

Commitment is a necessary condition for regional institutionalization. Regional order depends in part on the willingness of the regional hegemon. The willingness can be expressed in strategies that the regional hegemon chooses to pursue (Most and Starr, 1989; Cioffi-Revilla and Starr, 1995). The cooperative regional hegemon can be either offensive or defensive. The offensive type of cooperative regional hegemon pursues strategies of expansion. It seeks advantages of economic scale, inclusion of diaspora (Tussie, 1998), diffusion (of the hegemon's ideas). These strategies are generally seen when the dominant state is more or less interested in shallow institutional degrees of order.

On the other hand, the defensive type of cooperative regional hegemon pursues strategies of consolidation. This type emphasizes the advantages of stability in the regional order and often accompanies deeper institutionalization of the regional order. For instance, China has started a

[20] By the same logic, ideas can serve as a vehicle for power-aggregation.

new regional strategy, called the New Security Concept (NSC), appeared for the first time in the Defense White 1998 paper. Later on, the NSC has improved and become the strategic foundation of China's regional policies. The notion of the NSC is meshed well with the principles and preferred methods of operation of the ASEAN states (Saunders, 2008). Thus, it supported regional impetus toward integration. In contrast, the Comprehensive Economic Partnership for East Asia (CEPEA) proposed by Japan for the members of the East Asia Summit—the members of ASEAN plus 3 (China, Japan, and South Korea), and plus 3 (India, Australia, and New Zealand)—attempts to expand its member from its original grouping, which was ASEAN plus 3. From the huge variation in the proposal's membership, it necessarily implies a shallow level of integration, if it could be achieved.

Another instance is the Russian Foreign Policy Concept, first adopted in 2000 and then updated in 2008. It states explicitly that the CIS (Commonwealth of Independent States) region is the top priority for the Russian policy. Russia should develop strategic and economic partnership with all CIS memberstates. Recognizing the opposition that Russia might face in the development of supranational institutions on the post-Soviet space, the concept introduces the idea of multi-speed and multilateral integration within the CIS framework, which implies various scopes and depths of integration for various post-Soviet space. The Concept equally points to Russia's support of a multi-polar world order, in which the post-Soviet ("Eurasian") economic and political union (with Russia at its center) could become a center of power equal to that of the European Union, NAFTA and other regional integration projects and be perceived as an equal partner on the international stage. Thus, Russia's foreign policy strategy has been directed towards consolidation of the post-Soviet space, which was once under Russian domination, centering Russia's leadership, but on terms agreeable to the other post-Soviet countries.

Comparative-Historical Analysis

Among different ways of defining comparative-historical analysis, this study employ the analysis as defined by Mahoney and Reuschemeyer (2003). This approach is useful for investigating "big questions," i.e., puzzles about substantively important and large-scale cases, such as regional integration. In addressing these puzzles with the approach, central concerns lie particularly in causal configurations that produce major outcomes of interest; the examination of historical processes; and systematic and contextualized comparisons of similar and contrasting cases. To put it differently, while statistical analysis is generally interested in generalizing about average causal effects from a sample to a well-defined large population, this comparative-historical research seeks to identify causal mechanisms in particular cases.

In the same vein, the number of cases in this study is quite restricted. Other reasons aside, the methodological basis for adopting the restrictive scope of cases is the need to avoid causal and conceptual heterogeneity.[21] Given the kind of explanatory theory, even a small increase in the number of cases could run the risk of excluding key factors that are relevant to the new cases but introduce the heterogeneity problems (Mahoney and Goertz, 2006). Instead of adopting a wide scope of generalization as in the statistical literature which assumes especially conditional independence, the limited number of cases allows us not to rely on an unrealistic assumption and to take explicitly into account the sequential aspect of cases.

This study's goal with comparative-historical analysis is to determine whether a given variable (alone or in combination with other variables) did exert a causal effect on an outcome in a particular set of cases (Mahoney and Terrie, 2008, 746). This goal is different from that of statistical research which is to generalize about typical effects for a large population. The method of process-tracing is used to help assess whether a posited causal variable actually exerts a causal effect on a specific outcome. With the lenses of process-tracing, we expect to see intervening mechanisms between variables of cause and effect. Among various uses of process-tracing, our case studies attempt to construct a general explanation at the macro level rather than a detailed tracing of a causal process at the micro level.[22]

The purpose of using comparative-historical analysis is to explore why particular outcomes, i.e., regional institutionalization, happened in specific cases. Hence, this research investigates the formation of regional institutions from two angles: the cross-national and the longitudinal dimensions. The cross-national component of the analysis draws on a secondary literature on the histories of regional integration, as well as on primary documents where specific questions need to be answered.

[21] Employing comparative-historical analysis is concerned as well with theoretical reasons. One of the strengths of comparative-historical analysis is its excellent ability to engage complex theories with fine-grained over-time evidence (Mahoney and Terrie, 2008, 749).

[22] Regarding the variety of process-tracing uses, see George and Bennett (2005).

The cross-national component of the study traces the origins of institutions in different regions, focusing especially on East Asia, Central Asia, and Eastern Europe. The longitudinal dimension of the research tracks the development of regional institutions over a longer time frame than the other cross-national cases. Our strategy of case selection in the next section mirrors these angles.

Cases

East Asian Financial Integration in the Power Shift

The experience of the 1997–1998 East Asian financial crisis was a major event that pushed East Asian countries to embark on a multitude of regional economic cooperation initiatives. The Crisis led to the formation of the ASEAN+3 group (ASEAN plus China, Japan, and South Korea), a group that was similar to the East Asian Economic Caucus (EAEC) proposed by the then Prime Minister of Malaysia, Mahathir Mohamad, back in 1991. [23] The proposal never got off the ground, but the 1997–1998 crisis provided impetus enough for a new stage of economic cooperation among the countries in East Asia.

One of the main developments in cooperation is financial sector. The Crisis led to the creation of the Chiang Mai Initiative (CMI). The Crisis started in Thailand, and at the very beginning of the Crisis, it was thought that its impact would remain localized. However, the contagion to nearly the whole region soon became apparent. Indonesia and South Korea had to enter an IMF program following Thailand. Even countries that did not need an IMF rescue package faced severe economic slowdown or recessions. This showed quite evidently that East Asian economies were inextricably linked to each other and could not afford to ignore what was happening elsewhere within the region. Thus, the Crisis pushed the countries toward cooperation at the regional level.

Another factor pushing East Asian countries toward greater cooperation is that they had to accept the crisis resolution measures just as suggested by the IMF, while they had very limited influence on shaping the measures. The IMF dictated these measures, and behind the IMF, the US Treasury and Federal Reserve exerted large influence on these measures.[24] Because of the

[23] Compared to the EAEC, ASEAN+3 do not contain Hong Kong, China and Taipei, China but includes all the newer ASEAN member countries.

[24] The fact that the Fund is increasingly becoming an instrument in the hands of its major contributors, particularly, the United States, but also the United Kingdom, France, Germany and Japan has been pointed at by various scholars (Barro and Lee, 2002; Bird, 2007; Ivanova et al., 2003; Kang, 2007). Due to the fact that decisions whether to provide

dissatisfaction with the way the crisis was handled mostly by the IMF, many including the regional and outside countries criticized that the crisis could have been resolved with much less pain than had been the case.

The first proposal for regional financial cooperation after the crisis was the proposal made by Japan at the G-7/IMF meeting in Hong Kong, China in September 1997 to set up an Asian Monetary Fund (AMF). What Japan proposed was the creation of an Asian Monetary Fund (AMF). Japan's then-Vice Finance Minister of International Affairs, Eisuke Sakakibara, proposed that an AMF be capitalized to the amount of $100 billion, with half of its reserves coming from Japan and the remaining $50 billion from other regional countries, such as Taiwan, Singapore, Hong Kong, and China. The reason for these countries were brought up was that at the time these economies retained huge balance of payment surpluses and foreign exchange reserves of almost $800 billion, collectively. The proposed AMF had to be built on Asia's financial strength comprised of savings surplus, foreign-exchange reserves, and net-creditor status, with which it would finance the debt of the crisis-affected countries.

Nonetheless, it was strongly opposed by the IMF and the USA and did not receive much support within the region, either. Consequently, the proposal was quickly pushed aside. There are several reasons for the miscarriage of this proposal. First and foremost, the U.S. wished to avoid any challenges to its influence in Asia, especially by Japan. At the time the debt of the crisis-affected countries amounted to around $300 billion dollars, and regional countries possessed financial resources sufficient to deal with the problem (Narine, 2003, 69). It means that the proposed AMF could be an autonomous institution from the US influence. The U.S. Treasury wished not to have an AMF that might impede liberalization of trade and finance. Likewise, the IMF, dominated by the United States, did not want its ability to force adjustments on Asia reduced. Both the U.S Treasury and the IMF argued that an AMF would create "moral hazard" by providing countries with bailouts even if they did not implement painful structural reforms. This argument, however,

a loan or not requires 85% of the votes, the United States, controlling 17.5% of the total IMF quota, has effective veto power over any IMF decision. The United Kingdom, France, Germany and Japan have effective veto power should they team up together. Kang's study provides evidence supporting his hypothesis that "despite the IMF's official rules to determine conditionality by economic criteria, variation arises because the strategic interests of the five biggest contributors to the IMF (the United States, the United Kingdom, Japan, Germany and France) interfere with IMF policy, which potentially compromises the effectiveness of its programs" (2007, 685). Barro and Lee point out that IMF lending is also sensitive to a (recipient) country's political and economic proximity to some major shareholding countries of the IMF (Barro and Lee, 2002, 31).

showed an overconcern because regional monetary organizations were nothing new and coexisted with the IMF already. The point is that the proposed AMF idea was not ready to be accepted by the United States along with the IMF because it did not adequately take into consideration powerful external actors working in the creation mechanism.

Another major hindrance to the realization of the proposal was Japan's stance, as the regional economic powerhouse, at the time. Despite its imperative from the devastating impact of the crisis, Japan's leadership was hard to be accepted given its ambivalent stance, especially on the history of the Japanese colonial empire. The concern about Japan's stance was amplified even more when the proposed AMF idea was composed of huge proportion (50%) of Japanese financial contribution, which would allow Japan to wield considerable influence on the decision-making process. This huge disproportion did not apparently reflect the power distribution in the region. China had clear leadership ambitions and thus was hostile to any actions that could increase Japan's regional standing. China's relationship with Japan got even more complicated due to its uncertain relationship with the United States and the close military linkages between Japan and the United States. South Korea, as a middle power in the region (Kim, 2008), also wanted to play a more important role than ever in the dynamic region.

Even though the first AMF idea did not materialize, the key players in the region continued to seek ideas for regional financial cooperation. For instance, at a meeting of Asian Finance and Central Bank Deputies in Manila, Philippines on November 18-19, 1997, the so-called Manila Framework was developed. Later, this Framework became a New Framework for Enhanced Asian Regional Cooperation to Promote Financial Stability. The Framework stressed the central role of the IMF with any regional financing arrangements complementing and supplementing IMF resources and was not radical with the involvement of the USA. The Manila Framework was endorsed at a meeting of finance ministers from ASEAN, Australia, China, Hong Kong, Japan, South Korea, and the USA, in Kuala Lumpur, Malaysia, on December 2, 1997.

Work on the regional financial cooperation continued, and, eventually, a historic agreement was made in May 2000 at the ASEAN+3 Finance Ministers' Meeting in Chiang Mai on the sideline of the Annual Asian Development Bank (ADB) meeting there. Hence, this agreement is referred to as the "CMI".

The Joint Ministerial Statement of the ASEAN+3 Finance Ministers' Meeting, May 6, 2000 expressed "a need to establish a regional financing arrangement to supplement the existing international facilities." Among ASEAN member countries, ASEAN Swap Arrangement (ASA) was agreed upon and, with members of the Plus Three group, bilateral swap arrangements (BSAs) were developed. The size of the ASA expanded to US$1 billion from US$200 million at the time. Members were able to draw unconditionally up to twice their contribution to the ASA, to be repaid within 6 months, with the possibility of rollover for a maximum of 6 months. The BSA is a facility in the form of swaps of US dollars with the domestic currencies of participating countries. With repurchcase agreements, liquidity support is meant to be provided through the sale and buyback of US treasury notes or bills. Under the BSA terms at that time, 10% of the agreed amount could be drawn without any linkage to an IMF program for 180 days. For the rest, the country should already be or will be under an IMF program in the near future. The linkage to the IMF program meant that the major part of such swap arrangements was not independent of IMF assistance. This linkage worked to ease the fears or concerns of potential conflicts with IMF conditionality and moral hazard problems.

It is noteworthy that, in 2005, the amount that a country could draw without linking to any IMF program was also increased from 10% to 20%, and the amounts under the BSAs has increased up to US$90 billion. However, the amount was still small to make a big difference, especially when the drawing was not linked to an IMF program. Therefore, the CMI is better to be viewed as a significant initiative, showing that the East Asian countries wefre willing to work together to develop regional self-help mechanisms to reduce the risks of future financial crises. At the same time, however, active involvement of the USA and the IMF in these developments should be noted with much importance.

The need for a liquidity support mechanism for the region became less urgent as the recovery from the financial crisis proceeded. The main ways of macroeconomic adjustments in the countries affected by the crisis were currency depreciation and the export. Especially, the role of the export sector became more important, and the ratio of exports to gross domestic product (GDP) increased significantly. The increase in the export sector as well as in reserves accumulation provided greater self-insurance for the countries. This, in turn, brought slow progress for a regional liquidity mechanism.

Still, the momentum to evolve the CMI into a more effective mechanism remained. The region finally agreed on the principle of converting the bilateral schemes of the CMI into a multilateralized self-managed reserves pooling scheme governed by a single contractual agreement, the CMIM, at the 10th ASEAN+3 Finance Ministers' Meeting in May 2007 in Kyoto, Japan. The key elements of the multilateralization included surveillance, reserve eligibility, size of commitment, borrowing quota and activation mechanism. One year later, at the 11th ASEAN+3 Finance Ministers' Meeting held in Madrid, Spain, it was agreed that the total size of the reserves pool would be at least US$80 billion, and that 80% of the amount would be contributed by the Plus Three countries, with the rest provided by ASEAN countries. More substantive agreements followed at the 12th ASEAN+3 Finance Ministers' Meeting in Bali, Indonesia on May 3, 2009. The CMIM agreement finally came into effect on March 24, 2010 as announced at the 13th ASEAN+3 Finance Ministers' Meeting in Tashkent, Uzbekistan on May 2, 2010. It established the ASEAN+3 Macroeconomic Research Office (AMRO) responsible for administering all the key elements of regional macroeconomic surveillance. The AMRO was to be located in Singapore to monitor and analyze regional economies for the early detection of risks, swift implementation of remedial actions, and effective decision-making under the CMIM.

The CMI bilateral swap network developed into the CMIM, which is a multilateral currency swap arrangement. The core objectives were still 1) to address balance of payment and short-term liquidity difficulties in the region and 2) to supplement the existing international financial arrangements. The total size of CMIM was agreed to be US$120 billion, with 80% contributed by Plus Three countries and the rest by ASEAN countries.

During the progress toward the CMIM, what was especially difficult and took the longest to resolve was the issue of individual country's contribution. The issue was particularly intricate among the Plus Three countries, because the contributions are related to the voting weights that they will have in the new institution. Since each country does not want to be outdone by the others, many formulas for the voting weights in relation to contributions should have been considered with different implications for the contributors. If the formula had to be based on a country's level of foreign reserves, China would be the largest contributor. If, however, the size of GDP were to matter most, Japan would be the biggest. South Korea, though not competitive in both terms, was concerned about the predominance by either of the countries.

The final agreement reflected this trouble and had a reasonable compromise among the members. Among the Plus Three countries, China and Japan, both equally contribute 40% each, with South Korea contributing 20%. Equal contributions are acceptable, as each would have found it difficult to agree if the other was to have more power in the decision-making in the CMIM. It was palatable also for South Korea. While contributing half of the amount of each of the other two's contributions, South Korea is likely to hold the swing vote between China and Japan on many important issues. Among the ASEAN countries, the original ASEAN-5 (Indonesia, Malaysia, the Philippines, Singapore, and Thailand) all contribute equally, with smaller contributions from Brunei and the other newer member countries.

The other issue that showed power struggle or concern among the Plus Three countries is the selection of the first director of the AMRO. It is obviously important to take the position. The first AMRO director, in particular, is supposed to have a large role in setting a direction of AMRO, while developing its capability and credibility, and gaining market confidence. It took 6 months to resolve this issue until a compromise was finally reached between China and Japan breaking the deadlock. Splitting the 3-year term of the director into two parts was agreed upon at the ASEAN+3 Finance and Central Bank Deputies Meeting in Bali, Indonesia, in April 2011.

For the first year, Wei Benhua, former deputy director of China's State Administration of Foreign Exchange, was to become the director. In the next 2 years Yoichi Nemoto, a Deputy Vice Minister of Finance for International Affairs at Japan's Ministry of Finance was to be the successor. The regional institutions were devised to address not only wobbly regional power struggle but also unpredictable global shocks (e.g. the 1997 financial crisis). Particularly, those two issues are manifestations of strategic interaction between member countries and its results.

The intense power struggle between China as a rising regional hegemon and Japan as a declining regional hegemon is particularly conspicuous, not to mention the concerns of the middle powers, South Korea and ASEAN as a collective, over unilateral dominance by either of the two hegemonic powers. The middle powers want to involve Japan, which, though declining compared to China, still remains a regional hegemon, for viable and substantial cooperation. At the same time, they seek to engage China in a stable and credible environment, as China is rising as another regional hegemon with a large potential to be the regional hegemon. This power shift along with the desire to take the leadership in the region as well as the efforts of the middle powers to make predictable and manageable environment has culminated in regional integration with cooperative institutions.

Regional Financial Cooperation in Eurasia

Economic and financial integration on the post-Soviet space has been complicated due to a variety of historical, economic, political, cultural and social factors. Even though a number of scholars tend to dismiss post-Soviet integration as "virtual integration" (Allison, 2008)., i.e. integration that exists exclusively on paper, major positive results have been achieved by those CIS countries that demonstrated most interest in coordinating their economic, security, and foreign policies under the umbrella of the Eurasian Economic Community (EurAsEC) and the Customs Union and Common Economic Space. Thus, in 2006 the Eurasian Development Bank was created aiming at fostering trade among its members, promoting sustainable economic development and expanding the geography of its operations by means of attracting new members.[25]

In 2009 the Anti-crisis Fund of the Eurasian Economic Community (ACF) was set up in order to "assist member countries in overcoming the consequences of global financial crisis, to ensure their long-run economic stability and to foster economic integration"[26] By 2012, the three CIS countries that have been most actively seeking integration on the post-Soviet space—Belarus, Kazakhstan and Russia— have created a common economic space, supranational institutions to supervise the functioning of the common market and coordinate policies (including the Eurasian Economic Commission, the Eurasian Council, the Eurasian Parliamentary Assembly, and the Eurasian Court), and confirmed their determination to create an economic and political union designed on the EU model by 2015, including a monetary union. Some other CIS countries have demonstrated their interest in joining the union in the near future.

At the same time, it is hard to deny that integration of the post-Soviet space has been problematic and can be characterized by a number of spectacular failures. The most encompassing post-Soviet integration organization—the Commonwealth of Independent States—has not fully succeeded in mediating conflict in the post-Soviet space and in coordinating common economic and security policies. The 2008 military conflict between Russia and Georgia that resulted in the subsequent withdrawal of Georgia from the CIS, as well as gas disputes between Russia and the transit countries (particularly Ukraine, and to a lesser extent, Belarus) provide evidence of this fact. Failure to bring Ukraine—the third largest economy and second most populous state in the

[25] http://www.eabr.org/e/about/strategy/
[26] http://www.eabr.org/e/acf/

post-Soviet space—to the Customs Union and the Common Economic Space of Belarus, Kazakhstan and Russia is another indicator. Even the Eurasian Economic Community, considered to be the organization of the post-Soviet countries most interested in further integration has not been unproblematic, given the withdrawal of one of its members, Uzbekistan, in 2008.

At the current stage of development we can distinguish two periods in the history of integration (and disintegration) in the post-Soviet space. Although both integrative and disintegrative processes have been going hand in hand ever since the collapse of the Soviet Union, in the 1990s the disintegrative processes clearly prevailed, whereas since the early 2000s the integrative processes, even though not without problems, started to take a clearer shape. To a large extent, this is due to the economic, social and political processes in one of the natural centers of gravity for the Commonwealth of Independent States, i.e., Russia. But, equally in the other potential center of gravity for at least a part of the post-Soviet countries, there are the European Union and the Euro-Atlantic world, and, in particular, newly independent countries as well.

Russia went through a period of profound economic, political and identity crisis at the initial stage of its post-communist transition. In 1998 the real GDP was a mere 56% of its 1989 level.Due to the dire state of finance, Russia was deeply in debt to both domestic and international creditors, and had been facing increasing problems in meeting its financial obligations. In August 1998, Russia had to default on its debt, which resulted in the collapse of the national currency and high currency market volatility, which spread to almost all the republics of the former Soviet Union, creating economic problems and social unrest. Thus, the Belorussian rouble depreciated 49% against the rouble and 71% against the dollar, the currencies of Azerbaijan, Georgia, and Uzbekistan depreciated about 16% against the dollar, while Kazakhstan, Kyrgystan, Moldova, and Ukraine, on the contrary, saw a 41% real appreciation of their currencies (Westin, 1999, 51). Under these circumstances, the biggest economy on the post-Soviet space didn't have much to offer to the other post-Soviet republics. Moreover had to beg for assistance from the international financial institutions (the IMF and the World Bank) and other Western creditors, thus producing the impression of a spectacular failure.

Political processes that were developing in Russia in the 1990s were not conducive to the deepening of post-Soviet integration either. The political system that emerged under president Yeltsin's leadership did not resemble the democratic systems developed in West European countries and in North America. Facing strong opposition from the parliament throughout the entire period of his rule, Yeltsin would repeatedly resort to non-democratic means of governance. In 1993, as a result of an acute resistance to his policies, in order to dissolve the parliament, Yeltsin had to use military force in order to do it. Whether he had the constitutional right to do it, or not, still remains a debatable question, but the impression of the general public both in Russia and in the other post-Soviet countries was that democratic countries do not solve political crises in the way of the Russian president. Even after dissolving the first post-Soviet Parliament in Russia, Yeltsin never managed to secure the election of a parliament of his liking. As a result, he had to rule by decree relying upon the support of a narrow cohort of corrupt businessmen, often referred to as the"oligarchs". Corruption at the top spread through the whole country, resulting in the upsurge of criminality. The political reforms turned Russia into a mafia state that could not serve as an appealing model for integration.

Transition in Russia equally brought about a deep identity crisis, due to the repudiation of socialism and the resulting ideological void. One of the main rationalizations behind the dissolution of the Soviet Union was the intention to join the democratic community of nations by obtaining membership in Western organizations, not only in the European Union but also in NATO, provided that the latter was not disbanded. Economic and political reforms, as well as the radical reorientation of Russia's foreign policy were geared towards this goal. Economic and political reforms were rationalized by the formal requirements to the countries aspiring to join the European Union to develop consolidated democratic political systems and well-functioning market economies. The Russian key political figures (mainly concentrated in the executive branch, including foreign minister Andrei Kozyrev, acting prime minister Yegor Gaidar and head of the privatization commission and later minister of finance, Anatoly Chubais) were trying to supplement the discredited communist ideology with the ideology of Atlanticism (Tsygankov, 2010) This ideology postulated that Russian identity was European, and Russia's true national interest consisted in joining the European community of nations and thus break ties with the former Soviet Republics, particularly those located in Central Asia and in the Caucasus. It was presumed that the former would never be able to join the European Union due to their geographical location and cultural peculiarities, while the chances of the latter did not look promising either, at least in the short to medium term. Somehow, it was assumed that Russia's chances in these regards looked much brighter, and thus, Russia should strive to join the EU without concerning itself with what was going on in the other post-Soviet republics.

Atlanticism could not provide an ideological basis for the strengthening of integration within the post-Soviet space, but more importantly, it did not enjoy universal support in Russia either. Although Russia did manage to join a number of Western international organizations (including the IMF, the World Bank, the G7 that later turned into the G8, and the Council of Europe), it soon became clear that Russia would probably never become part of the European Union, and that the United States and the European countries were not planning to disband NATO or to bring Russia into it. As a result, already in the mid-1990s, an alternative view of Russia's identity, national interest and foreign policy started to gain strength in the form of Eurasianism.

In contrast to Atlanticism, Eurasianism conceptualizes Russia's identity as distinct from the European identity, and thus provides a rationalization for why democratic and economic reforms based on the European and North American model failed in Russia. From the Eurasianist perspective, it perceives Russia as a center of gravity on the space between the East and West ("Eurasia") due to the centuries-long history of interaction between the Russian, East Slavic, Turkic, and Muslim peoples (Laruelle, 2004, 115). In line with this view, Russia does not have to become the "second edition" of the US or the West (Put1999), and it does not have to Westernize (i.e. adopt Western values, legal, political and economic models) in order to modernize (Clover, 1999, 9). By contrast, it is Russia that should serve as a model, which—at least under the moderate mold of Eurasianism—does not necessarily suggest that it should dismiss the successful experiences of both Western and Asian countries, but serve equally as a driving engine of development for the peoples on the Eurasian land mass (Dugin, 1999; Panarin, 1996).

Although a tentative shift towards Eurasian foreign policy in Russia took place in January 1996 with the replacement of Andrei Kozyrev with Yevgeny Primakov in the post of foreign minister, the key positions in the government were still held by the proponents of Atlanticism relying on the financial resources of the Russian oligarchs, and as a result no substantial change followed. The situation started to change after the 1998 financial collapse, when Yevgeny Primakov was promoted to the post of Prime Minister, and particularly after the election of Vladimir Putin as President in 2000. The change of economic and political course under Putin's leadership, as well as a favorable situation in the global commodities markets, brought a number of impressive results.

Russia's GDP grew at an average of about 7% a year from 1999 to 2008, real incomes and consumption grew substantially (average salary increased from $80 per month to $640 per month), and poverty decreased (from about 30% of the population to about 15%). Russia was badly hit by the global financial crisis of 2008-2009, but it recovered relatively quickly , and even though growth slowed down a little bit, it still looks more impressive compared to the countries of Western Europe.

Russian economic recovery and political consolidation brought economic recovery to the post-Soviet space as a whole. There were a number of factors that contributed to this outcome. On the one hand, many post-Soviet republics still greatly depend on Russia as the market for their exports, due to the fact that the Soviet economy was deliberately designed to assure a high level of interdependence between the republics. Even though, after the collapse of the Soviet Union, the newly independent states tried to diversify their markets, this proved problematic, particularly for the finished goods, as they were largely noncompetitive in the international markets. Thus, as demand in Russia started rising due to the increase in real incomes and consumption, economic growth in the other post-Soviet republics followed suit. This primarily concerns the republics that do not possess oil and gas for export and can only export manufactured goods and agricultural products, or rely on remittances from labor migrants working primarily in Russia and Kazakhstan such as Armenian, Belarusian, Kyrgyz, Moldovian, Ukrainian and Tajik. Impressive GDP growth in the countries rich in hydrocarbon resources—Azerbaijan, Turkmenistan, Uzbekistan, and to a lesser extent Kazakhstan—did not depend on the economic situation in Russia to the same extent.

Thus Aslund and colleagues emphasize, that "from 2002 until 2008, total CIS trade rose by an average of 26% a year, and the unweighted average of their mutual trade is about 40 percent of their total trade" (Aslund, Guriev and Kuchins, 2010, 233). They explain this phenomenon by the fact that many CIS countries are landlocked and distances over land are enormous, which, together with poor transportation and trade barriers, limit their choices of trade partners (Aslund, Guriev and Kuchins, 2010, 234).

Another important factor of growth on the post-Soviet space was the impressive rate of expansion of Russian investments in the countries of the region.

Kalotay and Sulstarova point out that "among emerging economies, the Russian Federation is the second largest outward investor, surpassed only by Hong Kong (China) but ahead of Brazil, China and India. . . . Over a historically brief period (15 years), Russia has become a major outward investing country on the global stage, with its outward FDI stock reaching U.S.$370 billion in 2007, almost 20 times more than in 2000" (Kalotay and Sulstarova, 2010, 131).

Although the CIS countries account for only 23% of Russian outward FDI (Kuznetsov and Chetverikova, 2009), given the fact that Russia's economy is so much bigger than any other economy on the post-Soviet space (the second largest economy among the post-Soviet countries—Kazakhstan—is ten times smaller), Russian FDI is an important factor for the post-Soviet growth. According to Kuznetsov, Russian investment accounted for over 20% of all FDI received by Armenia, Belarus, Kyrgyzstan, Tajikistan, Ukraine, and Uzbekistan (Kuznetsov, 2010, 9). And even though a large part of those investments go to the resource extraction and energy sector, Russian companies are playing an increasingly important role in metallurgy, in car and machine building, in aviation, in telecommunications, and in the financial sector (Kalotay and Sulstarova, 2010; Kuznetsov, 2008, 2010; Kuznetsov and Chetverikova, 2009).

Although formal integration on the post-Soviet space did not develop as rapidly as informal economic cooperation in the form of increasing trade interdependence and foreign investment, a number of institutions have been created and are expected to expand both in terms of depth of cooperation and membership. On the level of overall economic cooperation, the Customs Union and the Common Economic Space of Belarus, Kazakhstan and Russia is the most successful example. The President of Kazakhstan was among the first and most active promoters of the idea of creating the common economic space on the territory of the former Union, which he first voiced as early as 1994 (Laruelle, 2004, 119). Kyrgyz leadership has recently expressed the intention to join the organization, but the high levels of corruption (particularly in the Kyrgyz customs service on the border with China), as well as high levels of political instability (Kyrgyzstan went through two consecutive violent revolutions in 2005 and 2010) make the Belorussian, Kazakh and Russian leadership wary of premature membership of this country. The same largely concerns Tajikistan.

Complex international dynamic is developing on the post-Soviet space that makes the newly independent countries address the issue of post-Soviet integration in different ways. The countries with rich hydrocarbon endowments (Turkmenistan, Azerbaijan, and to a certain extent, Uzbekistan) do not economically depend on Russia as much as the other republics, and are actually taking steps to further decrease this dependence by developing relations with external markets on their own (construction of the BTC oil pipeline, BTE gas pipeline, Central Asia–China gas pipeline, Kazakhstan–China oil pipeline; potentially, construction of Nabucco and Trans-Caspian pipelines). The exception is Kazakhstan that, though, a large gas and oil exporter, takes an active part in the integrative processes on the post-Soviet space. The reason for Kazakhstan being an outlier in this respect might be a relatively high proportion of ethnic Russians in Kazakhstan (up to 25%, according to various estimates) and close cultural ties between the Kazakh and the Russian people. Thus, according to Gallup Poll, at least 68% of the population of Kazakhstan fluently speak Russian (Gradirovski and Esipova, 2008).

Another factor affecting Kazakhstan's willingness to take an active part in post-Soviet integration processes is the increased economic power of this country resulting from the economic boom of the first decade of the 21st century. According to Libman and Vinokurov, Kazakhstan has emerged as the second core of integration in Eurasia, as a new center of regionalization on the post-Soviet space. On the one hand, Kazakhstan has become a very attractive destination for the labor migrants from the FSU countries. On the other, Kazakhstan's trade with Central Asian states, but also with Ukraine and the countries of the Caucasus has been expanding rapidly, particularly in the agricultural sector (Libman and Vinokurov, 2011, 481). Kazakhstan's geographic position in the heart of the Eurasian landmass makes it an ideal bridge between Europe and Asia, and according to Vinokurov (Vinokurov, 2010), Kazakhstan's economic strategy consists in knitting Europe and Asia together. As a result, Kazakhstan has demonstrated a steady interest in further regional integration and, along with Russia, has been one of its primary engines.

The second group of countries is comprised by those countries—Armenia, Belarus, Georgia, Moldova and Ukraine—that do not have either oil or gas for export and largely depend on economic cooperation with Russia, but have the prospects of joining the EU in the medium or in the long run. Participation of these countries either in the Eurasian, or in the European integration project largely depends upon the choice these countries make. Belarus appears to have made a choice in favor of the Eurasian project and is a member of the Customs Union. Armenia, Moldova and Ukraine appear not to have made a definite choice. While Armenia appears to be leaning more towards Eurasian integration, Moldova and Ukraine tend to head towards the EU project. Nevertheless, those two countries are still reluctant to cut their economic ties with Russia and lose the benefits that it brings, which might be evidenced by their participation in the CIS free trade agreement and observer status in the EurAsEC. Georgia stands exceptionally alone, after the cutting off of economic ties and diplomatic relations with Russia (following the diplomatic crisis in 2006, but particularly after the 2008 military conflict), thanks to its transit country status for the BTC and BTE pipelines, as well as massive financial assistance of the United States.

The remaining two countries are Kyrgyzstan and Tajikistan. These two countries, unlike Azerbaijan, Turkmenistan and Uzbekistan, do not possess rich hydrocarbon reserves that they could export and thus cannot survive economically on their own. Additionally, they, unlike Georgia, Moldova or Ukraine, cannot hope to join the European Union due primarily to their remote location. As a result, both countries seek economic support and assistance through integration.

The two obvious options for both countries are Russia and China, and Russia, at least so far, looks more attractive. One reason for that consists in the historical ties developed between these countries and Russia. Even though after the dissolution of the Soviet Union Russia has largely disengaged from the region, its economic and political presence is bigger than that of China. [27] Moreover, both countries' decisions to favor integration with Russia rather than with China might be justified by their possible fears of being overwhelmed by China, that in terms of both its economic potential and the size of its population dwarfs both countries even more than Russia.

Both the Tajik and the Kyrgyz economies are in a poor shape. Unemployment and poverty are high, wages are extremely low. As a corollary, huge numbers of both countries' citizens go to seek employment in Russia and Kazakhstan to support their families. According to Zhukov and Reznikova, from 350 to 400 thousand of Kyrgyz nationals (about 25% of the Kyrgyz employed labor force) and from 500 to 550 thousand of Tajik nationals (up to 30% of the Tajik employed labor force) go to Russia to seek employment there —citep[90]ZhuRez2008. Remittances from labor migrants (both from Russia and Kazakhstan) account for a large part of GDP in both countries. According to certain estimates, the share of labor migrants' remittances in the GDP of Tajikistan varies from 30% to 50% (Nazriev and Manzarshoeva, 2009, 90). Thus, both countries are interested in the common economic space with Russia and Kazakhstan, which would allow their citizens to travel freely on this space and support their economies with remittances.

The fact that Ukraine stays out of the Common Economic Space (although it holds the observer

[27] China's vector of economic cooperation has been largely directed towards the Asia-Pacific region, even though its economic and political presence in the region is becoming more and more pronounced, evidenced by its participation in the Shanghai Cooperation Organization.

status in the EurAsEC , which means that its representatives can attend EurAsEC meetings, but cannot vote) might be seen as a major failure of integration on the post-Soviet space. Integrating Ukraine to the Common Economic Space, and potentially, to the Eurasian Union is a top priority for Russia for a number of security, economic, geopolitical and identity reasons, even though at the level of official rhetoric the Russian leadership has been very cautious not to produce an impression of aggressively pushing Ukraine towards closer integration.[28]

On the security plane, the possibility of Ukraine joining NATO is perceived in Russia as a critical security threat. Russia shares a 1,500 miles unprotected and poorly demarcated border with Ukraine. No natural barriers separate the two countries. In case of a military conflict with NATO, the strategic advantages that this could give to Russia's potential adversary might be critical. The Russians remember all too well that the East European plain, and the territory of Ukraine in particular, have been used by Germany in both World Wars as an invasion corridor. The Russian leadership's hope is that tying Ukraine to the Eurasian integration project could serve as a guarantee that it will not join NATO.

On the economic plane, Ukraine could be a critical component of the common market. The second most populous state on the post-Soviet space, Ukraine's membership could raise its size to roughly 215 million people from the current 170 million. While it is smaller compared to the other common markets, it would still make a substantial difference (see Table 3). There are other economic considerations as well. Ukraine's participation in common supranational institutions could better guarantee the safety of Russian investments there, particularly in the energy sphere. It could better guarantee the transit of Russian and Kazakh oil and gas to the European Union and guarantee cheaper gas to Ukraine in return. Taken together, Kazakhstan, Russia and Ukraine provide about 20% of global export of bread wheat. Ukraine's Prime Minister Nikolay Azarov once expressed the idea that the three countries should combine their efforts and create a kind of cartel, a "wheat OPEC", that could exert influence on the international price of wheat, and thus on the commodities markets more generally.

[28] Following the Orange revolution in Ukraine, but particularly after the election of Viktor Yanukovich as Ukraines President in 2010, Vladimir Putin has repeatedly claimed that Russia doesnt object to closer economic integration between Ukraine and the EU, but this doesnt suggest that Ukraine shouldnt scrupulously consider the potential benefits of closer integration with the Common Economic Space of Belarus, Kazakhstan and Russia, and that the two possible vectors of integration for Ukraine do not have to be viewed as mutually exclusive (see, for instance (Latukhina, 2012)).

Geopolitical reasons, although largely intertwined with security and geoeconomic considerations, are equally tightly linked to identity issues as well. Even though Eurasianism has been gaining in strength in Russia, some of the Atlanticist ideas still make the core of the Russian identity. The Russians perceive themselves European in their identity and they want to stay involved in European affairs, to continue cooperation with Europe, and ultimately to remain a part of Europe. Ukraine, in this respect, as a part of the Eurasian integration project, could serve as a window to Europe and as a bridge connecting Russia to Europe. The Russian leadership is very concerned about certain initiatives (coming primarily from the new members of the EU, particularly from Poland and the Baltic States, but equally from the United States, particularly from the neoconservative faction of the Republican Party) that appear to attempt to sideline Russia and push it further away from European affairs. Such instances include the support of Ukraine during its gas disputes with Russia perceived as attempts to present Russia as an unreliable partner, support of the Orange coalition during the Ukrainian 2004 revolution, attempts to bring Ukraine to NATO, and plans to build gas pipelines from Central Asia directly to the EU bypassing Russia (the Nabucco and the Trans-Caspian pipelines projects).

On the identity plane, Ukraine is perceived as a brotherly nation, whose history is tightly intertwined with Russia's own. Kyiv—the capital of Ukraine—was the capital of the first Russian state (the "Kyivan Rus") supporting the Russians' belief in their European roots. The prospects for Ukraine joining the potential Eurasian Union, at least in the short term, do not look particularly promising. Ukraine was supposed to join the Common Economic Space of Belarus, Kazakhstan and Russia in 2003, in the wake of the Orange revolution, but the new leadership following the 2004 election decided to withdraw. Ukraine on the national level has not yet managed to resolve the identity issue, and it is not clear whether this issue will be resolved in the near future. As a result, the society is divided between the Atlanticist and the Eurasian views of Ukrainian identity and national interest. The Atlanticist view appears to be prevailing so far, but the prospects of Ukraine joining the EU in the short-to-medium term do not appear particularly bright either, given the economic and financial difficulties that the EU is currently going through.

On the level of financial integration, the Eurasian Development Bank was created by Russia and Kazakhstan in 2006, with Armenia, Tajikistan, Belarus and Kyrgyzstan joining later, reflecting increased volume of FDI streaming primarily from Russia and Kazakhstan to the other CIS countries and the desire of Russian and Kazakhstani leadership to support those projects. Kazakhstan is emerging together with Russia as an important source of FDI on the post-Soviet space as a result of its economic boom of the last decade. The importance of Kazakhstan is underscored by the fact that the headquarters of the bank are located in Almaty (the former capital of Kazakhstan), and its participation in the Bank's authorized capital is only twice smaller than that of Russia ($500 million as opposed to $1 billion; for the sake of comparison, the third largest economy among the Bank shareholders, Belarus, provides only $15 million), even though Russia's GDP is ten times larger than Kazakhstan's GDP (U.S.$1.8 trillion vs U.S.$186 billion in 2011).

The idea of establishing the Eurasian Development Bank belongs to the governments of the two countries that demonstrated most interest in integration on the post-Soviet space and became the engines of this integration—Russia and Kazakhstan. According to the former Deputy Chairman of the EDB Executive Board, the rationale behind the idea was the availability of financial resources in both Russia and in Kazakhstan that these countries could allocate to promote integration projects on the Eurasian landmass, so that the post-Soviet countries did not have to look for financing in order to develop major infrastructural projects.[29] As a result, the Eurasian Development Bank Incorporation Agreement was signed by the presidents of Russia and Kazakhstan on January 12, 2006 during the official visit of Vladimir Putin to Kazakhstan. The Parliament of Kazakhstan ratified the Agreement in April 2006, while the Russian Parliament ratified it in May 2006. The Agreement came into effect on June 16, 2006.

Starting from the early days of its existence, the EDB took active steps to integrate the other countries into its structure. In 2007, the Bank held negotiations with the governments of Armenia, Belarus, Kyrgyzstan and Tajikistan on the issue of these countries' prospective membership in the Bank. Belarus initiated the internal statutory procedures in order to join the Bank. Armenia, Kyrgyzstan and Tajikistan expressed their interest in becoming members as well. Negotiations continued throughout 2008, and on December 11, 2008 the Board of the Bank at its meeting in Moscow approved the membership of Armenia, Belarus and Tajikistan. At the same time, the government of Mongolia expressed its interest in cooperating with the Bank, and on October 3 2008, the Chairman of the Bank met with the President of Mongolia in New York, and, later on, on October 31, 2008 the representatives of the Bank held negotiations with the Prime Minister of Mongolia

[29] `http://www.eabr.org/r/press_center/articles_interview/index.php?id_4=121&from_4=7`

during his visit to Almaty. Both parties expressed their interest in establishing cooperation.

Armenia and Tajikistan became full members of EDB in 2009 after finalizing all the necessary internal procedures and paid their contributions to statutory capital of the Bank—U.S. $ 100,000 and U.S. $ 500,000 respectively. Although the amount of these contributions was not large, the membership of both countries formally allowed the Bank to start financing projects on the territory of both states. In October 2009 the Bank signed the Agreement on the Terms of the Bank's Presence in Tajikistan with the Government of Tajikistan, and the Bank's representative office opened in Dushanbe. Belarus became EDB's member in June 2010, after making its contribution of US $ 15 million to the Bank's statutory capital, thereby completing all the necessary procedures for joining the EDB. The Agreement on the Establishment of the Eurasian Development Bank had been ratified by its Parliament in 2008. After Belarus paid its contribution to the statutory capital of the Bank, its Government signed an agreement with EDB on the Terms of Establishment of the Bank on the Territory of the Republic, defining its status, privileges and immunities on the territory of Belarus. A Representative office of the Bank opened in Minsk.

In 2010 the Bank started active negotiations with the Government of Ukraine on the issue of its potential membership in the Bank. EDB representatives participated in an official visit of the President of Russia to Ukraine that year. Throughout 2010–2011, the Bank's representatives took part in the work of the Russian-Ukrainian inter-regional economic forum, in the meetings of the bilateral Committee on Trade and Economic Cooperation between Russia and Ukraine, and in the meetings of the Russian-Ukrainian Interstate Commission. The Bank held negotiations with the Government of Ukraine on the potential membership of that country in the Bank, and special working groups were established for that purpose. On June 4, 2011 the Chairman of the EDB's Board visited Kyiv and met the Prime Minister of Ukraine Nikolay Azarov in order to discuss future cooperation. In July, the first meeting of the working group on cooperation between EDB and Ukraine was held. The parties discussed a list of potential projects in the power sector, energy efficiency, agriculture, machine building, transport and other spheres that both Ukraine and the Bank might be interested to develop. Eventually, the Government of Ukraine expressed interest in joining the Bank in the near future, but no formal request has been made so far.

In June 2011, the EDB Council approved the accession of Kyrgyzstan to the Bank. In August 2011, the Kyrgyz Government finalized all the required procedures and became the Bank's sixth full member. The contribution of Kyrgyzstan to the statutory capital of the Bank is US $ 100,000.

The main goal of the Bank consists in the promotion of integration in Eurasia, by way of financing major investment projects that serve the interest of all or several of its member states. The priority areas of the Bank's investment activities are infrastructure development projects such as transport, power supply, telecommunications sectors, and higher value added production development, and programs of energy efficiency enhancement of the economy.[30] Emphasis is made on the integrative nature of the projects that the Bank finances. For instance, the project of Ekibastuz power plant upgrading, the project that the EDB has been sponsoring in Kazakhstan, envisages the use of Russian equipment at the construction stage, and later on, the export of electric power from the plant to Russian Siberia. In another instance, EDB signed a loan agreement with the Osipovichi Wagon Works, in order to develop the cutting-edge hi-tech production of freight cars and tank containers in Osipovichi, Belarus. In addition to EDB, the project is being co-financed by the plant's shareholders, which are Grand Express of Russia and the Belarusian Railways of Belarus. The project fosters the development of the Belarus' transport infrastructure and involves mutual investment and trade between the Bank's member states. The project is supposed to supply its products not only to the Belarusian market but also to Russia and the other CIS countries that have been suffering from a shortage of freight cars. Thus, Russia and Kazakhstan are expected to become the main markets for the plant's products—40% and 10% of the total output respectively. Similar rationale is behind a number of other EDB's projects— the Sukhoi Superjet 100 aircraft in Russia, the spinning mill in Tajikistan, the Tikhvin Freight Car Building Plant in Russia, development of the Zarechnoye Uranium deposit in Kazakhstan, etc.

Another regional financial institution, the Anti-crisis Fund of the Eurasian Economic Community, was established in 2009 as a response to the global economic crisis that hit the post-Soviet countries even harder than it hit the United States and the European Union. The Treaty of Establishment of the Anti-crisis Fund of the Eurasian Economic Community was signed in Moscow on June 9, 2009 by Armenia, Belarus, Kazakhstan, Kyrgyzstan, Russia and Tajikistan. The Fund's main goals are to assist member-states in overcoming the consequences of the global financial crisis, to ensure their long-run economic stability and to foster economic integration by providing financial credits and investment loans to the member states. The authorized capital of the Fund is US $

[30] `http://www.eabr.org/e/about/help-activities/`

8.5 billion, and the Fund's resources are to be managed by the Eurasian Development Bank. Just like in case of the Eurasian Development Bank, Russia and Kazakhstan are the chief shareholders of the Fund providing the larger portion of its resources: Russia provides 88% of its authorized capital (US $ 7.5 billion), while Kazakhstan provides 11% (US $ 1 billion). The Anti-crisis Fund country access limits are established by the Fund Council annually and are proportionate to their countries' gross national income (GNI) per capita. If needed, a member state may reallocate a part of its allocated quota to another member state (Russia did that when the Government of Belarus requested a credit for US $ 3 billion).

The main two instruments of the Fund are financial credits and investment loans. Financial credits are provided to governments of member states to support their budgets and balance of payments, and to enhance their economies' capacity to resist crises. On June 18, 2010, the first financial credit in the amount of US$ 70 million was approved for Tajikistan, and it was disbursed on August 23, 2010 in full. On June 4, 2011, the Fund's Council approved the financial credit to Belarus in the amount of US $ 3 billion. The first tranches (US $ 800 million and US $ 440 million respectively) were disbursed in 2011, while the third tranche in the amount of US $ 440 million was approved in June 2012. Kyrgyzstan requested a financial credit from the Fund in August 2010 to support the budget and to overcome the consequences of its political crisis of 2010. The credit was not approved due to the fact that by the time of the request Kyrgyzstan had not completed all the necessary domestic procedures for the accession to the Eurasian Development Bank, as well as to the arrears in the servicing of Kyrgyzstan's debt to Russia and Belarus. Consultations between Kyrgyzstan and the Fund continued in 2011 and 2012.

Conclusion

Regional integration has become an important form of international cooperation, as well as the topic of numerous studies. Even though regional integration has been studied extensively, regional financial cooperation as a form of economic cooperation remains relatively understudied. The factors that result in financial cooperation among regional actors, the types of institutions that emerge out of this cooperation, and a variation in depth and scope of institutions of regional financial cooperation remain the issues that need further exploration.

The literature reveals strong external pressures, some of which accelerated regional financial integration, while others complicated its development. Among the former, global financial crises proved to be particularly important. The Asian crisis of 1997-1998, as well as the way in which it was handled by the existing international financial institutions (particularly, the IMF) served as a catalyst of regional financial integration in East Asia. Even though Japans initial idea of creating the Asian Monetary Fund ("AMF) never took off the ground, the original CMI bilateral swaps agreement signed in 2000 became the first step in the development of the new regional financial architecture. The 2008 global financial crisis pushed this process even further, making possible the upgrading of CMI to CMIM signed in 2010 and envisaging the multilateralization of the previously bilateral swap arrangements. Both crises produced similar effects on the post-Soviet space. After the 1998 financial crisis (that was largely a spillover of the Asian crisis), Russia substantially modified its approach towards foreign policy, making integration of the post-Soviet space one of its top priorities (as indicated in Russias 2000 and 2008 Foreign Policy Concepts). Russias ability to consolidate the resources during the 2000s allowed it to react to the 2008 global financial crisis by sponsoring the creation of the EurAsEC Anti-Crisis Fund. The main external factor that has complicated development of financial integration in both regions is the role of external centers of power. This has been particularly pronounced on the post-Soviet space, where the existence of another center of power, viz. European Union makes the choice of potential Eurasian project members harder. This primarily concerns the East European post-Soviet countries and the countries of the Caucasus, for which both the Eurasian and European integration represent possible options. East Asia does not face a challenge of a competing integration project, but some of integrative initiatives in the region (like the idea of AMF voiced by Japan) have met resistance from the global hegemon (the U.S.) and global financial institutions where the U.S. exerts a lot of influence (particularly, the IMF).

However, the present research looks at regional financial cooperation in East Asia and in Eurasia focusing on the role of regional dominant states in the creation of multilateral financial institutions. Financial integration in Asia became possible thanks to Chinas commitment to assume leadership in the region (as indicated in the 1998 National Security Concept). Meanwhile, the creation of CMIM and AMRO has become possible thanks to the agreement between the rising regional power (China) and thereby the relatively declining regional power (Japan) to share leadership (indicated by their equal financial contribution the CMIM swap pool and equal voting weights). In Eurasia, in its turn, regional financial integration would not have been possible without Russias leadership. Thanks to its economic boom of the 2000s, as well as thanks to internal political stabilization, Russia has managed to accumulate the resources necessary to initiate and support the Eurasian integration project.

Although this study sheds new light on the factors behind regional financial integration, it contains a number of limitations. The number of cases analyzed in the present research is limited and thus our hypotheses of causal mechanisms on the depth and scope of integration revealed here may not be applicable to other cases. In particular, this concerns the regional power structure identified in our cases, as well as domestic political characteristics. In terms of power configuration, both the East Asian and the Eurasian cases (particularly the former) can be characterized by considerable power asymmetry. Different factors might work in regions, where power asymmetry is low. Domestic political characteristics concern the form of government in the countries that form specific regions. In both cases analyzed in the present research, most countries participating in the integration projects have either authoritarian or anocratic forms of government. It is highly likely that different mechanisms can lead to different integration outcomes in regions built up from predominantly democratic states. Further research is needed in order to address these issues that would include other cases of regional financial integration.

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