Governance of Transnational Regulatory Integration and Development

Introductory chapter for the edited volume:

**Assembling Level Playing Fields**

Transnational Regulatory Integration and Institutional Change in Emerging Markets

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Long gone are the years when the liberalization of trade and deregulation were seen as the direct ways to create free and integrated transnational markets and induce development in emerging market countries. Although trade and investment did grow in many regions of the world, the believed benefits were not as forthcoming. New forms of non-tariff barriers expanded, often letting the economic gains accrue to a few and marginalizing a large set of firms and social groups. Even pioneering countries of liberalization across East Central Europe and Latin America found the quality and strength of their institutions regressing.

By the advent of the 21st Century, the debates and policies about transnational integration were dramatically shifting. For the newly forming market economies of East-Central Europe, the precondition of being considered for accession to the European Union meant complying with over eighty thousand pages of European Union regulations, forcing a wholesale renovation in administrative and regulatory capacities of their states. Continued disputes in NAFTA, CAFTA, the Mercosur, or the WTO were less about tariff reductions and more about harmonizing decade’s old national regulations and standards. Global and regional market making is unmistakably about transnational regulatory integration and domestic regulatory renovation (Baldwin 2011; Braithwaite 2008; Jordana and Levi-Faur 2004, 2005). Yet attempts at market integration have led less to uniform regulatory standards and more to a ‘patchwork’ of transnational public and private regulations, often fragmenting markets, as multinational corporations (MNCs), trade associations, international NGOs and national governments have competed to define the rules of the market across industries, regions and policy domains. (Djelic & Sahlin-Andersson 2006, Drezner 2007, Duina 2006, Kobrin 2002)

Regulation has long been central to the study of markets across the disciplines. For the followers of North and Williamson, regulation is primarily means to reduce transaction costs of ever more complex forms of contracting. For the followers of Durkheim and Polanyi, regulations are also about the reproduction of social order, forcing economic actors to take into account and internalize social interests and values that they otherwise would externalize. For both approaches, regulations have significant distributional and developmental impacts. Stakeholders vary in their capacities to shape rule-making or influence the distribution of the costs and gains of implementing the new rules. Once in place, regulations can alter the distribution of opportunities and wealth as well as the allocation of rights and obligations among economic actors. (Buthe & Mattli 2011, Mattli & Woods 2009, Sunstein 1990) Regulations are ongoing sites of contestation, resulting occasionally in temporarily valid settlements (Streeck 2010; Beckert, 2007; Fligstein 2001). These settlements promise to produce public goods, the costs and benefits of which can be legitimized or contested according to different metrics of the diverse parties with the capacity to challenge these rules.

This volume examines how the extension of regulatory integration to emerging market countries affects the nature of these contestations and their outcomes both in terms of the spread of coordinated transnational regulations and in terms of their developmental outcomes. We argue that the dramatic increase in the attempts at regulatory integration involving less developed market economies brings a special twist into the patterns of contestation and the accompanying scholarly debates. The traditional concerns to transaction costs, social reproduction and economic order are now growing linked to issues of development at cross-country and cross-regional levels.
The growth of transnational regulation brings back to the forefront of integration debates the issue of the relationship between core and periphery. It also brings back the above-mentioned distributive issues, now in the form of variation in the capacities of advanced and developing countries to shape rule making and benefit from the attendant redistribution of rights and obligations. As much as transnational integration could foster reinforcement of the new regimes and domestic reforms of regulatory institutions in the developing world, it could as easily foster resistance and repellence (Braithewaite 2006, Drezner 2007). Indeed, as John Ruggie (1982) suggested over twenty years ago, integration could leave the “regime takers” marginalized or force the “regime makers” to adjust their goals and the way they use their powers.

These concerns are strongly reflected in contemporary debates about creating the “level playing field” that trade liberalization alone could not. Proponents of regulatory integration argue that applying the same rules, imposing the same obligations, and advancing the same rights – be they in economic or non-economic domains – for all market players will reduce transaction costs and increase the volume and complexity of trade flows with broad welfare gains. Critics argue that such an approach easily undermines development in many countries in the global East and South, conserving backwardness or, worse, dissociating them from international markets. Regardless of the access to larger, richer markets, most emerging market countries do not have the resources and capacities to capitalize on the opportunities of regulatory integration. Governments often lack the capacity to enforce transnational regulations as well as monitor and manage their developmental effects (Stiglitz and Charlton 2006, Ismail, 2007). Transnational rules might impose prohibitive costs on public and private actors, drawing resources from other development budgets. (Finger and Schuler 1999, 2000).

This volume reveals a somewhat puzzling variation of the outcomes of transnational regulatory integration attempts within and across regions, policy areas and economic sectors. In some regions, such as the Eastern peripheries of Europe, we find the most encompassing forms of experimentation with pro-active strategies to cope with the potential negative developmental externalities of regulatory integration (Bruszt and McDermott, 2012). In other regions, such as in Latin America, rule-takers are marginalized or a stalemate between governments dominates while non-state actors define the terms of integration. Within regions, cross-country and cross-sectoral variation can occur because of differences in domestic organizational capacities or differences between competing transnational regimes in addressing the developmental externalities of regulatory integration.

This variation gives rise to several important issues. What factors determine the outcomes of regulatory integration attempts involving countries outside the core? Why is it more likely to find some of the outcomes like resistance or repellence in some of the regions, marginalization of “regime takers” in others, and the pro-active management of the developmental externalities in still others? What role do transnational private and public actors play in shaping these various outcomes? How can regional and global public policy shape these developmental outcomes?

This book offers answers to these questions by providing an analytical framework derived from two core scholarly concerns. The first is a desire to advance the comparative analysis of development by bringing together in a novel way the seemingly distinct literatures on transnational regulatory integration. Much of the work about transnational regulatory capitalism has greatly advanced our understanding of the ways in which public and private actors from advanced nations compete to define new rules and standards governing cross-
border trade and investment. (Drezner 2007, Drahos & Braithwaite 2000, Jordana and Levi-Faur 2004; Mattli & Woods 2009) This work, however, rarely considers the impact of this process on emerging market economies or how the outcomes could be changed. At the same time, scholars of development and external aid programs have struggled to identify the roles of external actors, be their government, multilaterals, MNCs or international NGOs, in renovating institutions in emerging market countries and promoting the benefits of trade and investment. (Easterly 2005, 2008, Evans 2004; Gereffi 2006 Bartley 2010, 2011) We bring these approaches together to offer an alternative framework that captures how different mechanisms of transnational integration shape domestic institutional change and the distribution of costs and benefits.

The second concern is a desire to bring the developmental and distributive aspects of regulatory integration back into the center of our understanding of why so few attempts at regulatory integration produce sustainable frameworks for transnational markets. To the extent that emerging market countries are taken into account, most of the work on transnational regulatory integration focuses either on the negative developmental consequences of imposed external norms or the presence of an advanced regional hegemon as the sole solution for both regulatory harmonization and upgrading. In contrast, we propose an alternative view that ascribes a key role to the strategies that change institutional capacities of domestic private and public actors and increase their opportunities to benefit from regulatory integration.

In our focus on strategies we depart from the largely deterministic international political economy and international relations approaches that picture outcomes of regulatory integration as largely pre-determined by pre-existing factors like the variation in institutional endowments or the presence or absence of a regional hegemon. We do not dismiss these approaches; we draw on them and use their combination to define different starting situations of attempts at regulatory integration. These starting points, we argue, in many cases do not represent a stable equilibrium. Instead, they could be seen as more or less malleable parameters of interactions that shape the possibilities for institutional experimentation in dramatically diverse ways, exposing domestic and transnational private and public actors to different challenges and giving them various rooms for change.

Framing integration and development in such a way, combining elements of pre-existing structures with the analysis of the variation in the possibilities shaped in divergent ways by these structures, is not new. Modern development studies were born in the 1960s when scholarship broke with the idea that the economic positions of less developed countries in the global order were fixed for good by structural variables controlled by the core countries. Scholars like Cardoso & Faletto (1979), Evans, (1979) or Hirschman (1971, 1981) took pre-existing structural conditions as hard parameters for development. But they showed that these constraints were more malleable and, although in different ways and to different degrees, they left room for strategies of development by way of altering domestic political and economic institutions (Evans 2009; Hirschman 1971). We draw on the works of these classics of development studies. But whereas they in the 1960s still focused on domestic actors like governments domestic firms or MNCs in crafting the possibilities for developmental agency, in this volume written in the era of growing transnational integration, we bring in a broader range of external actors as agents of conserving or altering domestic institutions, and this way, shaping the opportunities for development.
The key governance issue of regional (and global) market integration is how to link regulatory integration with the strengthening of domestic capacities in emerging market economies that could help a broader set of groups participate in the process and gain the benefits. Regulatory integration is taking place via public rules of trade and investment as constituted in regional political-economic agreements, such as NAFTA, CAFTA, EU Accession, Mercosur, ASEAN, and the like. At the same time, mainly private actors – MNCs and INGOs, backed some times by their home country governments, are attempting to define largely voluntary standards in certain industries or domains, from public utilities, to global supply chains, to financial governance, to labor rights and environmental codes. Emerging market countries struggle to make sense of these often competing models, let alone incorporate them and try to benefit from them. This book offers systematic analysis of the ways these regimes are penetrating the developing world, their distinct mechanisms of integration and how their interaction shapes the capacities of domestic actors from emerging market countries to participate in the new world orders.

In doing so, this book purposively analyzes different combinations of transnational integration mechanisms with the aim of identifying the hindering and enabling effects on emerging market countries. Its comparative nature offers a rare opportunity for policymakers and scholars to consider how different approaches to integration from different regions of the world have significant impacts on the quality of regulatory institutions and on the variance of the types of state and non-state actors that both shape and benefit from these changes. The lessons of the chapters have implications for many developing regions, industries, and policy domains, as our cases examine some of the most salient integration issues in such regulatory domains as food safety, labor, environment, finance, telecommunication, and manufacturing supply chains and compare experiences from countries in Latin America, East-Central Europe and Asia. At the same time, we restrict most of regional analysis to the most prominent and advanced arrangements in regional political-economic integration, such as NAFTA, CAFTA, Mercosur, and the EU Accession and neighborhood arrangements.

In the next section we offer a conceptual frame to describing the various outcomes of regulatory integration attempts. Moving from description to explanation we start in section II with a critical overview of the literatures on regulatory integration and development. In Sections III and IV, we build our two-stage analytical framework. We first focus on institutional statics, deriving different starting conditions for regulatory integration attempts based on two factors: pre-existing domestic institutional conditions and the properties of the pre-existing transnational regimes. The starting conditions, we argue, offer different opportunities and represent different constrains for domestic and transnational agency to move integration attempts in the directions of the diverse outcomes described in section one. We then turn to dynamics and focus on the different strategies transnational actors use to depart from the initial status quo, increase their room for action and alter the outcomes of regulatory integration attempts. Lastly, we briefly highlight how the chapters in this book illustrate the different combinations of the goals and means of these strategies and their effects on domestic development and regulatory integration.

I. Mapping Outcomes of Regulatory Integration Attempts

Transnational regulatory integration is the process by which public and private actors from different countries attempt to create and implement common rules or standards that govern cross-border transactions and their potential positive and negative externalities. These regulations are ideally constructed to be compatible with relevant national laws and non-
discriminatory. We refer to transnational arrangements to include regulations and standards derived from pure inter-governmental accords as well as those derived from interactions among domestic and external private actors, codified and enforced by national or supranational level public actors (Caffaggi 2009, Djelic & Sahlin-Andersson 2006, Ingram & Torfason 2010).

We refer to integration as the process that aims at bringing about convergence in norms, rules and policies between sectors and across countries (Bartley 2007, Stone Sweet and Sandholtz 1997). Integration allows for the expansion and multiplication of non-governmental actors that use their resources and seek alliances to influence policies and rules within regulatory integration arrangements. Deepening integration means extending normative convergence from a limited regulatory framework, such as for contract enforcement or the removal of certain non-tariff barriers, to a more complex one, including regulations in various non-economic domains. Extending integration means inclusion of newer national markets into previously existing transnational regulatory integration arrangements.

The transnationalization of markets evolves less in a global or universal pattern and more in distinct regional regimes that vary in the scope and depth of regulatory integration and the extent of supranational institutionalization (Bruszt and McDermott 2012) and that compete with each other for extending their rules to other countries (Vogel 2012). We refer to regulatory fragmentation when attempts at extending transnational regulatory norms fail to bring about common rules or standards and result instead in rule multiplication within the same sector, policy field or territorially bounded market.

The international relations and political economy literatures emphasize two basic components in characterizing differences in the outcomes of attempts at transnational regulatory integration: the degree to which transnational rules are adopted and implemented and the degree to which they benefit a relatively narrow or broad set of domestic constituents (see for broad overview Drezner 2007; Mattli and Woods 2009). For the former, one can distinguish between attempts at common rulemaking in terms of whether or not they result both in codified adjustment of national standards, “rules on the books,” and in full implementation, monitoring and enforcement on the ground. The latter focuses on the distributive effects, particularly the extent of either benefits extending to a wide range of relevant participants or benefits being “captured” by a few.

The combination of these two views reveals four ideal type outcomes. In two of them regulatory integration attempts succeed in bringing about common rules or standards. They differ, however, in their distributive effects that are examined here from the perspective of the developing countries. The other two ideal types refer to failed attempts that differ from each other from the perspective whether they liberate developing countries from taking unnecessary costs, or whether they imply lost chances to gain from creating common rules or standards. Behind the latter two outcomes, more often than not, regulatory fragmentation takes the place of failed integration attempts.

The first ideal typical outcome is when the transnational rules are adopted and implemented in a way that also benefits to a broad constituency of the relevant industry or domain domestically. This is akin to Mattli and Woods’ (2009) “common interest regulation.” It is usually reserved for integration attempts involving advanced countries with robust domestic institutions, such as among advanced countries in the EU.
The second ideal type can be called “regulatory capture with externally imposed rules,” when a dominating transnational actor succeeds in imposing transnational rules that imply, from the perspective of developing countries, a highly asymmetrical distribution of the costs and gains of regulatory change. (Mattli and Woods 2009, Ch. 1) A typical example is found in the work of Drahos and Braithewaite (2004), who show how elements of the Agreement on Trade Related Aspects of Intellectual Property Rights (TRIPS) created strong protections for North-West definitions of property rights and their firms, while imposing heavy costs on developing countries.

The third outcome can be called “resistance with private actor coordination,” when the rules are not adopted but there remains a preservation of benefits to a broad constituency. We find this when potential non-state actors who might lose benefits from adoption rally the state and society to resist the new transnational rules. This outcome can limit regional or global regulatory integration but prevents losses to key actors in targeted countries. The case of the Multilateral Agreement on Investment is a classic example of joint action by a transnational coalition of civil society organizations and governments from the South preventing a harmful transnational regulation initiated from the global North (Cohn, 2005; Neumeyer, 1999). At the same time, non-state actors may be strong enough to coordinate an alternative set of cross border rules in a relatively narrow domain for their own benefit.

The fourth outcome can be called “low equilibrium stasis,” when transnational rules are not developed or adopted and the skewed distribution of benefits in the relevant domain remains. Actors might benefit from the extension of regulatory integration, but they cannot realize these gains because they lack the capacity to make, monitor and implement regional rules. This results in the preservation of the status quo with little integration of standards and limited advances in changing domestic institutions (Duina, 2007). These are cases for lost opportunities to benefit from positive externalities of regulatory integration.

When considering the integration of emerging market countries, these four reference points can help one identify the conditions under which groups of countries and regions fit these ideal-typical outcomes and may migrate from one to another. In this volume we can find several cases that appear to fit into one of these outcomes as well as several that are hovering between them.

For instance, in this volume we find cases involving “rule takers” from East-Central Europe integrating themselves into the EU that are moving toward Outcome 1. The chapter by Bruszt & Langbein shows how the imposition of EU food safety standards coupled with assistance programs helped fortify the burgeoning organizational capacities of state and non-state actors of Poland’s dairy sector. In turn, the upgrading and competitiveness of the Polish dairy producers has included both large and smaller firms. While their chapter exemplifies the way the EU builds developmental state capacities at the level of specific sectors, the chapter of Vachudova shows how the EU extends state building efforts in the Western Balkans to bring about more elementary aspect of a market preserving state. The chapter from Zeitlin and Overdevest also offers cases of multi-actor participation and upgrading involving the implementation of transnational regulations on sustainable forestry that emerged out of the EU but are being adopted in various regions, including Asia.

Outcome 2 is common to emerging market countries. For instance, Dunn (2003) shows how in the 1990s the imposition of food safety standards by the EU created severe
technological and financial burdens on producers in East-Central Europe, favoring effectively large, often foreign-owned, firms, with smaller firms more likely to exit the market or try to evade regulations in the domestic market. The chapters by Bruszt & Langbein and McDermott & Avendano similarly show how transnational food safety standards, respectively in Romania via the EU and Mexico via NAFTA, become formally implemented domestically but also do not lead to broad regulatory changes in the domestic market and create significant export barriers for fragmented sectors of numerous small and medium sized producers. The chapters by Aspinwall and Piore & Schrank show how NAFTA compels Mexico to update its labor laws but with only selective implementation of rights and standards for most firms, especially those oriented to the domestic market.

Outcomes 3 and 4 are arguably the most common in the global South, especially in South-South arrangements. For instance, Jordana & Levi-Faur (2005) have shown how domestic interests in Latin America thwart regulatory models promulgated by US and European MNCs. Duina (2007) has described how the Mercosur has attempted to create and implement transnational standards in many areas of trade and social policy on paper, but failed to translate them into national laws or practices on the ground. In their respective work on Latin America and Asia, Jordana and Levi-Faur (this volume) and Bartley (2010, 2011) have shown how transnational networks of NGOs and MNCs have had limited success in filling this void with private regulatory models and codes of conduct.

These four ideal types are also used in this volume to better locate cases that, at a specific point in time, might be stuck between two of these types, moving away from one type, or are in the process of getting closer to another. Much of the regulatory integration literature distinguishes non-Pareto outcomes in stark terms, whereby regulatory capture results in complete domestic resistance to transnational rules or complete reversal of proposed rules in the international domain. Yet Bartley (2010), among others, has argued that because these characterizations are derived from work in relatively affluent countries of North America and Europe they miss the variations in the ways transnational rules are not fully resisted or repelled by domestic actors in the developing world. In these cases, there often may be relatively strong non-state actors attempting to create new transnational standards with or without the assistance of governments. These are cases of regulatory fragmentation. In many ways, this sphere is similar to what scholars studying the advanced world have called “regime complexity:” a proliferation of regulatory schemes operating in the same policy domain, supported by varying combinations of public and private actors, including states, international organizations, businesses, and NGOs. (Cafaggi (this volume), Drezner 2007, Overdevest and Zeitlin (this volume). These appear as failed attempts at codified regulatory integration, but they rarely leave transnational markets without regulation.

This sphere of ambiguity is marked by two characteristics: a patchwork of competing rules and a noticeable delinking between how rules are put on the book and how they implemented on the ground. For instance, the chapters in this volume by Jacoby & Costa and Delich & Lengyel as well as the work by Duina (2007) show how in the Mercosur with states unable to either define or implement common regulations, large firms in such sectors as automotive vehicles and agriculture attempt to coordinate their own parallel standards. Jordana & Levi Faur (in this volume) show also how when faced with competing regulatory models in telecommunication promulgated by MNCs of the North, domestic public and private actors can both resist these models but then attempt to forge their own set of regulations.
These sets of outcomes pose a conceptual challenge for trying to understand the interaction between the processes of transnational integration and domestic institutional change in emerging market countries. The four ideal typical outcomes, for instance, forces one to consider how countries with similar levels of economic and institutional development vary in terms of their formal incorporation of transnational standards and their distribution of benefits, and how one country or region might shift from one outcome to another. The cases of greater ambiguity raise questions about the conditions under which one coalition of public and private actors might be able to advance a particular set of transnational rules and whether this would create broad based upgrading in domestic institutions and stakeholder groups. We now explore how different analytical approaches might aid us in addressing these concerns.

II. Regulatory Integration Attempts and Domestic Development

Emerging market countries face the dual challenge of attempting to define and incorporate transnational regulations into their societies while attempting to build their own versions of regulatory capitalism, a process by which public and private actors of a relevant domain contest one another’s de jure and de facto regulatory experiments. Regulatory institutions are mechanisms for coordinating diverse interests and considerations by establishing binding associations or settlements, of varied temporality, among the local and the national, producers and consumers, employers and employees, the requirements for participating in external competition and the requirements for fulfilling internal needs (Bruszt and Stark, 2003). The dilemma for developing countries often is how to incorporate transnational norms that might represent settlements among economic actors from other countries with sometimes dramatically different capacities and interests and accommodate at the same time diversity of local interests and considerations. As the sample of outcomes above reveals, this dual challenge does not necessarily lead to a linear path of development and integration. Regulatory integration might, on the one hand, open up new opportunities for domestic economic and social development and might link the local to the regional and global flows. In other cases, these attempts might foster exclusion and marginalization, weakening or foreclosing possibilities for domestic development and separating the local from the global.

In this and the following sections, we review two burgeoning sets of literature that might help explain these different integration outcomes. The first is highly focused on the ways in which transnational regulations get defined and implemented across countries. The other focuses on the ways in which developing countries have struggled to incorporate and comply with the rules set forth by a variety of external actors, such as firms, NGOs, governments, and international organizations. As we will see, these literatures are in many ways complementary to one another, but they share common drawbacks in identifying the weaknesses of the domestic institution-building process and then the variety of integration approaches that can reinforce or improve these weaknesses. Along the way, we explain these drawbacks and discuss our alternative approach to overcome them.

To date, much of the literature on transnational market making has focused in different ways on why and how state and non-state actors attempt to define, implement and enforce transnational formal and informal rules that would govern economic transactions across countries. The focus of attention is often on industry or domain-based rules, ranging from product and process standards, to accounting and financial regulations, to norms of labor and environmental practices. The modes of creation and diffusion also vary. For instance, MNCs are key sources via the creation of transnational supply chains, the use of
contracts, and the expansion of their subsidiaries, which themselves bring to the host country a model of regulation and practices. Advocacy networks of INGOs and industry associations, which advance codes of conduct and production standards, often supplement these efforts. At the same time, international organizations, like the multilaterals, and inter-governmental regulatory networks press governments and firms to adopt specific common regulatory laws and processes for dispute resolution. (Slaughter 2004; Verdier 2009)

We can distinguish them according to three distinct, though not necessarily mutually exclusive, approaches. The first view emerges from transaction cost economics and a path dependent approach to institutional change. This view frames the emergence of new forms of transnational regulation as a distributional game among national governments, key dominant firms, and occasionally rising international NGOs (Mattli and Woods, 2009; Büthe and Mattli 2011). The key questions are why one regulatory regime or set of standards wins out over another and why then certain national governments might conform or integrate these rules into domestic institutions. The outcomes depend in part on the employment and organization of financial and political resources that certain groups, most often MNCs, can use to influence governments and IOs. Moreover, these approaches often follow a two-stage model, in which legacies of domestic institutional configurations define the core interests and regulatory models that a country would likely accept or defend. (Drezner 2007; Buthe & Mattli 2011)

A second view can be found in the neo-functionalist school of which the most prominent approach for our purposes is found in the literature on the emergence of the European Union. The key mechanism here is the creation of self-sustaining feedback loops between the supranational and domestic evolution of institutions. That is, with growing general interest in expanding markets there is a need for transnational rules and norms. Moved by the actual or potential gains of specific settlements, and by the more often than not unforeseen conflicts arising from the externalities of these settlements, supranational institutional actors become ever more creative in mobilizing domestic state and non-state actors to form transnational alliances, participate in the new rule-making and influencing the interests of their respective governments (Stone Sweet & Sandholtz 1997, Kelemen 2012).

A third view emerges from the seminal work of John Ruggie (1982) on normative integration and transnational regime formation. The focus is not on explaining rule adoption per se but on explaining the emergence and diffusion of transnational regulatory regimes that frame the making of specific rules. This work provides general principles and values that shape who and what should count in making the specific regulations and policies. To achieve this, regulatory regimes must gain international and domestic legitimacy through iterative negotiations and alliance making among state and non-state actors to facilitate a common understanding of the purpose of the new regime. Transnational organizational or professional ties, epistemic communities might also provide channels for interactive learning about definition and the adaptation of normative frames that might help further regulatory integration to be incorporated at both the international and domestic levels. (Djelic & Quack 2010)

While we do not attempt to resolve the debate between these schools of thought, we do note as different as they appear they do share a few common strengths and weaknesses in advancing understanding in regulatory integration. This literature helps us advance analysis by considering how domestic interests and institutions shape the international struggles to define new rules and norms. They force us to consider the cognitive and institutional
feedback loops that international organizations, be they public or private, may deploy to shape the interests of domestic elites. Also, they call attention to transnational normative frames that define the purpose of transnational regimes and shape the way power will be used in making and implementing transnational rules.

This literature, however, has difficulty explaining why countries at similar levels of economic and institutional development would vary in adopting and fully implementing transnational rules or even migrating from one outcome to another. One problem is a mis-specification of the domestic institutional conditions. The vast majority of the above research tends to focus on the integration games or processes among advanced industrial nations and their respective firms and NGOs. It tends to overlook that developing countries often lack institutional capacities needed for the definition and implementation of rules, on the one hand, and organizational capacities of diverse state and non-state actors to promote and access certain information and ideas, on the other hand. (Abbott & Snidal 2010) Many of these countries do not have the resources and capacities to capitalize on the opportunities of regulatory integration, let alone monitor and manage the developmental effects of the attendant rules (Stiglitz and Charlton 2006, Ismail, 2007). Moreover, the feedback loops and learning communities of the functionalist and constructivist schools, respectively, assume a certain level of organizational sophistication of domestic actors to partake in institution building, be it at the domestic or supranational level. These deficiencies cause one to make faulty assumptions not only about how relevant public and private actors might respond to institutional and market changes but also how they might perceive the costs and benefits of new forms of transnational integration, be they through social, economic or political channels.

A second problem is that much of the literature explaining both public and private regulatory integration tends to overlook the fact that many developing countries are either already integrated or are in the process of integrating themselves into regional, public multidimensional regimes. These regional Transnational Integration Regimes (TIRs) have their own mediating affects on transnational rule creation and adoption regardless of the specific industry domain (Bruszt and McDermott, 2009, 2012; Bruszt and Greskovits, 2010). That is, while we see a proliferation of industry or issue based transnational networks promulgating rules, commonly referred to as Transnational Regulatory Regimes (TRRs), both their impact and adaptation interact with regional geopolitical trade regimes in which a country is embedded. This is particularly the case for emerging market countries, which in an effort to rapidly expand growth, have not only signed numerous bi-lateral trade and investment agreements but particularly invested significant resources into regional integration regimes, such as NAFTA, CAFTA, Mercosur, the EU Accession process, and the EU neighborhood policy.

In sum, in order to account for the variation in initial integration outcomes, one must consider the variation of both the domestic institutional conditions across countries and the variety of transnational integration regimes across regions. We take the first steps in that direction below, suggesting a two stage approach that starts with institutional statics, deriving different starting conditions for regulatory integration attempts based on two factors: pre-existing domestic institutional conditions and the properties of the pre-existing transnational regimes. The starting conditions offer different opportunities and constraints for domestic and transnational agency to move integration attempts in the directions of the above-mentioned diverse outcomes. In the second stage, we turn to dynamics and focus on the different
strategies transnational actors use to depart from the initial status quo, increase their room for action and alter outcomes of regulatory integration attempts.

Our two-stage approach draws upon and extends the research strategy of regulatory integration (Drezner 2007) and of the study of developmental pathways from the periphery (Cardoso and Faletto 1979, Hirschmann 1982, Gereffi & Wyman 1990, Haggard & Kaufman 1991). Similar to these scholars, we propose starting with the analysis of pre-existing institutional structures, outcomes of previous attempts at conserving or altering developmental pathways and analyze the way they constrain or enable developmental agency, action aimed at altering developmental pathways. Like the students of development, we see pre-existing institutions as factors that offer variable possibilities for change and based on their work, we suggest comparing strategies of change in the second stage of the research. We go beyond that literature, first by including pre-existing transnational, regional institutional structures among the factors shaping starting conditions for regulatory change. Second, while early students of development focused primarily on domestic public and private actors as potential agents of change, in this volume we give bigger weight to the exploration of the developmental agency of external actors.

III. Linking Domestic Development to Transnational Integration: An Alternative Approach

We develop the first part of our framework by specifying two dimensions that account for domestic and transnational institutional conditions. For the first dimension, emerging market economies might vary in the capacities of domestic state and non-state actors to define and advance their preferences in forums of transnational rule making, they might have varying capacities to implement and enforce transnational rules, or monitor and adjust them to domestic conditions. These various elements we summarize under the label of domestic developmental agency. Domestic agency here refers to the capacities of domestic actors to shape the adjusting of transnational rules to domestic needs, and/or adjusting domestic institutions to the requirements of transnational rules and cope with the eventual negative developmental externalities of transnational regulations. In the static analytical frame, summarized in Figure 1, we differentiate developing countries based on a continuum ranging from weak to strong domestic developmental agency.

The second dimension accounts for the transnational regimes in which emerging market countries are embedded. These regimes vary largely according to the degree to which a hegemon is present with the capacity and power to impose largely non-negotiable rules on member countries. This dimension is a continuum ranging from regional regimes based on significant political and economic power asymmetries to those based on more balanced, if not fragmented power structures that allow greater room for member vetoes and self-protection. As IR and IPE scholars have noted, hegemons can make additional side payments to relieve domestic political institutional constraints for compliance. (Abbot & Snidal 2009, Kahler & Lake 2009, Verdier 2009) The Europeanization literature (Orenstein et al. 2008, Schimmelfennig and Sedelmeier 2005; Tallberg, 2002) has pushed beyond the concept of pay-offs by stressing that the capacity to set rules, or define the rules of rule making might rely also on the what Michael Mann called “infrastructural power” allowing the hegemon to use transnational and domestic actors and their various institutions to make, adjust, monitor and sanction its rules. Infrastructural power in this context denotes the capacity to provide centrally organized services or regional public goods and include diverse societal actors in
the making and provision of these goods through division of labor and the use of cooperative relationships between them and the hegemon (Mann, 1984). Regional hegemons, as we will see in this volume, might have similar capacity to impose rules but might largely differ in their capacity to mobilize decentralized resources to further regulatory integration and provide regional public goods.

We depict our framework in simplified form in Figure 1. Each axis is viewed as a continuum, and the combinations of the supranational and domestic institutional characteristics allow us to identify ideal type outcomes and stages of regional regulatory integration. The horizontal, X-axis is a continuum describing the power structure of the regional TIR. Note that along this axis, one may find not only the presence or absence of a hegemon, but also different types of hegemons, forms of transnational public authority with different complexity of integration modes. On the right side, one finds relatively loose agreements on integration among countries where there are no strong power asymmetries between the participating actors. Moving from the right to the left we find growing increase in the capacities of a regional hegemon to impose and sustain complex rules for the regional markets.

Place Figure 1 somewhere here

The vertical Y-Axis is a continuum accounting for the variation in the developmental capacities of domestic state and non-state actors to create a broad based demand side for participating in the making, and effective capacities on the supply side for implementing, more inclusive regional rules. (See for elaboration of these issues in Bruszt and McDermott, 2012).

Far from being deterministic in their effects, these two factors greatly delimit the space in which various state and non-state actor can strategize to conserve or change the status quo. However, as we will show, actors can have both incentives and opportunities to alter the parameters of their starting point and with that change outcomes sometimes even in substantial ways.

Combining the above two dimensions yield several dramatically different institutional contexts to attempts at regulatory integration. On the left side of the grid we find the world of regional Transnational Integration Regimes (TIRs) with a capable hegemon. TIRs are transnational public arrangements involving public and private actors from two or more countries in creating and governing the common rules of economic interactions in transnational markets (Bruszt & McDermott, 2012). Among the various TIRs initiated by national governments, the European Union (EU) stands out not just as the largest but also as the one with extensive modes of transnational governance for institutional convergence in the Central and Eastern European countries. Another regional TIR also with a regional hegemon is NAFTA.

TIRs are emerging in Latin America, the Caribbean, East and South Asia and Africa. Most of them however belong to the right side of the grid, without a capable regional hegemon and without the capacity to coordinate and/or impose regional regulatory norms. In this world, TIRs are less coherent and have limited ability to mediate the seemingly more dominant industry or issue based transnational networks promulgating rules that we call here Transnational Regulatory Regimes (TRR) based on Jordana and Levi-Faur (see their chapter
in this volume). In the absence of capable regional public power, transnational firms, networks of regulatory agencies, business associations and INGOs are the key actors in formulating and implementing more or less inclusive strategies of regulatory integration in these regions. Also, in many cases, the same actors might play a key role in mobilizing and administering assistance and govern the upgrading of domestic institution. TIRs and TRRs do not necessarily conflict with each other. We can find several TRRs in the world dominated by strong and capable hegemons on the left side of the grid, but their room for maneuver is shaped primarily by TIRs that play the first hand in the governance of regulatory integration.

In the four corners of the Figure 1 we find the four ideal type outcomes discussed above in Section I. In the upper left corner, we find Outcome 1, “common interest regulation,” where diversified and capable domestic demand side combines with a capable regional hegemon. A typical example is the integration of Southern and Nordic European countries into the EU. The more advanced stages of the integration of some of the most developed Central European countries are moving to this outcome as well.

Outcome 2, “regulatory capture with externally imposed rules,” is in the bottom left corner and is a combination of weak domestic developmental agency with a strong regional hegemon. The initial stage of the regulatory integration of Eastern and Central Europe and the integration of Mexico into NAFTA are cases that are the closest to this corner.

In the upper right corner, we have Outcome 3, “resistance with private actor coordination.” The combination of diversified and capable domestic agency and the absence of a regional hegemon provides for a context in which domestic actors might have the capacity to block the imposition of non-beneficial rules, but lack the transnational institutional environment that could help them advance coherent attempts in regional rule harmonization. But we also could expect cases of successful attempts at relatively narrow regulatory integration at the level of well-organized sectors, like the Mercosur cases of the auto sector (Costa & Jacoby, Chapter X) and parts of the agriculture industry (see Duina 2007, Delich & Lengyel in this volume). In these cases, a limited number of strong domestic firms and MNCs have created their own cross-border standards and have them validated at the Mercosur level.

Finally, the lower right corner of Figure 1 represents Outcome 4, the least congenial institutional context for regulatory integration with the combination of no hegemon and weak domestic developmental agency. In this setting the probability of even the initiation of attempts at regulatory integration is very low.

The extreme corners of the diagram are ideal types of relatively stable institutional equilibriums, where the relevant actors have no capacity or interest to change the status quo, in terms of the strategies and opportunities to change the outcomes of regulatory integration. Moving from these extremes, however, we find diverse institutional contexts in which actors might have strong incentives and/or opportunities to alter the parameters of their context and employ strategies that can move outcomes away from an unstable equilibrium.

Figure 2 provides a sampling of our cases in a variety of intermediate spaces, including indications of paths of movement between outcomes (to be discussed in Section IV). In the space between the upper left and lower left corners, as our case studies exemplify, one can identify room for TIRs to alter domestic socio-economic and institutional conditions in rule taking countries and in turn to alter outcomes of integration moving countries upward.
on the left side of the grid (Bruszt & McDermott, 2012; and see the chapters of Vachudova, Andonova & Tuta, Bruszt & Langbein, McDermott & Avendano in this volume). Place Figure 2 somewhere here.

Conversely, Pistor in this volume provides an example in which the dominant external players perceive gains in changing transnational rules to better accommodate the interests of the rule takers.

In the space between the lower and upper right corners, we find room for transnational public and private networks without a regional hegemon to move outcomes away from the status quo. In this world where TRRs have relatively more capacity and coherence than the regional TIR, attempts at regulatory harmonization might have only weakly defined territorial dimension and have a more sector- or policy area-based nature. Here actors might find space for institutional bootstrapping strategies initiated by transnational networks of regulators, business associations, MNCs, NGOs and governments. Transnational epistemic communities and regulatory networks, might find that they can further they agenda of promoting specific transnational rules only if they can alter the domestic parameters of the regulatory game and mobilize transnational assistance to help changing the domestic institutional parameters. Domestic actors might benefit from upgrading their own capabilities and they might be able to create (transnational) developmental alliances and mobilize assistance for bootstrapping regulatory convergence. The chapters by Jordana and Levi-Faur and by Cafaggi provide examples for moves along these lines. Similarly, the cases of “regional public goods” projects supported by the Inter-American Development Bank can be situated in this space. In these programs, the IDB supported coalitions of government, firm and NGO actors in a relatively narrow policy domain to create common standards and monitoring systems. Nonetheless, in all these cases, there are strong assumptions about the relative minimum level of the organizational capacities of the preexisting of the public and private participants.

In the space between the upper right and lower right corners, we can also identify attempts to institutionalize regional authority to adjudicate, monitor, administer, develop and enforce transnational rules. Well-organized transnational institutional actors or domestic governments might find it in their interest to stabilize and extend regulatory integration to other areas or other countries and use supra-national public infrastructural power to further this goal. The case of IIRSA, the multi-government institution coordinating joint infrastructure projects, is such an example. The aforementioned Mercosur cases in the automotive and agriculture industries can be viewed as initial stages to move regulatory integration in that direction.

Finally, the large space in the middle of the grid is where we find normative fragmentation of transnational markets, or “regime complexity,” the proliferation of regulatory schemes operating in the same policy domain, supported by varying combinations of public and private actors, including states, international organizations, businesses, and NGOs. It was this space that was described in the mainstream literature as the most hopeless one from the perspective of strategies for change and for moving in the direction of regulatory harmonization. Recently, there is a growing interest in the analysis of the opportunities provided by this institutional constellation that can be also seen as the unstable from the perspective of actors’ incentives and capacities to maintain status quo (Keohane and Victor 2011). The chapter by Overdevest & Zeitlin provides an encompassing analytical framework for the emergence and working of experimental governance that could allow for
pathways away from the center of the grid and in the direction of the upper left side of the analytical space.

IV. The Interaction Between Integration Strategies and Domestic Developmental Agency

In this section, we outline the main components of integration approaches that can facilitate or impede changes in domestic developmental agency and this way, move away from the above described starting positions. Although domestic and external actors might have strong incentives to alter the parameters of the starting conditions, it is less clear how their approaches to integration can transform conflicting capacities and views into a sustained process of institutional and developmental upgrading. We argue here that one can gain greater insight into this problem by accounting for the variation in domestic institutional and political legacies and, in turn, how variation in the goals and means of integration approaches can reshape the supply and demand sides of the domestic institution building process.

Since the 1970s, development scholars have argued that altering domestic institutional capacities is key for both furthering economic integration and improving the attendant developmental outcomes. Several external actors, ranging from diverse multilateral developmental agencies to the WTO took up this idea as reflected by various external developmental programs like the Aid for Trade. Much of the recent criticism of externally induced policy changes has focused on the design and organization of these programs. For instance, Easterly (2005, 2008) has argued that because of misguided assumptions about the applicability of ideal institutional designs for varying development contexts, aid organizations lack the capacity and incentives to track why certain models fail and which adjustments can be made. In turn, the accountability of external organizations is limited, leading to weak feedback mechanisms. The result is that external aid programs and regulatory integration approaches often lead to “institutional monocropping,” with little regard to the varying developmental consequences the same models might have on diverse social and political contexts. (Evans 2004) Regardless of attempts to optimize external conditionality, they will fail to uncover the roadblocks of change rooted in the different sources of information asymmetry, moral hazard, weak adoption and enforcement capacities, and hidden power structures. (Bruszt and Vedres 2012)

Notice that these criticisms also push the analytical lens to linking external approaches back to the nuances of domestic politics of institutional change. Bartley (2010, 2011) has argued that the analysis of the transnational integration of public and private standards may overemphasize the roles of external incentives and power while leaving the domestic institution-building process as a black box, namely the institutional and political legacies on the ground. Domestic adoption and implementation of international standards depends not simply on the arm’s length political and economic incentives or the moral commitment of external actors, but especially how the standards are layered onto the existing local institutions and which groups become mobilized and empowered to participate in the rule making process. Without opening this box, externally induced institutional change is largely reduced to a process in which presumably ideal models or plans are imposed on the country, with little modification. If the plan fails, it is because the locals are not ready for it, elites are not properly insulated from local status quo interests, or external actors do not use strong enough incentives and monitoring to alter the preferences of local actors.
Opening the block box of how relevant domestic public and private actors respond to international standards can reveal the cross-national variation in the types of political conflicts of blockage as well as the mechanisms that underpin the alternative local institutional and regulatory experiments that these actors are developing on the ground. Indeed, the growing literature on modern regulatory capitalism increasingly demonstrates that the institutional change is a process of state and non-state actors contesting and monitoring one another’s institutional experiments (Jordana & Levi-Faur 2004; Sabel 2000; Hall & Thelen 2009). In turn, to better ascertain how integration approaches can reshape domestic developmental agency, it appears necessary to clarify how they can impact this process of local contestation and experimentation.

We suggest that considering the demand and supply sides of domestic institution building allows one to do so. On the demand side, public and private actors that might have an interest in new institutional capacities and might be potential beneficiaries of regulatory change often lack the resources and channels to gain the sustained attention of the state. Entrenched groups maintain the status quo not only because they profit from it but also because there are no encompassing structures to facilitate horizontal ties to weaker groups, which can open new possibilities for experimentation and extend time horizons. (Schneider 2009, Tendler1997)

On the supply side, states often lack the “infrastructural capacities” (Mann, 1984) for coordinating institutional upgrading, while many non-state actors lack the material and knowledge resources to undertake their own initiatives (McDermott 2007). Adaptation of transnational rules to local contexts or the altering of local conditions to increase the capacities of local actors to benefit from transnational rules needs specific state capacities. But the state ex ante often does not have the requisite skills, knowledge, or resources, and, in turn, must coordinate with a variety of stakeholder groups who together have complementary resources and information. At the same time, the benefits of this coordination can be sacrificed if the groups lack the power and processes with which to contest one another’s claims or models. (Evans, 2004; McDermott 2007, Tendler 1997)

These situations of arrested institutional development and/or resistance to externally induced change might dramatically differ from each other and their diversity prevents any kind of universal solution to problems of regulatory integration. Domestic structures and configurations of power can frustrate, amplify, or distort the application of transnational regulatory standards in particular places, might conflict with them and might thus result either in rejection, partial fulfillments or some form of local conversion or hybridization (Bartley and others).

To account for the different ways in which integration approaches impact the demand and supply sides of domestic institution-building, we draw on work within and outside this volume that highlight the opportunities for domestic and external institutional entrepreneurs to develop various forms of experimental governance both outside the conventional hierarchical transnational regimes (Zeitlin 2011, Abbott and Snidal 2009) and within the more hierarchically organized transnational regimes (Sabel and Zeitlin 2010, Bruszt & McDermott 2012). Taking the above highlighted limitations of external developmental interventions as a point of departure, these works present alternative approaches to joint search for solutions that might improve the effects of external interventions and increase the gains of external and domestic actors.
The search for ways to further regulatory integration ranges from institutionalized forms of exploring solutions to adjust transnational rules to diverse local contexts (Schrank & Piore in this volume) to attempts to alter the parameters of domestic contexts and improve the chances that various domestic actors will benefit from the taking of the transnational rules (Bruszt & Langbein, McDermott & Avendano Vachudova & Spendzharova in this volume). Such experiments can bring results within more hierarchical settings, by strengthening the non-hierarchical elements of TIRs via the use of transnational networks and communities (e.g. Andonova & Tuta in this volume). In contrast, the chapter by Overdevest and Zeitlin, offers a theoretically oriented road map to further regulatory integration outside the conventional hierarchical regimes via experimental governance.

Transnational integration strategies, to be sure, are in many cases far away from what one could call joint search. We can contrast the various strategies, together with their expected differential impacts on domestic developmental agency based on five components of their governance principles – two components of their goals and three components of their means. The two components of goals are the scope and depth of institutional change. The three components of the means are whether monitoring and assistance are dyadic or multiplex, asymmetric or symmetric, and the degree to which monitoring and assistance are based on principles of check-list compliance or joint problem-solving. The former two components of means are different structural traits of transnational relationships, while the third identifies the core substantive qualities of the relationships. Figure 2 portrays the different paths and mixes of these components found in our cases.

Scope refers to the different policy domains, in which the attempts at regulatory integration require institutional changes from participating countries. This can be rather narrow, focusing on a few economic trade rules, or quite extensive, reaching into social and political domains. Closer to the right in Figure 2, moving towards weaker TIRs, the ambitions of these strategies decline. However, as the chapters in this volume dealing with NAFTA and EU show, there is a large variation in the ambitions of even stronger and more capable hegemons that can be explained by differences in the factors shaping the evolution of the normative frames and the purpose of these TIRs. Variation in the scope, however matters a lot as the linking of narrow economic policy areas with broader policy issues alters the structure of political opportunities for diverse domestic actors and improves the chances that developmental consideration can play a significant role in the making and implementation of transnational rules (See Bruszt and McDermott, 2012, Aspinwall in this volume).

Depth refers to the emphasis the external actor places on building different types of domestic capacities. Building domestic capacity to implement, monitor and enforce regulations is now greatly emphasized both in the Europeanization literature (Tallberg 2002; Schimmelfennig & Sedelmeier 2005) and the various analyses of the Aid for Trade programs (Suwa-Eisenmann, A., Verdier 2007; Stiglitz and Charlton 2006). Less emphasized are experimentations that add also policies that help to bring about or increase domestic capacities to benefit from regulatory integration. The chapter of Bruszt and Langbein provides examples for the ways EU tried to increase the capacity of domestic states in Romania and Poland to link plans for rule implementation with plans how to cope with the developmental externalities of rule implementation. These two cases also represent attempts at decreasing the negative developmental externalities for non-state actors. The chapters of Schrank and Piore, or McDermott, on the other hand, give examples for the way disregard of
weak domestic capacities narrows the range of beneficiaries of regulatory integration and reduces the chances of altering developmental paths.

Assistance refers to the transfer of various resources, and monitoring refers to the ways in which external actors acquire and process information about the degree to which domestic actors meet the requisite institutional criteria or benchmarks and potentially the reasons why they may or may not be reaching them. These are the means of integration, to meet the pre-ordained goals. They are the manifestations of how power and resources are used in an integration regime. (Ruggie 1982)

The first component of the means is the degree to which the interactions between external and domestic actors can be dyadic, involving solely state to state or private to private ties, or multiplex, based on the inclusion of a variety of public and private actors from both the domestic and external sides of the mission to create ongoing professional relationships to shape the diffusion of standards and rules. (Padgett & Ansell 1993). Integration strategies can purposively support multiplexity and therefore accelerate its development compared to simply using arm’s length incentives. As noted above, a frequent problem of external actors intervening in domestic institutional change is that their channels of gathering information about the target field are limited. As a result of thin transnational ties, the monitoring and enforcement capacity of these organizations on their own is weak (Evans 2004; Tallberg 2002; Jacoby 2004, 2008). From the perspective of domestic actors, multiplexity allows for creating or strengthening domestic and transnational developmental alliances (Andonova 2004; Parau 2009). The more multiplex are the transnational horizontal linkages, the more likely there would not be single gatekeeper in the developing country controlling resources, contacts, and information about the given policy domain.

The second component of the means is the symmetry of transnational ties. Symmetry refers to institutionalized relations of holding external organizations accountable by the local actors. External actors might have limited incentives to stick to the goals and/or principles of their interventions and absence or distortion of channels of feedback might dramatically weaken domestic allies of transnational regulatory integration. The combined emphasis on multiplexity and symmetry follows the observations by Bartley & Smith (2010) that integrating domestic public and private actors into a growing transnational horizontal network or a “community of practice” gives them greater legitimacy, a sense of ownership, and adherence to common norms of process and outcomes. These tendencies can be reinforced by our third component.

The third component of the means is the relative emphasis on check-list compliance or joint problem-solving, denoting the ways in which the relevant external and domestic actors share and analyze information within and across policy domains to reveal shortcomings and how to address them. (Carothers 2003, Easterly 2006, Sabel & Zeitlin 2008) Feedback via check-list compliance is the notion that information is used to identify country’s shortcomings to meet standards or designs. It assumes that such revelations would give incentives to the relevant domestic public and private actors to take corrective action. Feedback via joint-problem solving principles emphasizes the need for relevant external and domestic actors to evaluate shortcomings with the aim of generating alternative solutions to be followed. Even if assistance and monitoring criteria are nonnegotiable and inflexible, repeated information from assistance and monitoring about why the country is falling short in one domain can force deliberations within the TIR in several directions, such as revising the sequencing of steps within the domain, altering the type of assistance being delivered, or
targeting resources toward particular groups better suited to undertake the given reform. (Jacoby 2004, Vachudova 2005)

The remaining chapters of this volume reveal how emerging market countries are situated in different combinations of domestic and supranational institutional conditions, in turn the relative strength of the TIRs and TRRs in which they are embedded. The also reveal how different integration approaches can shape the paths of change for domestic developmental agency. In particular, the cases show two key aspects about the aforementioned goals and means of integration and their developmental outcomes. First, the evidence suggests that the most developmentally positive outcomes in changing the status quo come from integration approaches or regimes that place relatively strong emphasis on broad based capacity building in their goals and on multiplexity, symmetry and joint problem-solving. Second, the chapters capture different combinations of the five components of goals and means and their attendant paths of domestic developmental agency. External actors may not emphasize each of these approaches simultaneously but rather vary them over time and space.

Statics and Dynamics in TIRs with Rule Takers and Hegemons

The first section of the book compares and contrasts the different approaches to regulatory integration in the most advanced TIRs where the less developed new member countries must accept the rules and standards of the more advanced member countries. They focus on NAFTA, CAFTA and the EU eastern accession process and such regulatory domains as food safety, environmental protection, corruption, and labor rights. The chapters highlight how the TIRs vary in defining institutional goals, emphasize capacity building, utilize horizontal professional networks, and adapt the strategies of the hegemon or external monitor. These differences lead to variations in terms of regulatory capacity, the participation of non-state actors, and the upgrading of practices on the ground.

In their analysis of the impact of NAFTA on development of public and private food safety regulations in Mexico, McDermott & Avendaño argue that NAFTA has induced two parallel paths of adjustment. With NAFTA’s limited emphasis on scope and depth but a stronger emphasis on dyadic, asymmetrical ties, market incentives and check-list compliance, the dominant path for Mexico is a weak decentralized system of regulation and dominance of large exporting firms. In the less dominant path, which is an ongoing source of regulatory experiments, Mexican and US authorities try to improve food safety systems, focusing more on administrative capacities and symmetrical, joint problem-solving principles of evaluation that can also benefit smaller firms.

In contrast, the chapter by Laszlo Bruszt and Julia Langbein shows how the EU adjusted its strategies of food safety regulatory integration during the Eastern enlargement, with its greater emphasis on scope, depth, multiplexity, symmetry and joint-problem solving. In Poland the EU faced well-organized private actors in developmental alliance with an effective state and the EU assistance could focus on furthering an inclusive developmental strategy. In Romania, with the combination of disorganized economic sector and insulated weak state, the EU had to create basic elements of sectoral state organization and could address the distributive aspects of market integration to a much lesser degree, resulting in the dissociation of large parts of the domestic producers from the market in the process of integrating the sector.
Piore and Schrank analyze how Mexico and Central American countries have responded to integration in terms of fortifying labor market regulations, particularly their inspectorate systems. While a number of Latin American labor ministries have responded to domestic and international pressures by overhauling their inspectorates, the Mexican ministry has pursued a more conservative course of action, and has thereby foregone the opportunity to reap the full rewards of the Latin model. It shows that while a mere reliance on market incentives for integration can undermine the enforcement of certain labor practices, linking market integration to regulatory capacity building can improve inspections and firm upgrading.

Aspinwall then examines two sides of the NAFTA approach: the weakness of the reliance on market incentives, the dominant mechanism, and the potential strength of linking integration with both capacity building and the empowerment of transnational NGO networks. On the one hand, NAFTA side agreement on labor allowed for a re-entrenchment of the old guard. On the other hand, the side agreement on environment induced domestic investments into regulatory capacity and the expansion of the components of multiplexity, symmetry and joint-problem solving, which in turn empowered non-state actors in the reform process.

The remaining chapters on EU eastern expansion reinforce our framework and the claims of Bruszt & Langbein. The chapter by Andonova and Tuta explains how the EU utilizes transnational networks to improve the ability of relevant domestic public and private actors to enforce and implement its environmental standards. They find that the variation in environmental policy in Romania and Bulgaria, two countries with ex ante limited public and private institutional capacities, depends largely on key differences in their policy networks, namely their membership (employers’ associations, non-governmental organizations) and their organizational structure (Brussels-centered, regional networks, international networks) and understand the variation in the type of regulatory compliance they facilitate.

Vachudova and Spendzharova analyze how the EU adapts its goals and means to integration so as to reply to new challenges and to compensate for weakness in domestic capacities to fight corruption in countries with weak judiciaries and political accountability. In Bulgaria and Romania, the EU implemented a novel monitoring instrument, called the Cooperation and Verification Mechanism (CVM) that expanded the components of scope, multiplexity and joint-problem solving. CVM had a positive impact by giving domestic elites stronger incentives to pursue reform especially when progress on CVM benchmarks has been linked to goods that voters in Bulgaria and Romania highly value. The EU the applied these lessons to adapt its integration approach in the area of the rule of law in the new candidate countries in Western Balkan.

Emerging TIRs in the Global South: Blockage and Coordination in the Mercosur

The second section of the book analyzes the most advanced attempt at market integration after the EU and NAFTA and especially for the South-South world – the Mercosur. The chapters analyze the Mercosur in comparative perspective, emphasizing not simply its well-known limitations, but rather highlighting the emerging forms of transnational coordination for creating and implementing common rules and standards. Because of its overall level of development and its structural power balance, the Mercosur can be viewed as a laboratory of lessons for other emerging regional TIRs in the developing world and where TRRs are relatively stronger. In particular, the chapters highlight the interaction between
three forces: the discretion that public and private actors have in shaping if not blocking outright key rules; the weakness of the supranational institutions coupled with weakness in domestic state capacity; and the skewed distribution of domestic non-state actors to participate in the rule-making process.

The chapter by Lengyel and Delich explores how weaknesses in the formal integration goals and means of the Mercosur are creating space for alternative mechanisms for the cross-border coordination and local adoption of international food safety standards. With limited capacities at the Mercosur and state levels, governments have difficulty reconciling the use of “inclusive” standards for local firms with more “exclusive” standards to compete in international markets. The chapter analyses how large dominant firms build their own multiplex, symmetrical and joint-problem solving linkages to define exclusive standards. It also shows attempts by local public-private alliances to use joint-problem solving principles to improve the capacities of smaller firms.

Costa and Jacoby then compare how different public-private standards in the auto industry emerge as part of different integrations approaches in East Central Europe and in the Mercosur. Via their concept of the “shadow of the region” they reveal how different combinations of scope, multiplexity and symmetry in these regional TIRs create different types of TRRs despite including the same MNCs. Yet a key similarity between these regions is how the MNCs gain the upper hand in defining transnational standards and paths of regional regulatory integration.

**Fragmentation and Regime Complexity in TRRs**

The third and final section of the book provides a set of alternative views about the more common approach to the transnationalization of markets and standards – those focusing on the emergence cross-border industry or domain based rules and standards or TRRs. Although the chapters focus on very different domains – finance, environment, telecoms, and food safety, they highlight two common arguments in the book. First, they all show how emerging market countries often confront competing models of regulation, and in turn conflicting forms of governance and distributional effects on the ground. Second, they also highlight alternative combinations of the aforementioned components of regulatory integration that can impede or facilitate domestic capacity building, broad based adoption of international standards, and the empowerment of a variety of local state and non-state actors.

Overdevest and Zeitlin explain how novel transnational regulatory governance mechanisms can improve domestic public and private capacity for adoption and enforcement of international environmental standards. Based on the design principles of experimentalist governance, they identify a variety of pathways and mechanisms that promote productive interactions in regime complexes. It uses the case of the EU’s Forest Law Enforcement Governance and Trade (FLEGT) initiative, interacting with private certification schemes and public legal timber regulations, including those of third countries such as the US and China, to demonstrate how an increasingly comprehensive transnational regime can be assembled by linking together distinct components of a regime complex. Although there is no hegemon, adaptive transnational integration and local capacity building can emerge when there is greater emphasis on multiplexity, symmetry and joint problem solving.

Cafaggi explores how even in the most coherent TIR, the EU, reliance on private regulation can lead to fragmentation and conflict. Firms, trade associations, and NGOs
organizations have contributed to legal integration in different ways: by defining common standards, by producing framework rules, and by standardizing contracts at the EU level. European private rule making can and has developed both in the economic and social domains beyond those within the legislative competences of the European Union, ranging from financial regulation to consumer protection, from forestry to e-commerce, from food safety to data protection, from advertising to the payment system, from private pension to aviation and so on. In many areas, the European Commission has stimulated private regulation. In some instances private regulation has emerged under the threat of public legislation, in other instances as a tool to overcome lack of legislative competence, where clearly no credible threats could operate.

The chapter by Jordana and Levi-Faur analyses how competing TRRs in telecommunications impact regulatory integration in Latin America and the reform of sectoral regulation domestically. This is a world where multiplexity and symmetry is relatively narrow, with limited extension to diverse local actors, and where domestic capacities are weak. The authors suggest that Latin American networks in telecommunications reflect the institutional weaknesses of the region and remain exposed to particular forms of dependent governance. While institutions within the region and outside it often support and nurture them, they are alive and contribute to an intense exchange of information and policy experiences within the countries in the region.

Lastly, Pistor argues that three distinct TRRs are emerging in the world of finance with special attention to the impact of their governance mechanism on post-communist countries of East Central Europe. The global financial crisis of 2008 has demonstrated once more that financial interdependence can be both a blessing and a curse. It facilitates the movement of capital and the expansion of credit, and as such promotes economic development in good times; however, in bad times it transmits liquidity shortages throughout the system triggering financial crises and economic recessions where credit expansion earlier fueled expansion and growth. The paper identifies three types of governance regimes that have been tried and tested in the past or are up for testing now: A laissez-faire regime, a coordinative, and a centralized regime. Each of these regimes relies on distinct combinations of goals and means.

Concluding remarks

If the current global financial crisis has taught us anything, it is that the transnationalization of markets is fraught with fragility, which makes domestic institutional development that much more contingent on the interaction between local and foreign approaches to regulatory integration. In opening their economies to accelerate growth and upgrade their capabilities, societies of the developing world have known this all too well. The framework presented here and the chapters in this book strive to define the contours of this contingency by linking the approaches to transnational regulatory integration with the domestic process of institution building in emerging market countries. They first show how these countries face different types of political constraints due to both domestic variation in institutional capacities and the supranational regimes in which they find themselves increasingly embedded. But these factors are not static or immutable. As our framework suggests, the chapters also explain how different combinations of the goals and means of TIRs and TRRs can reify or reshape the constraints and opportunities that domestic and external actors face as they forge distinct paths of transnational regulatory integration and domestic regulatory renovation.
In combining advances in comparative and international political economy, the approach advanced in this book makes two basic claims. First, sustained regulatory integration depends in large part on the capacities of domestic public and private actors to incorporate, adapt and implement international rules and standards at the formal regulatory level and at the firm or organizational level in a broad based manner. The process of capacity building however can take different paths and can not be read off a generic template and thus induced by arm’s length incentives or a largess of foreign resources. Rather, it is a process of contestation and experimentation, in which public and private actors often recombine resources to experiment with new formal and informal regulatory models and challenge one another’s claims about the attendant costs, benefits, and legitimacy. Hence, the second argument advanced here is that the variation in the goals and means of intersecting integration approaches can empower different public and private actors on the ground, in turn shaping the process of contestation and experimentation at the local and regional levels. Rather than separating the external from the internal or the public from the private in tracking regulatory integration, the chapters here suggest that scholars and policymakers pay closer attention to the ways in which assistance and monitoring in integration approaches can stimulate or impede horizontal linkages, accountability and problem solving among a broader set of local and outside actors.

The arguments advanced in this book naturally have their limits. Any interactive framework has difficulty clarifying the causality of political and strategic choices of the relevant public and private actors as well as specifying the sequencing of choices that can lead to a particular outcome of institutional upgrading and regulatory integration.

Nonetheless, our framework and cases should provide the basis to compare integration approaches and their outcomes. While not all encompassing, the chapters in this book do examine the core issues at the intersection of transnational and domestic regulatory change in emerging market countries. Moreover, by analyzing these issues across and within industries, domains, and regions that are some of the more relevant to these types of countries and that have made some of the most concerted efforts in transnational integration, the chapters highlight how certain integration strategies can impede or facilitate regulatory change for the few or the many, and thus can be applied to other contexts. At the same time, the comparative nature of this book and our framework should open debate about which types of mechanisms of integration can more or less stimulate broad based cross-border, coordinated experiments in regulatory institutions and adoption of new standards. If anything, the chapters here should compel scholars to examine more closely how more or less hierarchical approaches to regulatory integration combine distinct goals and means and in turn empower or constrain the relevant state and non-state actors to contest one another’s institutional experiments on the ground.
Figure 1. Domestic and Supranational Dimensions of Regulatory Integration Attempts

Figure 2. Cases of Regulatory Integration Attempts with Paths of Change
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