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Regime Complexity and the Institutions of Crisis and Development Finance

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Abstract:	The theory of regime complexity offers a useful lens through which to analyze the increasing density of international institutions and the patterns of conflict and cooperation among them. Scholarship on crisis and development finance would benefit from more fully employing this approach to explain the emergence of overlapping institutions and offer recommendations for designing regime complexes. The theory advanced here emphasizes the strategies of key states to use institutional overlap to limit agency "drift" away from their preferences. Prioritizing control often comes at the cost of conflict among the institutions, however, and can thus impede the achievement of financial stability and development goals. The regime complexity approach is distinct from the rational design of institutions, institutional experimentalism, and theoretical realism. Drawing on lessons from the euro crisis, the article offers informed conjectures on financial arrangements in the regions of Latin America and East Asia and their interaction with global multilateral institutions, such as the International Monetary Fund.

Regime Complexity and the

Institutions of Crisis and Development Finance

C. Randall Henning
American University

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INTRODUCTION

Global financial governance has for quite some time transcended the relatively simple world of the Bretton Woods institutions. Gone are the days when we could understand the governance of crisis finance or development finance by focussing solely or even primarily on the political economy of the International Monetary Fund or World Bank, respectively. Each of these institutions shares its issue area with an increasing number of other formal and informal institutions. The analytical frameworks by which we understand the sources and consequences of institutional multiplicity and overlap are only recently catching up with these developments. But the theory of international regime complexity offers a useful lens through which to analyse the increasing density of institutions and cooperation and conflict among them, as well as normative guidelines for organizing clusters of institutions as they emerge. Analysis of regime complexes has focussed largely on the issue areas of the environment, climate change, energy, and trade, however, and has begun to be applied to international finance only relatively recently. Its potential, both explanatory and normative, can thus be more fully exploited by scholars working on the institutions of development and crisis finance.

This article is designed to highlight the promise of this approach to the understanding of the origins of new institutions, which potentially challenge existing global multilateral regimes, and their interaction with the institutions inherited from the international economic order dominated by the advanced economies. It draws in part on the author's recent analysis of international regime complexity in the financial rescue programmes for countries that succumbed to the euro crisis (Henning, 2017a). The following sections review the recent literature on regime complexity, highlight particularly useful concepts and findings, and offer several conjectures that are informed by this approach about financial institutions in regions of emerging-market and developing countries (EMDCs)

The theory advanced here emphasizes the strategies of key states in the regime complex of their respective issue areas. States have interests that frequently differ from the functional requirements of problem solving in financial stabilization and economic development. They seek to correct the ‘drift’ on the part of global multilateral and regional institutions away from member-state preferences. Creating new institutions and introducing them into the institutional mix can be an effective means to control such drift. But *prioritizing control* can come at the cost of conflict among the several institutions within the complex and thus substantive efficiency. While sharing some basic assumptions with other perspectives, this approach differs from the rational design of institutions, which is based on a functional approach and offered in this symposium by William Kring and William Grimes (2017). The regime complexity approach also differs from ‘productive incoherence’, which builds on the framework developed by Albert O. Hirschman and advanced here by Ilene Grabel (2017).

REGIME COMPLEXITY: CONCEPT AND LITERATURE

A growing body of research over the last two decades examines the clusters of nested and overlapping institutions, which we call ‘regime complexes’. The creation of new institutions to supplement existing institutions, the conditions under which multiple institutions cooperate or compete, and whether complexes improve or degrade substantive outcomes compared to outcomes under a single global multilateral institution are central questions in this research programme.

Conceptual Framework

This article defines a *regime complex as a set of international institutions that operate in a common issue area and the (formal and informal) mechanisms that coordinate them*. The institutions can be legally constituted organizations at the bilateral, plurilateral, regional, or global levels, as well as less formal arrangements. *Fragmentation* occurs when the mechanisms that coordinate different institutions break down. A complex with numerous institutions can be cohesive if coordination is effective (*integration*). Several institutions can operate in a given area yet not fragment the complex, so long as formal protocols and informal mechanisms sustain and promote cooperation. Conversely, a complex with even just a few institutions could be severely fragmented if these are not coordinated and consequently work at cross purposes.[1]

This definition is both broader and narrower than some other formulations in the field. It is broader in that a complex is not fragmented by definition.[2] We wish to compare complexes and their ability to generate substantive cooperation among states, sub-state and private actors, and non-governmental organizations (NGOs). As conceived here, fragmentation and cohesion is one dimension along which complexes can vary. Our definition is also broader than some others in that a complex may include formal and informal agreements, club groups, and regularized processes.[3]

It is worth specifying some of the things that fall outside this definition. Member states, their ministries and financial resources are not included within the concept of the complex. Nor does a complex include economic beliefs, economic ideology, or analytical frameworks. Similarly, although private firms and markets might contribute to shaping the preferences of states, 'capturing' them in some cases, they are conceptually distinct from the institutions of the regime complex.

Scholarship

Original scholarship on regime complexity tended to lament fragmentation as a threat to the effectiveness of international cooperation. Analysts feared that institutional interference in the form of overlaps in substantive jurisdictions, inconsistency of rules

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[1] This paragraph adopts the definition provided in Henning (2017a).
[2] Compare in particular to Alter and Raustiala (2018), Keohane and Victor (2011), Nye (2014), and, for discussion, see Ruggie (2014) and van de Graaf and de Ville (2013).
[3] Informal rules and processes are emphasized by Stone (2011), Kleine (2013), Christiansen and Neuhold (2012).

and obligations, and forum shopping, for example, would weaken the discipline of global governance on member states. These themes were developed in studies devoted to areas that were particularly prone to fragmentation, such as international trade, human rights, and global environmental regulation.[4]

A second wave of studies, on the other hand, counselled against despair over the fragmentation of regime complexes. In their work on the complex for climate change, for example, Keohane and Victor (2011) argued that this decentralized cluster of organizations and agreements had distinct advantages over a unified institutional arrangement, namely adaptability and flexibility. Climate-change activists would do well to instead build certain characteristics, such as fairness and substantive validity, into the existing complex even though it might remain fragmented.[5]

The third wave of scholarship came to grips with the further proliferation of international institutions, many of which arose in the wake of the global financial crisis of 2008–09, the Great Recession that followed, and the rise of the large emerging-market countries. Several of the contributions to this wave focussed more intently on competition among the elements of a complex.

Johnson and Urpelainen (2012) provided a testable causal theory of integration and separation of regimes. States choose between integrating and separating regimes in a given issue area based on the nature of the spillover between the different parts of the issue area. When the spillover is positive — that is, when cooperation in one part advances outcomes in a separate part of the issue area — states will choose to keep the regimes separated, as separation does not erode the benefits they seek. When spillover is negative — that is, when cooperation in one area, such as ozone depletion, undercuts outcomes in another, such as global warming — states will choose to integrate regimes, because they must do so to realize gains.

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[4] See, among others, Aggarwal (1998), Alter and Meunier (2009), Biermann et al. (2009), and Raustiala and Victor (2004).

[5] See also Keohane et al. (2012).

Morse and Keohane (2014) describe the situation in which state, non-state, and institutional actors use some multilateral institutions to challenge others as ‘contested multilateralism’.[6] Their framework distinguishes between regime shifting — deployment of existing but alternative forums — and competitive regime creation. Crises, secretariat autonomy, and unanimity requirements are likely to foster contestation, they suggest, and successful challenges to existing multilateral institutions usually increase complexity.[7]

Henning (2017a) examines regime complexity in the euro crisis and addresses the dynamic among the troika and the other institutions that were involved in the formulation and implementation of the financial rescue programmes. Examining the interplay between multilateral and regional institutions, this study introduced the framework of regime complexity to the analysis of international finance. As detailed in the sections below, his approach privileges states’ strategies to control their institutions as a principal motivation to evolve complexes and predicts that they will sometimes trade off substantive gains in pursuit of this strategy.

Meanwhile, Pratt (2017) provides a ‘power misalignment theory’ of institutional proliferation. When discrepancies arise between states’ power and their formal influence within international institutions, states will create new institutions in a quest to strengthen their leverage over negotiations. Configured in terms that are also amenable to testing, the argument is then used to explain the historical and recent proliferation of multilateral development banks (MDBs). Once multiple institutions are created in the same issue area, he argues (Pratt, 2018), the organizations with weaker member states tend to defer to organizations with stronger members.

Lipscy (2017) argues that changes within international institutions — specifically in the voting shares and formal influence of members in institutional governance —

[6] See also the symposium on the concept in *Global Constitutionalism* (2016), including Morse and Keohane’s (2016) response to critics, pp. 344–50.
[7] Other intriguing contributions to this literature include Johnson (2016). On organizational emanation, evolution, and orchestration, see Abbott et al. (2015), Jupille et al. (2013), and Johnson (2014).

depends substantially on their exposure to competition. In issue areas that are characterized by strong network externalities, high barriers to entry, and exclusivity, states will have few ‘outside options’, to use Stone’s (2011) phrase. In issue areas that are characterized by weak externalities, low barriers to entry and non-exclusivity, states can create competing institutions at relatively low cost. Lipscy shows that institutions update their governing arrangements more readily in the second case, that is, in issue areas where they face greater potential competition.

Contrasting Theories

The focus adopted here on *control* as the motivation for mixing institutions together to solve a particular substantive challenge is theoretically novel. This claim might surprise international civil servants and national government officials who labour in the trenches and are thus accustomed to navigating within and around the thicket of institutions in their respective issue areas. Scholars of International Political Economy are also certainly familiar with the notion that states wish to control intergovernmental institutions. But the argument here nonetheless fills an important gap between pure power-based explanations, on the one hand, and the functional theory of regimes and its successor, the rational design of institutions, on the other.[8]

In ‘rational design’, states create institutions in order to solve problems of collective action, and the form of the institution fits the functional requirements of the problem at hand. This approach has difficulty explaining why states would create *multiple* institutions in the same issue area, rather than contracting a single institution to do the full scope of work. The conflict that arises among institutions as a consequence of complexity *reduces* substantive efficiency — sometimes shockingly so. But the framework that I advance foresees that efficiency can often take a back seat to control.

[8] The role of institutions in the context of theories of International Relations is reviewed in Martin (2008), Stein (2008), and Milner and Moravcsik (2009), among other places. See, also, Copelovitch and Putnam (2014).

Theoretical realism, for its part, understands institutions to be endogenous to the structure of power among states. Institutions might be important, but primarily as mechanisms by which strong states dominate the weak and otherwise exercise their influence over the management of the global system. Institutions necessarily reflect and execute the preferences of powerful members; for the most part, they are not independently consequential. Realism does not foresee the emergence of gaps between state preferences and the institutions, 'agency drift', and thus cannot allow for the need to deploy some institutions to check others.

Yet, as the cases presented in this symposium suggest, large gaps emerge between the preferences of powerful states and the behaviour of international financial institutions. This was also abundantly true of the European institutions in the euro crisis. By introducing the International Monetary Fund (IMF) into the institutional mix, as we shall see, Germany prevented the European Commission from drifting outside the set of solutions that were politically acceptable domestically. The choice increased institutional complexity, but Northern creditor states made it deliberately.

This approach also differs from models of learning, in which a regime complex could be understood to be a creative laboratory for experimenting with alternative institutional forms and arrangements. Successful innovations can emerge from these experiments and compete with, if not replace, incumbent institutions, thereby shifting the substantive solutions to more normatively valid or satisfying outcomes.[9] The present article certainly acknowledges experimentation with and innovation in institutionalized cooperation. But my approach stresses that experimentation is selective rather than random or accidental. Powerful states screen both the trials and the results, and they filter the results not simply through the criteria of substantive effectiveness but also their ability to exercise control. One consequence is that states that are regionally dominant and also have influence within incumbent multilateral institutions often have an incentive to link the latter to the activities of would-be regional institutional 'disrupters'.

[9] See, for example, Grabel in this volume. The ecological approach (Abbott et al., 2016) posits yet another process for the winnowing of institutions of a population.

Normative Debate over Complexity

Analysts of international finance and development debate the threat to the effectiveness of responding to crises and assisting development that is posed by the proliferation of institutions, which parallels the debate in political science over the danger posed by complexity in global governance generally. Some economists who advocate international cooperation, such as Truman (2010) and Goldstein (2011), worry that the creation of new regional institutions undercuts the role and authority of the IMF. Critics of the IMF, on the other hand, cheer the establishment of alternative sources of crisis finance in order to 'put the Fund in its place', redress biases that they perceive in its governance, and circumvent the opposition of European countries and the United States to their proposals for reform.[10]

In the view of this author, the creation of multiple institutions *per se* neither helps nor hinders effective financial stabilization or development; that depends on whether and how the institutions work together. Institutional proliferation, whether in the form of MDBs or regional financial arrangements (RFAs), must be accepted as a fact of life. We must also recognize that there are risks as well as benefits associated with an institutional monopoly over cooperation in an issue area. For some time, the IMF has had to cooperate with regional institutions and will continue to have to do so in the future.[11] To promote substantive effectiveness, we would design interinstitutional cooperation into new institutions as they are created and establish protocols for their cooperation. As they do so, however, architects of institutions will have to design their complexes around some of the constraints that are identified below.

[10] A recent symposium on 'institutional bypass' is motivated in part by the concept's promise in shifting outcomes away from those dictated by multilateral institutions. See Prado and Hoffman (2017) and Medhora (2017).
[11] See, for example, Henning (2002), Henning (2006: 171–84), Volz (2012), Kawai and Lombardi (2012), Miyoshi et al. (2013), and Rhee et al. (2013).

State versus Globalist Paradigm

A broad swath of the literature on international organizations emphasizes the autonomy of these institutions and their secretariats.[12] The analysis in this article is, by contrast, largely 'state centric'. By this phrase I do not mean that the state is the *only* significant actor, dominating markets, private interests, and society in the explanation. Banks and financial markets play important roles in economic development and crises, and they influence international institutions. Domestic politics are contentious and social groups resist dislocation associated with development projects and austerity, for example. Power and ideas also naturally play important roles. The term 'state centric' instead implies that, to understand the choice of institutions to solve problems in development and crises, we best channel the main causal factors through nation states analytically.

Two primary considerations underlie this choice. First, vested with the authorities to tax citizens and issue government debt, nation states are the ultimate sources of financial resources for development assistance and crisis stabilization. The allocation of these resources among competing uses, including capitalization of international financial institutions, is a primary function of states. Second, states are the constitutive members of international financial institutions at both the regional and multilateral levels. These factors make the centrality of the state an inescapable feature of international finance.

But state centricity also varies depending on the intergovernmental character of the institution, the bureaucratic coherence of the state, and extent to which rules and obligations and activities of the institution are addressed to states (as in crisis finance) or to private players, banks, markets, and NGOs (as in financial regulation). The state is thus less central, and institutional secretariats correspondingly somewhat more autonomous, in areas such as humanitarian assistance and the environment.

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[12] Recent examples include Jinnah (2014), Abbott et al. (2015), and Johnson (2014). See also Hawkins et al. (2006).

Crisis finance and development finance thus differ somewhat in the centrality of the state. Whereas the principal institutions are intergovernmental in both issue areas, development finance institutions share their issue space with private and non-governmental actors to a greater degree. Financial resources do not always flow through governments in this area. NGOs such as the Gates Foundation and Bloomberg Foundation loom large in specific sectors related to development, such as public health and AIDS prevention. Others deliver services directly and/or in partnership with the official multilateral institutions in low-income countries. State strategies remain quite important in development finance, but their strategies must adapt in environments populated by sub-state and non-state actors. This difference is also likely to shape institutional competition and cooperation in the two areas differently.

The paradigm of non–state-based, autonomous–institutional global governance is normatively attractive to many scholars. Owing to the dominance of domestic politics in the formation of preferences, states can be inwardly focussed, causing them to overlook opportunities for mutually beneficial joint action and leaving collective interests at the regional or global levels chronically underserved. The alternative, globalist paradigm holds out the hope of transcending the problems associated with the dominance of the state and offers a 'fallback' option when national politics threaten to hijack multilateralism.[13] Indeed, the fragmented character of climate change regime and its inclusion of sub-state actors, including cities, could insulate efforts to curb greenhouse gas emissions from adverse federal politics in the United States.

But the euro crisis presents a cautionary tale for the globalist paradigm. European politics is something of a petri dish for global governance; we should pay acute attention to developments there for indications of what can go well or badly in different institutional settings as they thicken elsewhere. In the European case, states reassert themselves periodically; the path of delegation to European institutions is not by any means smooth or continuous. Depending on the outcomes of national elections, the devolution of authority to European institutions could be suffering a long-term reversal.

[13] See, for example, Hale and Held (2017).

The staying power of the nation state is likely to be *at least* as strong in other regions as it is in Europe, suggesting a comparative analytical focus on how states strategize institutional complexity.

ANALYTICAL LESSONS FROM THE EURO CRISIS

The euro crisis is the most intensive case of competition and cooperation among international financial institutions, certainly in the era of modern finance, perhaps ever. It might well be the most important and sustained episode of cooperation between the global and regional institutions generally. Other regional financial institutions are either small by comparison to those in Europe or have not yet been activated. If we wish to understand how regional financial institutions are likely to interact with the IMF as they develop more fully in coming decades, or how MDBs compete with the World Bank, the recent crisis in Europe is a crucial set of cases. The findings from the experience there can in principle travel to other regions and issue areas, while the experience of crisis and development finance outside Europe can refine the regime complexity approach.

The euro crisis posed an existential threat to the monetary union in Europe. Between late 2009 and the middle of 2015, five countries succumbed to it, secured financial assistance from the European partners and the IMF, and underwent severe economic adjustment. A sixth, Italy, managed to escape having to secure financial assistance but nonetheless suffered a prolonged period of economic stagnation. The crisis began with Greece, whose programme was agreed in May 2010, and then spread to Ireland in fall 2010, Portugal in spring 2011, Greece again in the second half of 2011, Spain in the first half of 2012, and then Cyprus in winter and spring 2013. Four of the five stricken countries eventually completed their programs and re-accessed international capital markets. Greece renegotiated its arrangement with the troika twice and accepted yet a third program in the summer of 2015.[14]

The institutional form of the financial rescue programmes was a regime complex that was centred on the 'troika', composed of the IMF, European Commission, and the European Central Bank (ECB). To these three institutions we must add the Eurogroup, the European Council, and the new institutions that were created in Europe during the crisis, the European Stability Mechanism (ESM) and the Single Supervisory Mechanism, an arm of the ECB.

These institutions collaborated in providing loan packages for the crisis-stricken countries and defining the policy reforms that would be exacted from the borrowing government as a *quid pro quo*. But each of the institutions in the troika had its own constraints and imperatives. So, while they signed off as a group on programmes and periodic reviews of countries' implementation, the troika institutions often disagreed on analysis, forecasts, and specific policy measures. Within a short period of time after launching the first Greek programme, it is safe to say, none of the institutions were happy with having to collaborate with one another in this way. Yet this institutional arrangement continued to be replicated, albeit with occasional modification, from one programme to the next.

The European experience, and the institutional arrangements for fighting the crisis in particular, raises several interesting questions, each of which relates to the organization of institutions for development and crisis finance in other regions and their posture *vis à vis* global multilateral institutions.

[14] The (large) literature on the euro crisis includes Bastasin (2012), Pisani-Ferry et al. (2013), Pisani-Ferry (2014), European Parliament (2014), Matthijs and Blyth (2015), Sandbu (2015), Brunnermeier et al. (2016), Papaconstantinou (2016), Varoufakis (2016, 2017), Ban (2016), Blustein (2016), Independent Evaluation Office (2016), Véron (2016), Kincaid (2016), Stiglitz (2016), Weder di Mauro and Zettelmeyer (2017), Ban and Seabrooke (2017), Bayoumi (2017), Schelkle (2017), and Henning (2017a).

First, why did the governments of the euro area wish to invoke the IMF rather than design, finance, and monitor the crisis lending programmes on their own? The European governments had the resources, personnel, and analytical capacity to design financial rescue programmes themselves. They had actually done so several times during the 1980s and 1990s without the participation of the IMF. It is hard to envision other East Asian, Latin American, or African institutions administering large balance-of-payments programmes that require substantial economic adjustment on a purely regional basis when Europe, with the most sophisticated and capable institutions of all the regions, invokes the IMF.

Second, what explains the durability of the institutional arrangement despite conflicts over programme design and monitoring that were sometimes severe? Third, how were impasses among the institutions overcome? Fourth, how did the choice of this particular institutional mix affect the substantive quality of the programmes and ultimately economic outcomes in borrowing countries? Whether debt should be serviced or restructured and whether the austerity incorporated into conditionality was too severe were the most controversial questions in programme design.

A structured comparison of the seven country programmes yields the following answers to these questions.[15]

Involvement of the IMF

When calling upon the IMF to join the rescue programmes for crisis-stricken countries, the motives of the member states of the euro area were not primarily functional. Officials aver that they called upon the IMF for its technical expertise, financial resources, credibility, and to deflect the political backlash against austerity. But, while plausible at the time of the first Greek programme, these rationales became less convincing as the experience with country programs deepened over the course of the crisis. Key creditor states continued to involve the IMF even after its financial contribution had diminished and their ultimate responsibility for austerity had become undeniable. The accumulated

[15] Reporting the findings of detailed case studies conducted by Henning (2017a).

record of the programme cases points elsewhere for the underlying cause: key creditor countries called upon the IMF mainly because they did not trust the Commission to negotiate the programmes that they preferred. In these cases, *regime complexity was therefore a consequence of states' strategies to control agency drift*.

The European Commission's role as the negotiating agent for the government creditors was severely complicated by the fact that, as a supranational European institution, it was responsible for advancing the interest of the European Union as a whole. Creditor and debtor states had opposing interests (preference heterogeneity), which inevitably engendered creditors' distrust of the Commission. They sought *intergovernmental* institutional solutions that operated outside the regular legislative process (the Community method) and reserved national vetoes over financial assistance. Under the *unanimity* decision rule, creditors like Germany were in a position to insist on including the Fund as a condition for approving such assistance.

This conclusion is important because it suggests that building the technical and financial capabilities of European institutions will not be sufficient to prompt euro-area member states to abstain from involving the IMF in rescue programmes. As long as the regional institutional architecture remains incomplete, in terms of political integration, creditor states are not likely to resolve their distrust of the Commission and are thus likely to retain an incentive to include the IMF in crisis programmes. A Europe-only solution would probably require a shift in the governance paradigm away from intergovernmentalism toward collective supranationalism.

Complexity for Control

By gathering several institutions to address the euro crisis, governments used them to check one another. A time-honoured strategy in the domestic sphere, by which legislatures control executive agencies, for example, the technique was elevated to the international level with euro-crisis finance.

By introducing multiple institutions into the design and monitoring of country programmes, creditors expand the range of options among which they ultimately choose. The troika institutions, for example, brought competing perspectives and conflicting analysis to the table. This exchange of analysis and information, and the pooling of institutional capabilities, yielded choices that would not have been available had the Commission held a monopoly of these functions. Creditors benefited from triangulating institutional expertise even when they resisted much of its policy implications.

The strategy of choosing some institutions to check others — whether domestic government agencies or international institutions — is costly in terms of efficiency. Disputes among the institutions can lead to deadlock, which delays or blocks mutually advantageous agreements and which might have been avoided by relying instead on a single institution. The strategy instead prioritizes control, because leading member states themselves arbitrate interinstitutional conflict, and in so doing tilt the outcome toward their preferences.

Conflict with Cooperation

In the case of the euro crisis, the coordination of troika creditors on finance and conditionality did not extend to the analysis, as opposed to the negotiation, of policy adjustments, debt sustainability, and programme design. The institutions competed in these areas and the debate among them was often intense and public. At first glance, the coincidence of competition and cooperation might appear to be inconsistent. But the puzzle is explained by the nature of the spillover from one institution and its regime to the other. Creditor coordination extended as far as necessary in order to contain negative spillovers, as competition over providing crisis finance would have involved weakening conditionality and thereby undercut creditor interest. In surveillance and analysis, by contrast, spillover was positive: states benefited from the institutions' providing a range of analysis and forecasts, allowing them to compare and evaluate advice and avoid monopolization by a single institution. From the standpoint of the key creditors, it was only in finance and conditionality where controlling competition was imperative. For this reason, as well, institutional conflict does not necessarily portend the breakdown of the troika as an institutional arrangement.

Puzzles Resolved

Understanding regime complexity in this way helps to explain two basic puzzles that are associated with the euro crisis and which hold lessons for other regions as well.

First, that Germany would tolerate, indeed insist on including, an institution (the IMF) that advocates substantive positions to which it is often opposed is something of a paradox. Disagreement over the need for debt restructuring for Greece is the leading case in point. But it is explained by the fact that, having brought the institutions together, Berlin sits at a strategic nexus among the institutions. From this vantage point, Germany exercises particular influence, using the institutions' advice that fits its preferences and dismisses advice that does not. The IMF can expound at length on the need for debt restructuring all it wants; but the German government, along with other creditors, *not* the Fund, decides whether and under what circumstances Greece receives relief.

Second, this conceptualization helps to explain why the troika remains the preferred institutional form for crisis finance — at least for the moment — despite conflict among the institutions. To many, such conflict was an indication that the troika was an unstable institutional arrangement, a harbinger of its decay. But interinstitutional conflict is not only a consequence of state strategy — it is integral to the use of one institution to check others. When institutions deadlock, key states mediate the conflict — and put their thumb on the scale in so doing. Without such conflict, mediation by states wouldn't be necessary and their control would be attenuated.

So far, the discussion has examined the preference from Europe's standpoint for including the IMF in programmes to rescue euro area member states. There is a distinct possibility that the management and staff of the Fund and a number of non-European states could block the use of the IMF in euro-area contingencies. The IMF declined to contribute financially to the third Greek programme, notwithstanding European desire for such a contribution, and revised its policy of lending into currency areas. Moreover, the US administration under Donald J. Trump expresses hostility toward multilateral institutions, albeit erratically. So, the 'supply' of the IMF might conceivably not materialize in future contingencies. But, even if that proves to be the case, the sources of 'demand' from the European side are likely to persist and configure the design of the regional financial safety net.

Generalizability beyond Europe

Before turning to the applications of regime complexity theory elsewhere, consider two possible objections to the use of lessons drawn from the European experience. First, one might argue that these lessons would not generalize because Europe maintains a monetary union. The response is twofold. Some other regions also operate monetary unions; the Central African Economic and Monetary Community (CEMAC), West African Economic and Monetary Union (WAEMU), and Eastern Caribbean Currency Union (ECCU) are cases in point. More importantly, while the fact of a monetary union certainly configures the economic strategies for responding to crises or promoting development, the same considerations that draw powerful states to use some institutions to constrain others apply regardless of the particular monetary regime. Strong policy disagreements and even rivalries prevail in regional groupings of EMDCs, and in this environment key states are likely to have similar concerns about regional institutions' adherence to creditor preference.

Second, one might object that European governments have an outsized representation and influence within the global multilateral institutions, such as the IMF and World Bank, and therefore have a greater incentive to keep them in the institutional mix than will governments in emerging and developing regions. China, Brazil, India, South Africa and so forth will certainly consider their influence within the global multilaterals when strategizing the regime complex. But these countries could well exercise more substantial influence over the multilaterals' operations in their regions than historical experience and formal voting shares suggest.[16] Equally importantly, a funny thing happens on the way to regionalism: regional partners tend to become more averse to financial risk, differences with potential borrowers emerge, and creditors' interest in calling in the incumbent multilateral institutions as partners for the regional institutions rises correspondingly.

REGIME COMPLEXITY IN EMERGING REGIONS

The patterns of institutional interaction that we observe in the euro crisis programmes help to illuminate how other regions and their institutions address financial crises and deploy development finance. The theory of regime complexity directs our attention to the strategies of key states in Asia, Latin America, and Africa, their sponsorship of regional and multilateral institutions, the benefits that they derive from institutional conflict and cooperation, and their ability to mediate institutional conflicts that arise when institutions are called upon to work together. The complexity framework can also point the way toward recommendations for organizing the relations between institutions in both issue areas.

First, this article has highlighted the divergence of preferences between the creditor states and the European institutions, principally the Commission, when designing crisis programmes and argues that this divergence was central to explaining the institutional arrangements that were adopted. A similar divergence is likely to be present among the key creditors and institutions in other regions. Such divergence could well motivate key states to counterbalance regional institutions by reaching out to multilateral institutions, notwithstanding prior support for regionalism, as in the euro crisis.

[16] Kahler (2013) identifies substantial consistency between emerging countries and multilateral institutions. See also Kahler (2016).

Consider the positions of China and Japan within the institutional arrangements that have been developed by the ASEAN+3 group over the last two decades, principally the ASEAN+3 Macroeconomic Research Office (AMRO) and Chiang Mai Initiative Multilateralization (CMIM).[17] How much faith do either Chinese or Japanese policymakers have in these institutions to not simply define a financial programme for a hypothetical Southeast Asian country and implement it — these tasks are difficult enough — but to also adhere reasonably faithfully to their main preferences throughout the process? The task of the regional institutions will be made difficult by divergence of preferences between the members of ASEAN and the members of the '+3' (China, Japan, and South Korea), as well as by differences within each of these sub-regional country groups. Rivalry creates incentives for states to involve the IMF. Preference heterogeneity will in turn probably affect the calculus of these key states when deciding how many resources to invest in the development of regional institutions.

Since the Asian financial crisis of 1997–98, advocates of regionalism in East Asia have advanced the proposal to eventually develop the existing arrangements into an "Asian Monetary Fund." They have been frustrated by a provision of the CMIM that links access to most of its resources to the prospective borrower also agreeing to a programme with the IMF, which would of course entail accepting IMF conditionality. But China has delayed further increasing the de-linked portion of the CMIM and instead affirms its view that the IMF remains 'at the center' of the global financial safety net.[18] China's position is explained by the regime-complexity argument presented here, and in particular its emphasis on agency drift and state control. China's posture toward the regional arrangements is broadly similar to Germany's stance toward the European Commission during the euro crisis. Until convinced of the regional institution's ability to deliver financing and administer a programme, Beijing is likely to insist that any financial assistance that might some day flow through CMIM do so in close coordination with the

[17] On financial arrangements in East Asia, see Grimes (2009), Katada (2012), Katada and Armijo (2014, 2015), Ciorciari (2011), Kawai (2015), Chang (2016), Henning (2002, 2017b), Sterland (2017), Eichengreen et al. (2018).
[18] See, for example, Ministry of Foreign Affairs of the People's Republic of China (2017). Separately, Heleiner (2014, 184-207) treats China's early posture toward Bretton Woods.

Fund.[19] Japan, while perhaps marginally more inclined to soften the link to the Fund, is also likely to remain fundamentally committed to it in a crisis.

Second, the argument developed here establishes an expectation of what would be required for a region to separate from the IMF in crisis finance. Our close examination of the euro crisis downplays the functional form of the financial problem and the technical and analytical capacity of the institutions as the drivers of decisions on which institutions to include in the mix that is mobilized for country programmes. These factors were present in governments' considerations, but states' desire to control their institutions was decisive. This tells us that the convergence of institutional and state preferences is likely to be at least as important as the development of technical expertise and bureaucratic capacity in determining whether a region decides to 'go it alone' without the IMF. If so, the creation of regional monetary funds in East Asia and Latin American that operate independently could be much further off into the future than public and academic discourse might suggest.

The control imperative would indeed explain why an important 'dog' has not 'barked' in Latin America, that is, why the region has not developed a regional arrangement on the same scale as has Europe with the ESM and East Asia with CMIM. The Andean Reserve Fund was created in 1978 and enlarged to become the Latin American Reserve Fund (FLAR) in 1989.[20] But FLAR has remained a collection of relatively small countries, which constrains the size and scope of its assistance. If it were to become a regional equivalent of the IMF, it would have to induct one or more of the large reserve-holding countries, Brazil or Mexico. The fact that it has not done so could be a consequence of the absence of a formal link to the IMF on the part of FLAR. Although some of these large countries have criticized the IMF, they might not actually place greater trust in regional institutions than in the Fund and certainly appear to be reticent to place funds at risk without the link.

[19] Sterland (2017) analyses an intriguing scenario.
[20] See Haggard (2013), Perry (2013), Grabel (2017) and Kring and Grimes (2017).

Third, consider competition among institutions in development finance and in crisis finance. A certain degree of competition has been an accepted feature of relations among the MDBs, more accepted than is typically the case among crisis-finance institutions. Regional banks have sometimes proceeded with projects that have been developed by the World Bank staff but have been stalled or blocked by its Executive Board. Particular attention has recently been directed to the new Asian Infrastructure Investment Bank (AIIB) to gauge its role *vis à vis* the World Bank and Asian Development Bank (ADB).[21] Notably, several of its early projects were co-financed with these institutions — co-lending being the equivalent in development finance of the IMF link in crisis finance.

The case of China nonetheless poses a potential challenge for the coherence of development finance regimes. President Xi Jinping and China's senior leadership announced their commitment to a broad long-term strategy of development in Asia and beyond, to which the principal ministries and agencies of the state responded.[22] China has since launched a flurry of new initiatives and created a new set of institutions: the Belt and Road Initiative, AIIB, New Development Bank, and Contingent Reserve Arrangement.[23] To these we should add the activities of the China Development Bank. A different Chinese bureaucracy, or combination of bureaucracies, sponsors each initiative; and these initiatives are in several cases in competition or potentially so. The State Council appears content with this arrangement — although competition might be wasteful, it serves the State Council's broad strategy while at the same time allowing senior leadership to control these bureaucracies.

Once these institutions and initiatives grow in the future, interference among them, as well as between them and the traditional regional and multilateral institutions is likely to grow as well. Such interference could pose a severe challenge to the coherence of development finance regimes. To the extent that the initiatives are China-sponsored or China-led, effective cooperation among the institutions will be an *internal* coordination

[21] See, for example, Gutner (2018), Lichtenstein (2018) and Wang (2015).
[22] See Xi (2013).
[23] See, among others, and Chin and Gallagher (2017) and Wang (2017) in this volume.

exercise within the Chinese political system. The analysis presented above suggests that the nature of the spillovers among these initiatives will bear heavily on the choice of which are coordinated and which are allowed to continue to compete.

Finally, the regime complexity approach anticipates that the concern for control will ultimately keep *ex ante* agreements among institutions to cooperate undersupplied — agreements that would otherwise have reduced interference and the costs of financial rescues and development. Prioritizing functional efficiency in the design of global governance points toward endowing institutions with the means to anticipate and resolve interinstitutional conflicts themselves.[24] Such is the spirit in which the Group of Twenty finance ministers (2011) adopted a protocol on cooperation among regional arrangements and the IMF, for example.[25] The RFAs and the IMF are pursuing this important agenda through enhanced dialogue and memoranda of understanding.[26] However, the non-binding character of the G20 protocol highlights a constraint under which such efforts will have to evolve: *ex ante* cooperation among institutions threatens to disintermediate key states, which use opportunities to resolve disputes to influence their outcomes. States' ability to control institutions relies on leaving cooperation among them incomplete in advance of crisis episodes. As a matter of positive analysis, the financial safety nets for countries in Latin America, East Asia, and Africa are therefore likely to remain messier than analysts who take a functional approach would prefer.

CONCLUSIONS

This article advances regime complexity as a theory to understand the creation of regional and plurilateral institutions in the realm of crisis and development finance and their interaction with incumbent global multilateral financial institutions. Analytically, the theory emphasizes the desire of key states to control the institutions that they have created: institutional overlap in regime complexes is an important strategy on their part to constrain agency drift. The approach generates expectations that differ from other

[24] See, for example, Henning (2011), Independent Evaluation Office (2016), and Kincaid (2016).
[25] See also Cheng (2016) and Henning (2017b).
[26] See, for example, IMF (2017).

approaches in the rich set of contending perspectives on the political economy of international finance that are represented in this symposium. Specifically, regime complexity anticipates more coherence than random or accidental experimentation, because states innovate selectively and filter results through a set of criteria that includes control. Regime complexity anticipates less coherence than do functional approaches, in which efficiency is generally understood to be maximized by contracting the full scope of development or crisis finance through a single institution, because that course of action involves institutional monopolization.

The approach also offers several lessons for the normative agenda for development finance and crisis finance institutions. First, we must accept that regime complexity will be a fact of life in international finance for the foreseeable future. Our task should be to create mechanisms that facilitate cooperation among the institutions in order to limit fragmentation, when that might be counterproductive, and thereby improve financial stability and economic development. Second, we can confer mandates for institutions to cooperate with one another in their formal, legal charters and memoranda of understanding. While remaining cognizant of states' concern for control, agreements that smooth the way for cooperation between the RFAs and the IMF and between the MDBs and the World Bank should be updated. But, third, architects of regime complexes must also recognize that informal mechanisms are often necessary for regime coherence. Care should be taken to ensure that informal mediation of institutional conflict is healthy. Rather than expunge informal mechanisms because they operate in the shadows, we should look for ways to make them more transparent. Finally, we have observed that institutions often cooperate and compete simultaneously. We should not take for granted that institutions will only compete in areas where spillover is positive, however. States that are common members in these organizations should establish clearer, more explicit directives as to where competition is encouraged and where it is discouraged.

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