CHAPTER ONE
INTRODUCTION

Setting the Scene

The study of regions in international relations has been a sometime thing, gaining scholarly attention in the 1950s and 1960s, dropping largely from view in the 1970s, and returning to focus quite dramatically in the late 1980s and early 1990s. It is clear that the contemporary manifestations of regionalism (the completion of the internal market of the European Communities\(^1\) in 1992, Asia Pacific developments, and US-centred Western hemisphere moves) constitute a new and qualitatively different factor in both interstate relations and the international political economy. The growth in the development of regions in the 1980s also represents a new level of interstate collaboration in the international system. Regional integration has taken primarily economic and strategic forms, although these developments are always underpinned by political considerations and all three forms of regional integration can appear in the one body.\(^2\)

In the period since the Second World War more attempts to form regional economic groupings have been undertaken than at any previous time.\(^3\) In the 1950s and 1960s the phenomenon of the development of economic regions was particular pronounced not only in Europe but also in Africa, the Americas and Asia and the Pacific. These early efforts were followed by a period of stagnation in region formation in the 1970s. In the 1980s and early 1990s, however, there has been a dramatic renewal of interest in regional economic integration, particularly by those countries seen as developed.

The EU, the most successful of these groupings so far, began a second round of moves from the 1980s towards further integration and these have had a profound impact in the transformation of the EU. This impact is being felt not only within the EU itself, but in its immediate surrounds in Europe, in interstate relations elsewhere and in international relations more generally. The reinvigoration of the EC led to a new agreement between the

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\(^1\) The European Communities or EC is the official term used to designate three regional bodies: the European Coal and Steel Community that was established by the Treaty of Paris of 1951, the European Economic Community and the European Atomic Energy Community, the latter two brought into being by the Treaty of Rome in 1957. However, the term European Community was also widely used to refer to these three bodies collectively. With the coming into force of the Treaty on European Union, commonly known as the Maastricht Treaty, on November 1 1993, what used to be known as the European Community has through common usage become known as the European Union or EU. This thesis employs the term European Community or EC for the period up to 1993 and EU thereafter.

\(^2\) Thus integration in the 1950s in Western Europe took an economic form though it is generally agreed that the primary motivations were political and strategic. Similarly, while the stated objectives of ASEAN, the Southeast Asian regional organisation, when it was established in the 1960s, were economic, little progress was made in this field and the primary achievements would appear to be political and strategic.

\(^3\) It has been argued by Dell and others that the efforts of the Japanese and the Germans both before and during World War II to forcibly integrate the separate national economies of their respective regions were also examples of regionalism. (Dell 1963, pp.25-27).
EC and the European Free Trade Association (EFTA) to form the European Economic Area (EEA)\(^4\) and some members of EFTA have already become members of the EU.\(^5\) This second round may have an even wider impact now that the countries of Eastern Europe have broken down the Iron Curtain and have some eventual possibility of becoming either full or associate members. This thesis concentrates on developments in the EC up to and including the signing of the Single European Act in 1986. It does not deal with the Maastricht Treaty and the subsequent evolution of the EU.

In addition to the moves to further economic and political integration in Western Europe, there has also been renewed interest in security integration as a result of detente between the US and the USSR, and following this, the end of the Cold War in the period 1989-91. This move to security integration has manifested itself in two different but closely inter-related ways. First, there was a revival of the Western European Union (WEU)\(^6\) and of efforts to merge this with the EC. Second, following the end of the Cold War in Eastern Europe and the subsequent demise of the Warsaw Pact, the role of the North Atlantic Treaty Organisation (NATO)\(^7\) has been redefined and the importance of the Conference on Security Cooperation in Europe (CSCE)\(^8\) to European security has increased. Nevertheless, there is still no clear consensus on whether security arrangements should be based on the existing regional economic body or have a wider constituency.

\(^4\) The agreement establishing the EEA was signed on May 2 1992. It effectively creates a free trade area between the EC and six of the seven members of EFTA (Sweden, Norway, Finland, Iceland, Liechtenstein and Austria). It extends the free movement of goods, services, capital and people of the EC Single Market to the six and ensures that equal conditions of competition apply within the EEA. The only member of EFTA not to join the EEA is Switzerland where the agreement was rejected in a referendum in December 1992.

\(^5\) Austria and Sweden applied in 1991 and Finland and Norway in 1992. Their applications were approved and in 1995 Austria, Sweden and Finland acceded to the EU. In Norway voters once again rejected membership of the EU in a referendum.

\(^6\) Set up by France, the UK, Belgium, the Netherlands and Luxembourg in 1948 to limit West German rearmament, the WEU had remained dormant until 1984. Although it had been extended in 1954 to include Italy and West Germany, in the ensuing decades it had been overshadowed by NATO. It was revived in 1984 by France and West Germany in response to tensions within the Atlantic Alliance and the growing pacifist and neutralist feelings in West Germany and elsewhere in Western Europe. According to Alfred Cahen (pp.117-18), a high ranking Belgian diplomat and Secretary General of the WEU in 1985, this revival of the WEU was the result of the refusal of Ireland, Greece and Denmark to add a security dimension to existing foreign policy cooperation among EC member states, at a time when other members felt the need to strengthen the voice of Western Europe in the Atlantic Alliance.

\(^7\) NATO was established in 1949 to provide a system of collective defence against possible aggression from the USSR. In 1966 de Gaulle decided to withdraw French forces from NATO's integrated military command, thereby diminishing the role of NATO as a forum for Western European states to discuss security issues.

\(^8\) The CSCE was established in 1973 as a forum to discuss East-West issues and in particular questions relating to human rights. The dramatic changes in Eastern Europe in 1989 and 1990 led to the demise of the Warsaw Pact and undermined the raison d'etre of NATO, and the CSCE appeared at least initially to provide the most appropriate framework for European security. Under the Charter of Paris of November 1990 members agreed to a greater institutionalisation of the Conference with the establishment of a CSCE secretariat in Prague, the holding of biennial meetings of heads of state or government and the establishment of a Council of Foreign Ministers. Yet events in Yugoslavia seem to have reaffirmed the primacy of NATO in dealing with European defence and security concerns.
Beyond Europe, other countries are also showing a keen interest in regionalism in both its economic and security forms. The countries of the Asia Pacific region have already held several conferences leading to the formation of a regional economic grouping, Asia Pacific Economic Cooperation (APEC), and Australia’s efforts to promote greater economic coordination and cooperation among the countries of the Asia Pacific region have aroused the interest of other countries in the region. At the same time the members of ASEAN have shown a growing interest in expanding the focus of the Association on economic matters and in January 1991 the ASEAN heads of government agreed to the creation of the ASEAN Free Trade Area (AFTA). This shift by ASEAN is partly an attempt to find a new raison d’être now that a political settlement has been reached in Cambodia, and is also a response to the increased prominence of economic issues on the international agenda. More broadly, this shift is an attempt to regain the initiative on economic cooperation and coordination in the Asia Pacific region. In December 1990 Malaysia advanced its proposal for an East Asian Economic Grouping (EAEG) to include Burma, China, Hong Kong, Japan, South Korea, ASEAN, Taiwan and the three states of Indochina, Vietnam, Laos and Cambodia. That proposal has been recently endorsed by ASEAN under the name of the East Asian Economic Caucus (EAEC), but remains a contested concept for its exclusion of the United States, Canada, Australia and New Zealand.

At the same time there have been moves in Asia to extend the scope of existing organisations or to establish new ones to deal with regional security. Thus in the late 1980s and early 1990s there have been proposals to give ASEAN a larger security role, to establish new regional security arrangements and to set up a Conference on Security Cooperation in Asia (CSCA).

The renewal of interest in regional economic integration is also apparent in the Western Hemisphere. In 1988 the US concluded a Free Trade Agreement with Canada (CUSFTA).

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9 APEC has an annual meeting of members at foreign minister level. The first such meeting took place in Canberra in November 1989. Working groups were also established to investigate particular areas where members might benefit from enhanced regional cooperation. In 1993, a permanent APEC Secretariat was established in Singapore to coordinate the activities of the regional body. In 1993 a proposal for an APEC heads of government meeting in Seattle was agreed to and similar meetings have been held in Bogor in 1994 and Osaka in 1995. For a full discussion of APEC see Chapter Eight.

10 Under AFTA the tariffs on manufactured products with at least 40 per cent ASEAN content will be systematically reduced through the establishment of a Common Effective Preferential Tariff (CEPT). The AFTA agreement came into force on January 1 1993.

11 ASEAN has been recently expanded to take in Vietnam with Burma and the other countries of Indochina expected to join in the near future.

12 Such proposals have met resistance from various countries. The US has been reluctant to abandon its bilateral approach to security relations in the Asia Pacific, and ASEAN members have been concerned that a separate regional security forum would reduce the importance of ASEAN and in particular, the post-ministerial conferences, to both members and non-member states. For the moment the need for both a wider security organisation in the Asia Pacific and the desire by ASEAN for a greater security role have been satisfied by the establishment of the ASEAN Regional Forum in July 1993.
It has concluded a similar agreement, the North American Free Trade Agreement (NAFTA), with Canada and Mexico. The US has also expressed interest in extending the agreement to other Latin American countries such as Chile and possibly even to some countries on the Western side of the Pacific Ocean. At the same time other South American countries have also taken steps to integrate their markets.

Developments in regional security in the Western Hemisphere in the 1980s have not been as significant as in Europe or the Asia Pacific. There was already a regional security organisation- the Organisation of American States (OAS) - well before the 1980s. The only significant new development was the decision by Canada, which already had extensive defence ties with the US, to join the OAS in January 1990.

**The focus of the thesis**

There is no doubt that taken together, these moves constitute a departure in the form and practices of international relations, one which predates the end of the Cold War and which has gained momentum since its demise. The question arises as to the causes of this 'new regionalism' of the 1980s, and the implications of these developments for international relations practice and theory. Investigating these issues is the main task of this thesis and this task is pursued through a comparative study of the development of regionalism in each of the three areas. Later in this chapter, the specific issues arising from this overarching question of causality are set out, but it will be helpful first to make some definitional points and set limits to this study. The definitional points made here of course raise theoretical issues which are explored both in the references and in the theoretical chapters that follow.

The descriptor 'region' is a vague and contested term in the international relations literature. In searching for a workable definition of region, three relevant senses of the word can be isolated:

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13 Mexico formally requested a free trade agreement with the US in September 1990.
14 In June 1990 the then US President George Bush called for the establishment of a hemispheric free trade area, the Enterprise for the Americas Initiative or EAI.
15 One recent move was the agreement by Argentina and Brazil in July 1990 to establish a common market by December 1994. In March 1991 Paraguay and Uruguay agreed with Brazil and Argentina to establish the Southern Cone Common Market (or Mercosur).
16 The OAS was established in 1948 in the form of a treaty of mutual defence.
17 While some work has been done on this question - see, for example, Cameron (1992), Pinder (1991), Tsoukalis (1991) on the EC, a comparative approach has not been undertaken.
18 Thus Deutsch (1968, pp.9-10) defines his North Atlantic Area in terms of geography and political system. Russett (1975, pp.167-68) establishes five criteria for determining the boundaries of a region: socio-cultural similarity, common political orientations, common institutional membership, intensity of international transactions such as trade and proximity. Nevertheless he points to the failure of the boundaries of a region to coincide for all these criteria and hence the arbitrary nature of any decision to include a particular country in a region. Nye stresses the importance of perception in the construction of regions.(1971, pp.6-7)
19 One sense that can be ruled out immediately in this context is that which defines region as a sub-national entity.
A region is first a geographical construct with more or less fixed spatial boundaries, which can become accepted through usage over time; for example, Europe, Middle Europe, North East Asia. Of course, such regional constructions are often contested and can change over time. For example the idea of the Far East was essentially an Imperial construction, which declined in usage with the decline of the British Empire.

Second a region can denote a construction of identity in the sense that Germans may identify themselves as 'belonging to Europe' or Singaporeans may identify themselves as 'belonging to ASEAN'. This may have both an 'insider' and an outside dimension in identification.

Finally, region can mean a process of area-specific interstate behaviour, based on institutionalised cooperation, which may result in the idea and practice of 'region'.

While we can differentiate these three meanings of the word region, it is clear that these are not mutually exclusive categories in that these senses of the term overlap and interact in practice. The last meaning of region, institutionalised cooperation, is of primary interest in this study. Here one may imagine a spectrum of categories extending from a situation where a geographic region may have no region-related interstate contact or cooperation at one end (a case where the first sense of the term 'region' dominates) to, at the other end, a pattern of complete regional political and economic integration in a geographic 'space'. This would be a case where all three senses of the term 'region' - geographic, identity and cooperation - are relevant.

When the term region is used, it may be used in any of these three senses, and frequently in all three simultaneously, as in the example of the European Single Market where firms of different nationalities are urged by their governments to consider themselves as European firms whose home market is the European regional market.

The term 'regionalism' (often used interchangeably with region) seems to be a generalisation from these senses of the word region, used to indicate the wider phenomenon of 'region-making'. That is, regionalism is a normative term indicating a preference for encouraging regional identity in a particular geographical space and for promoting interstate cooperative behaviour there.

We need also to consider the term 'integration', which has been used in various ways by different scholars. Integration can be used to describe both the process and the end state

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20 This is similar to the way in which others have seen 'nation' as a construct of identity. See Smith 1991, Anderson 1991, and Hobsbawm 1990. Smith (1991, pp.171, 175) argues that the only way of transcending the nation may be through the gradual remaking of collective identities at the regional level. However, this phenomenon - which he calls pan-nationalism - would not constitute a break from nationalism but would be an extension of it. It would be based on shared cultural characteristics or a 'family of cultures'.

21 Thus the common identity might be more apparent to those outside than to those inside. While Germans, French and Italians are all considered to be Europeans and Singaporeans and Japanese as Asians by outside observers, the extent to which this identity is shared by those peoples themselves varies from people to people. There is also the separate question of the actual significance of such ties in terms of policymaking.
of cooperation within a region. It can take various forms: functional or institutional, that is, market or institution driven, and its scope can be broadly economic, political and/or

22 This distinction between process and end state or condition was the focus of much debate among both political and economic scholars. The debate concerning the nature of political integration occurred both among neofunctionalists and between neofunctionalists and transactionalists. Haas (1958, p.13) contrasted his definition of integration as a process to that of Deutsch who saw integration as a condition. See also Lindberg (1963, pp.4-7), Keohane (1975, p.366). Balassa (1973, p.1) made a similar distinction between economic integration as a process ('measures designed to abolish discrimination between economic units belonging to different national states') and an end state ('the absence of such discrimination'). Like many economists he saw economic integration as a process involving various stages or degrees of integration. These are, from least to most integrated, the free trade area, the customs union, the common market, the economic union, and finally total economic integration which, according to Balassa (1961, pp.5-6), implies the existence of a supranational authority with the sole right to make economic policy within the area. See also Marjolin 1953, pp.40-41; and Diebold 1952, p.8.

23 According to Cooper (1976, p.42) institutional economic integration refers to the 'legal and institutional relationships within a region in which economic transactions take place' and functional economic integration - which he calls market integration - 'to the market relationships among goods and factors within the region'. Institutional integration entails the establishment of mechanisms on the part of governments to manage, facilitate and encourage functional integration. These may range from arrangements to keep governments better informed of the policies of other governments in the region to the coordination of policies and even the adoption of common policies. For Cooper, institutional integration involves the joint provision by governments of public or collective goods and the main rationale for regionalism is that these goods can be provided more efficiently at a regional level. The causal relationship between the two is a much contested one. Is formal or institutionalised integration the result of a desire to bring existing institutional structures into line with new patterns of functional integration? Or is functional integration the consequence - intended or otherwise - of formal integration? Both APEC and the Canada-US Free Trade Area can be seen as attempts to institutionalise existing functional, informal economic integration. In the case of AFTA, however, institutionalised economic integration is being applied in a situation where there is little functional integration. The development of the EC lends further support to the argument that a high degree of functional integration is not a strong predictor of where formal integration will occur. In 1957 Deutsch (1968) predicted that the US, Canada, the UK and Ireland as the most functionally integrated countries of the North Atlantic Area would most likely form the core of a more integrated North Atlantic Community. Yet it was the relatively less functionally integrated countries of West Germany, France, Italy, Belgium, Holland and Luxembourg that were to provide the impetus for further integration.

Cooper (1968, p.12) also stressed the continual interaction between functional and institutional integration. He argued that proposals for common regional institutions were more often due to a desire to build political cohesion and economic integration than reflective of existing high levels of economic integration. He therefore questioned the whole notion of an optimal jurisdiction for government in terms of economic policymaking that was based solely on economic criteria and argued that political considerations were often more important.

24 The following account owes much to the excellent discussion of the different definitions of economic integration by Balassa (1961). Tinbergen (1954, p.95) saw economic integration as simply the existence of free trade between the countries concerned. Myrdal (1956, p.11) and Kindleberger (1968, pp.193-95) defined it as requiring both social integration and the equalisation of factor prices within the area in question, a definition which according to Balassa excludes free trade areas, customs unions, and common markets, which do not equalise factor prices. Rejecting the definition of Kindleberger and Myrdal as both too general and unduly restrictive, Balassa (1961, pp.4-5) defined economic integration as the absence of government discrimination. In reply to Balassa's criticisms, Kindleberger (1968, p.195) argued that the absence of government discrimination between two countries did not mean that their economies were fully integrated.

Keohane (1975, pp.368-370) and Nye regarded economic integration and economic interdependence as 'conceptually interchangeable terms' that 'differ only in the connotation that integration often takes place within an institutional framework'. They rejected previous definitions that measure economic integration in terms of either the volume of economic
military, and social or cultural.\textsuperscript{25} Integration has a broader meaning than regionalism and may be used to describe the process of fusion of any two previously separated entities, regardless of size or political status. When the entities being integrated are located in a region the term regional integration is commonly used. Regional integration is therefore a synonym for regionalism in the sense of region-making and the two terms are used interchangeably in the literature. In this thesis, the case studies focus on the aspect of institutionalised economic regionalism and the process of integration.

The Scope of the Thesis

This thesis is limited in scope in two ways:

First, it does not attempt to treat all manifestations of regionalism since World War II but focuses on three case studies in the 1980s: the EC, North America and the Asia Pacific. The case studies are not intended to be exhaustive accounts of integration in those regions. Their purpose is to mount a comparative investigation of the causes of regional integration and to explore the relationship between these cases of regional integration and the international political and economic environment in which these have taken place.

Second, this thesis focuses principally on the phenomenon of economic regionalism (as in the EC, NAFTA, and APEC), as these economic moves have been the most far-reaching and the most developed. This is not to say that politico-strategic factors are neglected in this study of regional economic integration but the economic focus simply sharpens the topic and makes it manageable within the confines of this thesis. This focus on economic regionalism also largely accounts for the decision in the EC case study to concentrate on the Single European Act of 1986 and pay less attention to later transactions between units or the extent to which formal discriminatory barriers between economic units have been abolished. They preferred instead Cooper's definition of economic integration and economic interdependence as 'the sensitivity of economic transactions between two or more nations to economic developments within those nations' But their preoccupation was with the consequences of economic interdependence for international relations in general and the behaviour of states in particular, rather than with measuring the extent of such interdependence and they added to Cooper's definition the concept of vulnerability to enable them to measure the effect of economic interdependence on the power relations among the states involved. They argued that in a relationship of interdependence the state that which 'would incur relatively lower costs from the termination or drastic alteration of the relationship' would have its relative power enhanced by the relationship. See Chapter Three, pp.61-62.

\textsuperscript{25} NATO is an example of limited military integration, the Closer Economic Relations Agreement between Australia and New Zealand an example of economic integration and the Union of England and Scotland, an example of political integration. Social or cultural integration is commonly used to denote the acceptance by new settlers or immigrants of the prevailing values and beliefs of the society and culture of their newly adopted home. But it can also be used to describe the adoption by the dominant society or culture of a state of the values and culture of another often more powerful state. Of course this classification relies to a large extent on the increasingly contested belief that these three areas of activity are clearly divorced from one another. The problem is largely one of degree. The more fully integrated a region is in one area the more likely that it will be integrated to some extent in one or both of the others.
developments such as the Social Charter of 1989 and the Maastricht Treaty of 1991. This choice of economic focus also derives from the requirements of the comparative method employed. In this, like must be compared with like, and, given the history of post war region making, this is only possible with respect to the economic dimensions of regionalism.

Location of the Problem within the Field of International Relations

The question of how and why contemporary regions came about can be located in several different theoretical and practical contexts.

The first context is that of the theory and practice of mainstream International Relations. In this, the usual analytical convention is to employ the categories of system, region and state (while acknowledging also what goes on within the state). This problem can be depicted simply as regions lying at the intersection of the four main analytical categories in mainstream international relations theory:

INTERNATIONAL POLITICS
INTERNATIONAL POLITICAL ECONOMY
(or chiefly interstate relations)

REGIONS

STATES
MARKETS

It follows that the location of the topic of regions in the theory and practice of international relations constitutes a quite complex analytical puzzle. Not only are there four levels of analysis - system, region, state and domestic but the topic lies at the intersection of several large fields of theory: international politics, international political economy, the actions of states and the impact of markets. While the theory involved is treated at some length later in Chapters Two and Three, the practical approach taken in the

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26 As Putnam (1988, p.433) points out most of the work on the link between domestic and international politics has focussed on the impact of the international economy on domestic politics and economic policy. (See for example Gourevitch 1978 and 1986). Putnam (p.457) emphasises the two-way nature of the link but recognises that in international bargaining negotiators will give primacy to their domestic calculus.

27 The argument about level of analysis is long standing and is not pursued here. See for example the debate between Wendt (1991; 1992) and Hollis (1991) and Smith in issues number 17 and 18 of the Review of International Studies.
The Exposition of the Thesis Problem and the Delineation of the Questions to be Examined

We have already identified the primary task of this thesis as the investigation of the causes of the new regionalism in the 1980s through use of a comparative case study method. The rise of regionalism in the 1980s, however, has wider significance for the practice and theory of international relations. For example, the question of how it is that regions emerge in a world apparently still dominated by states and their interests, and in international political and economic systems which seem inhospitable hosts to their development, is one which has significant implications both for theory and practice. In a similar way, such questions also bear on the idea of the evolving role of the nation state as the guardian of defined political and economic spaces.

It follows then that the broad causal question posed by this thesis leads to a series of specific empirical and theoretical questions. While the theoretical questions are discussed in detail in Chapters Two and Three, it is useful here to outline this set of central empirical questions. These can be categorised by levels of analysis according to whether they involve causal factors in regionalism that are system-generated, inter-regional (in the sense of competitive reactions across regions), region-specific (in the sense that they arise from collaboration among states of the same region) or are of an intra-state nature. These same questions also raise disciplinary and ideological value perspectives in that there are, for example, historical, political economy, neo-realist, neo-marxist and neo-liberal variants of causal explanations. The following list of questions seeks to identify the main issues for subsequent focus and analysis. The conclusion of this thesis addresses these questions specifically.

System-level questions on the causes of regionalism

One major historical question concerns the specific historical circumstances at the system-level that have had an impact on the recent resurgence of the phenomenon of regionalism. One might consider here the possible impact of the end of the Cold War and/or the economic rise of East Asia. The issue here is whether long run historical factors constitute the main cause of the new regionalism.

An important neo-realist/neo-liberal question asks how is it that states, which are said in realist accounts to generally pursue strategies based on self-help and self-interest, have embarked on a process of cooperation, which implies an actual, if not formal, devolution of sovereignty.
A further neo-realist/neo-liberal question asks whether the new regionalism is a consequence of declining US hegemony and the shift to multipolarity just as the emergence of the EC in the post World War II period was seen by some to be attributable to US hegemony and bipolarity.

In terms of the international political economy, one can ask how this resurgence of regionalism has been affected by changes in the international political economy, such as the breakdown of the Bretton Woods system of world economic regulation or the oil price rises of the 1970s.

Neo-marxists ask whether the resurgence of regionalism is a result of changes in the world capitalist system, themselves reflecting changes in the economic structure, changes in the mode of production and the composition of the historic bloc or changes in the regime of accumulation and modes of regulation in particular capitalist states.

On a different tack, the struggle over economic ideology raises the question of whether the re-emergence of regionalism in the 1980s and 1990s may have been influenced by the challenge to the ideas of the liberal economic orthodoxy of free trade from strategic trade theory and the concept of dynamic comparative advantage.

This is by no means an exhaustive list of all the questions arising from system-generated causes of regionalism. It, however, indicates the diversity of the questions raised in the several literatures and the value differences involved at this level.

**Inter-regional level questions on the causes of regionalism**

The question of whether the functional economic integration occurring in East Asia has spurred the next stage of EC integration has both historical and political economy

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28 This question draws mainly on the work of Wallerstein (1984) and his division of the world into core, periphery and semi-periphery. Regionalism here could be seen as a way for countries which are members of the core or semi-periphery and which might otherwise be relegated to the semi-periphery or periphery to maintain their status as a member of the core. See Wallerstein (1984, p.7); and Chapter Three, p.75, fn.53.

29 This question is based on the historical dialectic approach of Cox (1987; 1992) and in particular his claim that social processes create and transform forms of state and the state system itself. According to Cox the globalisation of production and finance have led to a new social structure of production and a renewed push for the self-regulating market at a global level. He sees a similar struggle occurring to that which occurred in the 1930s as a result of the protective responses of society to the disintegrating and alienating consequences of such a market. For Cox, one possible outcome of such a struggle could be a world divided into regional blocs. See Chapter Three, p.75, fn.53.

30 This question is based on the claim by some scholars that the modes of regulation (institutional structure and relations) of some countries are more appropriate for a particular regime of accumulation than those of other countries. Thus a change in the regime of accumulation might bring about a shift in relative economic competitiveness of states. Regionalism therefore might be an attempt by some states to maintain their mode of regulation rather than adopting the more successful mode of their competitors. For a critical appraisal of regulation theory and the related analyses of post-fordism and flexible specialisation, see Hirst 1991. This argument about the origins of regionalism is similar to that of Garten (1992) and Thurow (1992) concerning the competing forms of capitalism. See Chapter Three, pp.89-90.
dimensions. In the same way the consolidation of the EC, that is, the single integrated market of 1992, may have spurred regionalism in other regions.

Neo-marxists and neo-realists are interested in whether the rise of the new regionalism has been influenced by growing economic and political competition between the major states of the world, namely Japan, the US and Germany, and their inability to agree on macro-economic policy.

*Intra-regional level questions on the causes of regionalism*

Here one may ask whether the resurgence of regionalism has been due to a move by some or all of the members of an existing regional arrangement to prevent the erosion or collapse of that arrangement. For example, the moves to strengthen ASEAN regional cooperation could be seen as attempts to give it new relevance now that its politico-strategic importance both to its members and outside powers has been considerably reduced. Or, in the case of the EC, the conviction of some members that further integration was necessary to prevent the unravelling of existing ties.

The important historical question is what are the specific historical circumstances within a particular region that have resulted in the recent resurgence of the phenomenon of regionalism. For example, how did the weakening of the attachment of certain European states to national sovereignty after World War II facilitate regionalism in Western Europe?

In terms of the international political economy, one may ask to what extent is the resurgence of regionalism in the 1980s a response to growing regional functional economic interdependence. What has been the role of the multinational enterprises and their production and investment structures in functional regionalism? For example, Japan's export of its industry to Asia appears to have been important in market-driven integration.

Is the new regionalism politically driven, that is, is it seen as a confidence building measure designed to lessen the risk of intra-regional conflict? For example, as between France and Germany in the EC, and between Japan and the US in APEC. Is the new regionalism the result of a convergence of economic systems or a coincidence of national interests?

Still speaking of the intra-regional level, to what extent have the politics of cross-border elite decision-making driven the new regionalism? For example, the role of the European Round Table of business leaders in the EC or the PECC process in APEC.

What has been the role of changing elite ideas and values in the resurgence of regionalism, both in encouraging regional cooperation and in shifting state-based political culture to elements of a region based political culture? For example, the influence of the idea that regional integration will lead to increased economic growth, employment and competition and boost the competitiveness of domestic firms.
Intra-state level questions on the causes of regionalism

The historical question here involves the specific historical circumstances within particular states that have driven the recent resurgence of regionalism. For example, what impact did the election of the Thatcher government in the UK in 1979 and of the Mulroney government in Canada in 1982 have on regional moves?

There are further questions to do with the politics of regionalism within states. These include questions about the roles of interest groups and elites, domestic debates on economic doctrine (Keynesian versus neo-liberal) and practice (the need to regain control of macro-economic policy).³¹

Beyond this, we can ask if the phenomenon of regionalism has weakened or strengthened the state as the site of decision-making (its jurisdiction over its inhabitants) and in terms of its ability to demand and deliver the loyalty of its inhabitants. ³²

While it is clear that categorising the questions commonly raised as to the causes of the new regionalism is a useful exercise in separating out the focus of inquiry, these questions often spill over into other categories and cannot be kept within the confines of any one category. For example, questions about specific historical circumstances such as the decline of US hegemony or the economic rise of Japan are relevant to other levels as well as to the system level. Nonetheless, this categorisation has the virtue of finding a way through complex levels of analysis and exposing contested perspectives in viewing this phenomenon. Evidently, any comprehensive and robust explanation of the rise of the new regionalism will need to encompass factors at various levels of analysis and weigh these appropriately.

Through the theoretical exposition in Chapters Two and Three some basic propositions - which are related to these questions as to the causes of the new regionalism are outlined. The testing of these propositions in the case studies throws light on the answers to the questions listed above. The questions themselves are addressed in the course of the case studies, and they are tackled directly in the conclusion.

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³² Thus Hoffmann (1982, p.35) has argued that paradoxically integration has actually enhanced the nation-state's chances of survival. Although the EC has curtailed the capacity of its member states to take unilateral action, it has enhanced the capacity of the nation-state to perform domestic tasks, thereby shoring up its domestic legitimacy. But see Offe (1984, pp.130-161, pp.272-273) for a different explanation of the crisis of the legitimacy of the state. According to Offe, the crisis of legitimacy is largely attributable to domestic factors which are the result of the contradictory demands placed upon the state in capitalist industrialised societies. Nevertheless, he sees the process of supranationalisation as having contributed to this delegitimisation of the state by undermining the important principle of democratic accountability.
The Outline of the Argument:

While a developed analytical framework and set of propositions is set out in detail in Chapters Two and Three, it is helpful here to foreshadow the kind of argument that will be mounted in this thesis.

Given the new developments in regionalism, and the existing state of the empirical and theoretical literature, one can advance two very broad observations about the causes of the new regionalism. The first is that the new regionalism was an outcome of a new set of principally economic factors, related to the rise of Japan and the East Asian economies, and to the global recession in the 1970s and early 1980s. These factors pre-dated the end of the Cold War. The second broad observation is that the end of the Cold War and the transformation of the international political system has shifted the new regionalism from being essentially an economic phenomenon to a complex mix of politico-strategic and economic developments. It may be that the impact of these new causal factors has been to force states into regions (the alternative being a decline in state power), thus transforming the shape, if not the structure, of the international system.\(^{33}\)

The task of the thesis then is to elucidate these new factors (pre- and post-Cold War) and to indicate their causal value in the rise of the new regionalism and their implications for the shape of global international relations. This task is pursued through the comparative case studies of regional developments in Europe, the Western Hemisphere and the Asia Pacific. The conclusion draws together the findings of the case studies, returning to the different analytical levels and tackling the questions posed here.

The Structure of the Thesis

This thesis involves three elements: a central contemporary element examining the re-emergence of regions in the 1980s; a second comparative element comparing the causal factors operating in three different regions; and lastly, a theoretical element examining the usefulness of current theory to the phenomenon of regionalism in the 1980s and 1990s.

Each of these three elements are reflected in the structure of the thesis.

Chapters Two and Three discuss the relevant theoretical literature with a view to developing the propositions to be examined in the case studies. These chapters cannot of course deal with all the theoretical literature on regionalism, but rather concentrate on the literature relevant to the question of the causes of regionalism. They examine three of the major streams of international relations theory - realism, liberal economics, and

\(^{33}\) See below Chapters Two and Three but Offe's thesis on the crisis of legitimacy is also relevant here. Walker (1993) also discusses the decline of state power in terms of the growing number of challenges to the principle of state sovereignty and to the traditional demarcation between 'inside' and 'outside' the state. He seeks to explore the current predicament of the state in terms of the long standing debate between those professing the universality of certain values and those who see only relative values.
institutionalism - with a focus on what these contending theories have had to say about how regional groupings arise.

Chapter Two looks at the relevant theoretical literature in the 1950s and 1960s, a period marked by strong interest in regionalism, particularly in Western Europe, since this literature serves as a foundation for later theory and has not been adequately surveyed before. Chapter Three explores the more recent theoretical literature of the 1970s and 1980s, a period of the marginalisation of regionalism in the literature and of its subsequent re-emergence.

The rest of the body of the thesis tests propositions set out at the end of Chapter Three on the causes of the regionalist revival in the 1980s by way of three case studies, each one concerned with the actual development of regionalism in three different parts of the globe: Western Europe, North America and the Asia Pacific. The case studies are not intended to be exhaustive accounts of integration in those regions. They focus instead on the question of whether there is some interaction occurring in the concurrent development of these regions or whether their development is principally the result of area specific factors or particular historical circumstances. Three case studies are necessary in order to support the principal argument of the thesis that the phenomenon of regionalism in the 1980s was in broad a common response to developments in the international political and economic systems.

As with any study with a comparative element, it is important to state from the outset that for no two examples of a particular phenomena is the background setting exactly the same. This caveat is even more significant in many international relations studies where case studies often compare phenomena across different time periods and in different parts of the globe. In some ways this is less of a problem in this thesis which deals with 1980s than say in Deutsch's study of integration which had case studies that spanned many centuries.34

Nevertheless, the problem of comparing phenomena in different parts of the globe remains. A further problem with the case studies in this thesis is the question of whether we are in fact considering like phenomena. It is obvious that regionalism is much further advanced in Western Europe than in either North America or the Asia Pacific. The EC has a much longer history and a more developed institutional structure than in the other regions. Any study of the causes of the Single Market must take into account the pre-existence of this regional institutional framework and investigate the extent to which this framework is the main causal factor in any further integration - along the lines, for example, of the spillover mechanism described in the neofunctionalist accounts of regionalism.35 Yet the integrative measures that comprise the Single Market programme

34 Deutsch et al., 1968 (1957).
35 See below Chapter Two, pp.50-51.
are remarkably similar to those proposed under the Canada-US Free Trade Agreement (CUSFTA) and the NAFTA. How can we account for this similarity, however, when there is no regional institutional framework in North America? It can also be argued that the type of regionalism proposed in the Asia Pacific under APEC is radically different from that proposed in both Western Europe and North America. Nevertheless, it is still considered to be a form of regionalism. The thesis is not concerned with the revival of a particular form of regionalism, though it may contribute indirectly to our understanding of particular factors that led one region to favour a particular form of regionalism. It is concerned with the revival of economic regionalism itself defined as preference given by states to institutionalised economic cooperation with other states of the same region.

With respect to the case studies three possible causal explanations or hypotheses arise as to the revival of regionalism:

First, regionalism in the three case studies may be principally a reaction to developments in the international economic and political systems. Nevertheless, the relative importance of these same developments in bringing about regionalism may differ in each of the regions.

Second, regionalism may principally arise from some sort of interactive chain reaction in that regionalism in one area may provoke an extension of regionalism in another.

Third, it is possible that there are no common causal factors across regions. In this case, the fact that these moves to regions occurred in the 1980s would be coincidental.

The case studies are clearly of different magnitudes. The EC, given that its resurgence occurred earlier and that regionalism as a practice was already more firmly established there, is the largest of the case studies.

Chapters Four and Five (Case Study 1) examine the surge in interest in regionalism in the EC in the early and mid 1980s. These two chapters identify a range of economic and political factors at the domestic, intra-regional, inter-regional and systemic levels that led to the signing of the Single European Act (or SEA) in 1986. Chapter Four deals with the SEA itself and the motivations behind it. Chapter Five focuses on a major component of the SEA, the internal market and looks at factors that were instrumental in the decision to complete the internal market by 1993.

Chapters Six and Seven (Case Study 2) examine the surge in interest in regionalism in North America in the 1980s and early 1990s. This case study is also in two parts. The first part (Chapter Six) examines the causes of moves in the early and mid 1980s in both Canada and the US that led to the establishment of the CUSFTA in 1988. The second part (Chapter Seven) looks at the factors behind the decision by the US and Mexican governments to form a free trade agreement and the subsequent decision by Canada to join them in the trilateral arrangement known as NAFTA.
Chapters Six and Seven examine the extent to which both CUSFTA and NAFTA were reactions to the existence of the EC and the growing economic challenge from Japan and East Asia. They also look at how growing US economic interdependence with Canada and Mexico and rising protectionism in the US may have contributed to the formation of both CUSFTA and NAFTA. They investigate whether these regionalist moves were the result of the decline of US hegemony.

Chapter Eight (Case Study 3) examines the factors that led to the establishment of APEC in 1989 and to its subsequent consolidation in the early 1990s. It assesses the extent to which APEC was a response to the stalemate in the Uruguay Round negotiations, the end of the Cold War, and regionalist moves in Europe and North America.

The Conclusion (Chapter Nine) tackles the questions raised in the Introduction concerning the causes of the resurgence of regionalism in the 1980s and early 1990s and sums up the worth of the propositions developed from the theoretical literature. It weighs the causal factors of the new regionalism at various levels - system, inter-region, intra-region, intra-state - and comes to some broad conclusions as to the causes of this phenomenon and its importance in the international system.
CHAPTER TWO

Introduction

The purpose of this and the subsequent chapter is to provide the analytical framework for the case studies of regionalism which follow. This framework rests on a set of propositions drawn from that part of the international relations theoretical literature that seeks to explain the rise of regionalism - defined as area-specific institutionalised economic cooperation among states. The literature that is relevant to the rise of regionalism is very large, crosses disciplinary boundaries, and has not been surveyed comprehensively before. It encompasses specific theories in international relations, in political liberalism and in economics; and it is generally normative and ideological in perspective. Regionalism is treated as tangential to some 'grand theories', and in others receives the central focus. Given the complex nature of this theoretical literature, the main theoretical debates are dealt with in the text while more minor theoretical contestations are explored in the footnotes.

To make some order from this large and somewhat fragmented literature, I first map those theories that are related to regionalism using three levels of analysis. I then discuss the division of this review of the theoretical literature into two time periods and two chapters: the 1950s and 1960s in Chapter Two and the 1970s onwards in Chapter Three.

The three levels of analysis of this literature are in descending order of generality. The first and most general level is concerned with three ongoing intellectual debates. The first debate is that between realist and other scholars in mainstream international relations. This debate concerns the causes and control of conflict and the possibility of cooperation among states in international relations. In this debate, the question arises as to whether the development of regionalism, as one form of interstate cooperative behaviour essentially ameliorates conflict or exacerbates it. The second debate, principally among economists, is the long-standing one of free trade versus protectionism. In this debate, economic regionalism is commonly seen as a 'half-way house', standing between the poles of

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1 See above Chapter One, pp.4-7, for the definitional expositions.
2 These three debates would seem to call forth a fourth debate, that between Marxists and neo-marlxists concerning whether regionalism advances or retards the advent of socialism. Such a debate has attracted little interest from these scholars. Holland (1980), however, argued that the liberal economic basis of the Treaty of Rome and federalism in general has frustrated attempts to socialise the Common Market. See also Hayek, below, pp.39-43. There has also been a debate among third world development scholars about the role of regionalism in economic development and whether it strengthens or weakens the dependence of the periphery on the core and whether it increases or decreases inequality in the international system. See Frank 1972, pp.130-37; Furtado 1970, pp.197-204; Ffrench-Davis 1978, pp.165-93; Vaitos 1978, pp.719-769; and Mytelka 1979. This thesis does not return to the question of the 'fourth debate' as it is less important than the three major debates.
national protection policies and liberal global trading regimes. The point at contest in this
debate is both a normative and empirical one: do economic regional arrangements increase
or diminish welfare overall? The third debate, also principally among economists, concerns
the role of the state in the economy. Positions on the role of the state range from those
scholars who advocate little state intervention or laissez-faire through those scholars who
support varying degrees of state intervention to those who call for a totally planned
economy or dirigisme. Since each of these groups of scholars were themselves divided
over the question of whether regionalism would increase or decrease the role of the state in
the market no one group was either totally for or against regionalism.

A second less general level of analysis of the literature focuses on the ideas of liberal
theorists concerning the causes of regionalism. There are initially two variants here: one
economic and the other political, though later these become intertwined under the rubric of
political economy.

In summary, the liberal economists are concerned with the question of why states might
choose to form a customs union or free trade area when orthodox economic analysis
shows that the gains from free trade at a global level would be greater. Their explanations
have a strong normative content and are often intended to convince policymakers why they
should or should not embrace regionalism. The most fundamental argument here is that it
is easier politically to achieve free trade at a regional level than at a global level. Some
scholars such as Balassa have argued that states are willing to enter a customs union
because the gains from larger markets are greater than those predicted by orthodox theory.
Others such as Cooper have seen the gains to lie not in increased private welfare but in the
 provision of public goods. Still others such as Hayek have seen regionalism in the form of
economic federations as a way to halt the increasing socialisation of the economy and to
curb the power of vested interests. It is here that regionalism intersects with the debate in
economics concerning the role of the state in the economy.

The interest of liberal political scholars in regionalism has varied significantly over the
period since World War II. As we shall see later in this chapter, that interest was greatest
during the 1950s and 1960s. During the 1970s and early 1980s, however, many scholars
abandoned their regional focus for an international one. Like their economic counterparts,
those liberal political scholars of the early period who studied regionalism had also strong
normative concerns. They saw regional integration as a way of eliminating what they
believed to be the primary cause of war, namely the nation-state. One group of liberal
political scholars - the transactionalists - were uncertain that the process of integration
would be successful and hence were intent on measuring the process of integration and
advising policymakers on how to foster it. Another group - the neofunctionalists - were
highly confident that the process of institutionalised economic integration once begun
would continue to its inevitable conclusion, namely political unification and the elimination
of the nation-states that were involved. The views of these liberal political scholars on the
future of the nation-state and its marginalisation through the integration process were
strongly contested by realist scholars. It is necessary also to refer here to the neo-marxist counterpoint voices on inequality in the international system.\(^3\)

The final level of analysis here is concerned with specific theories, such as hegemonic stability theory, customs union theory, trade theory and economies of scale, which some scholars have explicitly related to the development of regionalism.

This theoretical survey also covers two time periods. The first period is the 1950s and 1960s and deals with the theories that were advanced at the time by liberal scholars of international relations in order to account for the development of regionalism in Western Europe. The second period is the 1970s and 1980s and deals with the debate between realist and liberal scholars about the possibility of economic cooperation in a period of hegemonic decline. This chapter deals with the first time period while the following chapter will concentrate on the second period. Nevertheless this division is not a clear cut one. It turns out also that there is a strong degree of continuity in the ideas related to regionalism between the early period and the later period. Overarching the two periods are the theories of liberal economists that provide the economic rationale for regionalism.

The order of discussion in this chapter is as follows. First we examine the general international relations and economic debates. Then we explore those specific liberal theories of the 1950s and 1960s, in which the main focus was regionalism.

**The broad intellectual debates relevant to regionalism**

Three of the great debates of the post war world have relevance to the rise of regionalism. The first, as mentioned earlier, is about conflict and cooperation among states in international relations, the major concern of scholars in the field of international politics. The second debate is about whether free trade or protection best serves the interests of national economic development and wider welfare goals. This has been an important focus of interest for scholars in the field of economics and political economy. The third debate concerns the role of the state in the economy. In none of these debates in international relations and economics has regionalism been a central preoccupation. Nonetheless, these debates provide an essential intellectual context for discussing theories of regionalism, not the least because these debates on conflict and cooperation, on free trade and protectionism, and on *laissez-faire* and *dirigisme* intersect precisely on this issue of regionalism.

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\(^3\) See above fn.2. These debates extend from the debate between Lenin and Kautsky as to the permanency of cooperation among the leading capitalist states, taken up in the 1970s by Mandel and Poulantzas, through the regionalist concerns of dependency theory, to the work of Wallerstein and Cox.
In this section I give a broad overview of the literature fields before turning to a more detailed examination of particular theories. I look first at the interest in regionalism shown by scholars from the three principal theoretical approaches to International Relations - the realists, the Marxists, and the liberals. Among these it is apparent that there have been differing levels of interest as well as different foci of attention. This means that these quite disparate views do not fall into neat categories and we need to avoid making these debates seem more coherent than they are or were. In this section I examine first the reasons for the low level of interest on the part of realist and Marxist scholars in regionalism. I then look at why some liberal scholars in the 1950s and 1960s made regionalism the primary focus of their work. Finally I point out that the interest shown by certain liberal scholars in regionalism is also shared by some of their economic counterparts who have sought to explain regionalism within mainstream economic theory.

In general, regionalism has been of little concern to scholars in the major schools of international relations theory, with the notable exception of some in the liberal school during the 1950s and 1960s. Realist and Marxist scholars have generally considered regionalism to be peripheral to their understandings of international politics. This is not surprising given that their understandings are based on the priority given to the inevitability of conflict among their preferred actors - states in the case of realists and classes in the case of Marxists. Hence both kinds of scholars are concerned with the dominance of conflict not cooperation.

The main contribution of a fourth theoretical approach - that of the critical theorists of international relations - to the question posed by this thesis would appear to be an indirect one. Although Walker (1993) also evoked the undermining of state sovereignty by the rise of international economic interdependence, he made no specific mention of regionalism and the role it might play in providing a new resolution of the age old tension between particularism and universalism. (For a more general exposition of the different strands of critical theory, see Held 1980). Through their insistence on the historical specificity and subjectivity of theory and in particular their critical evaluation of its role as an ideological tool that often serves to legitimate the status quo, critical theorists alert us to the dangers involved in using existing theories to illuminate certain phenomena that may involve a transformation of that status quo. This warning would seem to be particularly pertinent to a thesis which seeks to examine a phenomenon - the resurgence of regionalism - that calls into question the very principle on which much of international relations theory and political philosophy is based - that of state sovereignty. It might also help to explain why it is that traditional international relations theory has had so little to say about this phenomenon in the past. Yet since critical theory has to date been unable to provide explanations for the current state of flux in international relations we have no alternative but to attempt to use the insights of existing theories - albeit with a large degree of caution concerning their predictive powers - to help explain the resurgence of regionalism in the 1980s and 1990s.

This is particularly true of the key realist scholars, Morgenthau (1967) and Waltz (1979), Aron (1966) and Bull (1977) did show more interest in regionalism but did not see it as a significant development. Carr (1945 and 1984) did see some regional and/or multinational form of organisation as a workable and practical compromise solution to the problem of finding a more appropriate international political, economic and military structure at the end of WWII.

Yet the leading realist theorists have all stressed the historical specificity of the nation-state and its dysfunctionality in current international politics. The nation state, they argue, has not always existed and may not always exist though what could replace it is unclear. See Morgenthau 1967, pp.490-516; Aron 1966, pp.395-403; Carr 1945, 1984; and Bull 1977. But Waltz (1979, pp.94-95) replying to Kindleberger's claim that the state is finished as an economic unit maintains that this is not true of the major states and that as long these major
For early realists, such as Morgenthau and Waltz, this preoccupation with conflict influenced by Cold War events had led them to focus more on the military and strategic aspects of power and less on the implications of wealth creation or economic development for the power equation in international relations. This conflict oriented view among realists both reflected and further reinforced the early post war broad division of labour and interest between the disciplines of politics and economics in addressing issues at both the domestic and international levels.

Like the realists, Marxists and neo-marxists have also largely ignored regions. But whereas the realists privilege conflict between states and the international level of analysis in their work, Marxists privilege class conflict and the study of the state. Some early Marxist scholars did pay some attention to the international level though this was not their major concern. Nevertheless, the debate between Lenin and Kautsky about the most likely configuration of international relations provided an interesting basis for further Marxist and neo-marxist analysis of regionalism - along the lines that regionalism is the result of the failure of capitalist classes of the main core economies to exploit the world jointly - but

7 Cox 1986, p.215. However, according to Cox, realists see conflict as a recurrent feature of international relations that ensures the perpetuation of the way those relations are structured, while Marxists see conflict as possibly leading to a transformation of the present structure.

8 This connection was taken up by liberal scholars such as Nye and Keohane in their concept of interdependence in the 1970s. See below and Keohane 1972, 1975, 1977.

9 This division which goes back to the nineteenth century was also reinforced by the organisation of the post war world in which there was institutional division between political and economic issues. First its bipolar nature resulted in its division into two autarkic economic blocs with the each superpower actively discouraging economic links between their bloc and that of their rival. Second, within the US led bloc a deliberate attempt was made to separate security issues from economic issues. Political interference by governments in the regulation of exchange rates was minimised through the establishment of a regime of fixed exchange rates based on the gold standard. Two international multilateral organisations, the World Bank and the IMF, were set up to handle international finance and monetary issues. At the same time political interference by governments in the regulation of international trade was also minimised by the establishment of the GATT, a set of rules and principles that governments agreed should be adhered to in the conduct of international commerce. These arrangements were quite separate from those arrangements that dealt with security matters within the US bloc. The US established a series of regional security alliances, such as the South-East Asia Treaty Organisation (SEATO), NATO and the Central Treaty Organisation (CENTO) and bilateral military arrangements, such as the one with Japan, in order to contain the spread of Soviet inspired communism. This separation was first undermined by the detente between the two superpowers in the 1960s and by the collapse to the system of fixed exchange rates in the early 1970s. On this see Carr 1945; Strange 1970; Cooper 1972; Staniland 1985; and Murphy and Tooze 1991a; 1991b.

10 Thus Poulantzas (1974, p.145) wrote in 1973 that Marxist research had been less concerned with phenomena such as the EC and their implications for relations between the developed countries (imperial states) than with relations between the developed and the developing countries (core-periphery relations). Yet despite this he dismissed Mandel's argument that political and economic integration in Western Europe was the result of the rivalry between US 'capital' and European 'capital' and gave little significance to the EC other than as a facilitator of US domination of Western Europe. For Poulantzas the basic contradiction was not between US capital and European capital but between imperialist and anti-imperialist forces. More recently Cocks (1980, p.3) has claimed that both orthodox scholars and Marxists had failed to produce a satisfactory explanation of the EC.
this line of argument has not been consistently pursued. The issue of economic and political integration was raised in the context of the EC by Mandel in the late 1960s and early 1970s and again in 1980 by Holland and Cocks but on the whole the question has not attracted much interest from either Marxist or neo-marxist scholars.

The position of liberal international relations scholars in relation to the study of regions is a more complex one. Here we can distinguish two periods: that dating from the late 1950s to the end of the 1960s and that from the 1970s to the early 1990s. Like their realist and Marxist counterparts, liberal international relations scholars in the latter period have neglected regions. Although they do not share the views of the realists and Marxists about the inevitability of conflict, and stress to varying degrees the argument that economic cooperation between states has the potential to reduce or even abolish military conflict, they still privilege the international or global level of analysis.

The liberal political scientists' interest in regionalism has been shared by some of their counterparts in the liberal school of economics. Both groups have been concerned with the need to overcome the adverse effects of nationalism in the international system. While some liberal political scientists saw regionalism as a means to remove the threat posed by nationalism generally to world peace, liberal economists sought ways to eliminate a specific manifestation of nationalism, economic nationalism, which they believed not only

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11 Kautsky believed that collaboration was possible between the capitalist classes of the leading economic powers and that eventually there would be a world directorate of capitalist classes which would exploit the rest of the world’s population for their mutual advantage. Lenin (1917) saw the world as divided into competing blocs each composed of a colonial power and its subject territories or colonies. Forced by the nature of the capitalist economy to seek new sources of profit outside of the borders of their own state the capitalist classes of the colonial powers strove to increase global market share at each other’s expense. According to Lenin, cooperation between these capitalist classes would be short-lived. Conflict is inevitable and gives rise to wars such as WWI. (Block 1980, pp.519-20).

Almost a century later the debate is still raging. Some neo-marxists such as Cox (1987, 1986) and Gill (1990, 1989) and post-imperialists such as Becker and Sklar (1987, p.14) seem to have a position similar in some ways to that of Kautsky. Others such as Wallerstein (1979, 1988) and Block (1980) have taken positions closer to that of Lenin. For a more detailed discussion of these differences, see Chapter Three.

12 Mandel 1970; Holland 1980; and Cocks 1980. The arguments of Mandel and Cocks concerning European economic integration are presented in Chapter Three. The argument of Holland that the original integration programme as outlined in the Treaty of Rome had been an attempt to legitimate the prevailing economic and political ideology of liberal capitalism is discussed later in this chapter in the section The neo-liberal argument: states and markets, pp.39-43.

Although neo-marxists such as Wallerstein have raised the possibility of the division of the world into conflicting regional economic blocs centred on competing core economies, they are still more concerned with class politics at the international or global level of analysis. Like the realists, they have not given much importance to the region as an important phenomenon in international relations or as a level of analysis worth studying in international relations. See Wallerstein (1991, 1979) The implications of the ideas of Wallerstein and other neo-marxists such as Cox are dealt with in the next chapter.

13 See for example Nye and Keohane 1972, 1975, 1977. Nonetheless, there were some liberal scholars, such as Deutsch and Haas, who, given their focus on cooperation and an inclination to see politics in pluralist terms (attributable perhaps to the influence of the liberal school of domestic politics), took up the specific study of regional cooperation in the 1950s and 1960s, advancing several theories to explain the phenomenon of early regionalism. These are examined in more detail later for their relevance to the current revival of regionalism.
reduced global economic welfare but also threatened world peace. But whereas the faith of liberal political scientists in universalism or cosmopolitanism had been undermined by the events of the inter-war period and the failure of the League of Nations and the outbreak of the Cold War, that of the liberal economists had been reinforced by the events of the inter-war period.14 As a result there has been considerable disagreement among liberal economics scholars over whether regionalism is a positive or a negative development.

Liberal economists, such as Viner and Johnson, were interested in regionalism in the context of the free trade versus protectionism debates on economic development in the 1950s and 1960s.15 This argument was about the degrees of protection required to raise economic welfare in an expanded economic system, whether global or regional. The rapid economic growth that characterised the 1950s and 1960s and the considerable reduction in tariff barriers that accompanied that growth seemed to vindicate the liberal theory of international trade. Most liberal economists in the 1950s, 1960s and 1970s rejected regionalism as at best an inferior form of trade liberalisation and at worst a form of protectionism.16

Some liberal economists, however, did see economic advantages in regional economic integration even in the 1950s and 1960s.17 Their argument turned on theories of economies of scale, in which longer production runs and larger markets were seen as crucial conditions for rapid economic development. Later certain dependency theorists, who were not liberal economists, used theories of economies of scale as an argument to buttress a push for economic development on a regional level to offset what they saw as exploitation by economically developed states in a capitalist system.18

A further group of liberal scholars were divided over the question of whether regionalism would reduce state intervention in the economy and was therefore to be encouraged or whether on the contrary it increased state intervention in the economy and therefore should be discouraged.19

14 The identification of free trade with cosmopolitan interest is a common theme among liberal economic international trade scholars such as Viner (1950) and Bhagwati (1991, p.56). Thus Viner's essential criteria for judging the acceptability of a customs union is whether it increases or decreases world economic welfare.
15 See Viner 1950; and Johnson 1965.
16 By the 1980s, however, some liberal economists, such as Drysdale and Garnaut, saw free forms of regionalism or 'open regionalism' as the way forward when that global environment shifted from free trade and many of the assumptions of liberal trade theory were being challenged. See Drysdale 1988, 1989, 1991.
17 See for example Scitovsky 1958; Balassa 1973; and Wonnacott and Wonnacott 1967.
18 Dependency theorists condemned the orthodox laissez-faire approach to regional integration which they saw as privileging international consortia and thereby further increasing external dependence. (Furtado 1970, pp.197-204; Frank 1972, pp.131-38). Some, such as Furtado and Cardoso, believed that integration, particularly of a sector-based nature, could be a useful tool for promoting independent national economic development if the process was based on government planning. (Furtado 1970, pp.197-204, Cardoso 1979, p.196).
19 See the arguments of Hayek, Meade and Erhard below.
Liberal theorists and regionalism

Following this brief introduction to the broad theoretical context, I look now more closely at the explanations of regionalism that have been advanced by liberal theorists in two different fields - economics and international relations. In each case regionalism became caught up in the major theoretical debates of each field outlined above.

The section is divided into three parts. The first examines the impact of liberal economic thought on the development of regionalism. The second looks at the explanation for European regionalism given by Jean Monnet, the acknowledged parent of regionalism in Europe. The third examines the explanations that were presented by some liberal theorists of international politics to account for the phenomenon of regionalism in the 1950s and 1960s.

Liberal economic scholars

On the whole, liberal trade economists have been rather suspicious of regionalism and have preferred to pursue multilateral trade liberalisation through the GATT. In the debate between globalism and regionalism that took place among liberal economists in the immediate post-war period, the proponents of globalism had the upper hand and their arguments often met with a favourable reception from governments. The ideological hegemony enjoyed by free trade ideas in the post-WWII period was such that opposing doctrines such as mercantilism, protectionism and economic nationalism were largely discredited though still quite widely practised. Recently, however, findings from new economic research on market imperfections and the role of governments in creating comparative advantage have cast doubt on the free trade doctrine and led to a heated debate between free traders and strategic trade theorists. This may have helped to undermine the

20 More recently it has been argued that this survival of protectionist and mercantilist practices was a result of the priority given by the US to security objectives during the period of the Cold War. The US is said to have tolerated these practices on the part of allies, such as the EC and Japan, in order to ensure their continued loyalty in its struggle against the USSR. See, for example, Calleo 1973, pp.42-43, 204-210; Nau 1990, p.123; and Kuttner 1991, pp.51-53, 73-74. This argument is supported by Johnson (1968b, pp.154-55, 165-66), who maintained that the evolution of US international commercial policy in the post-war period was strongly conditioned by the Cold War. The US, he argued, initially pursued policies in line with its pre-war objective of multilateral non-discriminatory trade liberalisation, then allowed that objective to take second place to the promotion of European economic integration, until the Trade Expansion Act of 1962 and the ensuing Kennedy Round, when it attempted to contain the regionalising and discriminatory effects of the formation of the European Economic Community through multilateral non-discriminatory trade liberalisation.

21 See, for example, Vogel (1979), Johnson (1982) and Prestowitz (1989) on the role played by the strategic targeting of growth areas in Japan to create comparative advantage in these areas. See Brander (1986), Spencer (1986) and Krugman (1986) on how intervention by a country's government can increase its firms' share of the windfall profits in certain oligopolistic industries. See also Lawrence and Schultze 1991.
commitment of governments to the multilateral system and increased their interest in alternatives such as regionalism.22

_The free trade argument._

Liberal economists believe that the free market is the best way to increase economic welfare. Adam Smith saw increased economic welfare as the result of the quest for increased competitiveness.23 This increase in competitiveness was made possible by the enhanced productivity that arose from improved division of labour or specialisation in production. Where such specialisation in production occurred as a result of the most efficient use of resources, comparative advantage arises. In this view, the larger the market, the greater the potential for improved division of labour and specialisation in production. For Adam Smith, trade was an important means of increasing the size of the market and thus of increasing economic welfare all round, but only under conditions where comparative advantage was the rule and trade was unimpeded by barriers to imports. The conviction that maximum economic welfare would be obtained if all countries abolished tariffs on imports has provided a powerful argument in favour of free trade in general and regional free trade areas in particular, in the post World War II era.24

The liberal economic argument in support of free trade was reinforced by theories of economies of scale. Basically economies of scale are the gains derived from the reduction in cost per unit of output as the volume of output increases. John Stuart Mill argued that by producing for a larger market than its own, a country can not only introduce a more extensive division of labour but is more likely to make investments and improvements in the processes of production.25

In the 1950s and 1960s, theories of economic growth based on these classical economic ideas pointed to market integration across borders, preferably on a global scale.

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22 Thus Diebold (1988, pp.1-3) talks of the almost Manichean way in which the US has regarded the bilateralism versus multilateralism debate in the past. His argument that the issue is much more nuanced and that bilateral agreements have played and still do play a positive role in underpinning the multilateral trading system, as well as being an attempt to give a more accurate picture of the positive role played by bilateralism and regionalism in trade liberalisation in the past, is also a reflection of the shift in thinking that has taken place in the 1980s in the US on bilateralism and regionalism. See Chapter Three, particularly the sections dealing with the undermining of the liberal international economic order and the arguments of Morici and those of Drysdale about open regionalism.

23 Smith 1937, p.415.

24 In the 18th century when Adam Smith argued that maximum economic welfare would be obtained if all countries abolished tariffs on imports he was arguing against the mercantilist orthodoxy which saw international trade as a struggle among nations to accumulate as much wealth as possible by encouraging inflows and discouraging outflows of bullion. Such a policy, it was believed, would increase national power and influence, and increase a nation’s ability to ward off attack. The mercantilist position then was not opposed to trade per se but believed that it should be conducted under strict state controls with the national interest as its guiding principle and with the clear objective of securing a surplus on the balance of payments. For a brief history of mercantilism and an account of its modern day revival, see Johnson 1974.

as was envisaged by GATT. First, there was a perceived link between industrialisation and market size. Higher stages of industrialisation were believed to require larger economies of scale than existing markets could provide. Thus, economic development was seen as necessarily linked to access to a larger market. Second, it was argued that larger economies of scale also made industries more efficient and hence more internationally competitive. Third, a larger market would attract more investment as it promised investors higher rates of return for a given amount of invested capital without the risk that market access could be threatened by protectionist measures. The large market would also have to be a stable market if firms were to invest in larger scale production. Finally a larger market would also ensure a more efficient use of material and human resources, promising greater economic growth.

Thus liberal economic theory provided powerful arguments in favour of market integration and free trade, arguments that were likely to seem highly persuasive to governments seeking desperately for ways to boost growth, reduce inflation and regain their economic competitiveness in the early post World War II period. Some of these

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26 Samuelson 1967, p.651; Spero 1990, p.72; Shonfield 1976, p.97; and Curzon and Curzon 1976, p.194. Although there was general recognition of the gains to welfare from economies of scale, many economists claimed that the importance of such gains had been exaggerated. (See Viner 1950). Others such as Samuelson (1967, pp.744-45), while maintaining that growth was the result of increasing specialisation on the basis of comparative advantage which could be in agriculture or industry, admitted that industrialisation stimulated technical change and hence could hasten development. Similar arguments about the link between larger markets, economic growth and development are made by Balassa (1962, pp.6, 101-19).

27 See Marsan (1960, pp.151, 162) who argued that one of the reasons Italy joined the EC was to remove the constraint the smallness of its domestic market placed on the development of industrialisation which was seen as a precondition of the country's general development. The issue of the relation between market size and economic prosperity was the theme of a conference held by the International Economics Association in 1957. In his introduction to the published proceedings, Robinson (1960, p.xiii) maintained that there had been virtually no literature on this question since Adam Smith first discussed it in 1776.

28 Svennilson 1955, pp.459-60. Svennilson maintained that if the five largest countries in the world economy did not open their frontiers to imports of manufactured products then small countries would 'be forced into group integration in order to be able to take advantage of modern industrial techniques and raise their living standards to a high level'.

29 Although on the whole there was general agreement in the 1950s and 1960s on the important role of industrialisation in the development process - see, for example Rostow (1960) - there was some debate over what industrialisation actually meant (Meier 1970, pp.5-6) and particularly over whether it should be based on international specialisation according to the Ricardian notion of comparative advantage or on the concept of balanced growth. (See Nurske 1961). In the 1970s the debate was whether industrialisation should be based on import-substitution or an orientation towards exports. (See Spraos 1983, p.139).


31 Svennilson 1955, pp.459-60. On this point, however, Scitovsky (1960, p.286) argued that the problem of stability could only be solved by thoroughgoing economic integration since international trade, however free, would be perceived as too precarious to serve as the main basis for mass production.

32 Scitovsky 1960, pp.284-85. Kuznets (1960, pp.28-32), however, argued that smallness could also be an asset. According to Kuznets, because of their smaller populations small nations were often more homogeneous and more cohesive societies than larger nations and therefore often found it easier to make the social adjustments necessary to exploit fully the potential of modern technology.
arguments played a role in the push to establish the EC in the 1950s though they were largely overshadowed by the political and security motives. They were to play a major role in the revival of European regionalism in the 1980s.

33 E. Giscard D'Estaing, President of the French Chamber of Commerce during the early 1950s, argued that the economic unification of Europe would reduce the costs of production, increase productivity, reduce prices and promote economic progress. (See Haas 1958a, p.21). In 1954 a resolution passed by the Eighth International Conference of the European-wide Association of Christian Democratic Parties also made the link between market size and economic prosperity:

"Considering the tasks demanded by modern economics and technology, our European states can no longer assure, as isolated economic entities, the continuous well-being of their populations and imitate the progress which can be realised by large economic entities which exist and do not stop developing. In order to promote the economic development and the prosperity of Europe's nations they must create a large economic area within which goods, capital and persons circulate freely. (Quoted in Haas 1958a, p.24)."

Similar arguments were advanced by Monnet (see below), who helped found the European Coal and Steel Community or ECSC, and Paul-Henri Spaak (see Haas 1958a, p.147), whose report led to the creation of the EC.

34 According to Dell (1963, p.44), while the politicians extolled the economic benefits of integration, the economists were mostly sceptical about these and usually asserted that what mattered were the political goals. Similarly Raymond Bertrand (1956, p.573) argued that it was 'the deep feeling in Western Europe that national boundaries are anachronistic, and a groping towards some sort of political unity or Schicksalsgemeinschaft, which had been frustrated by the failure of the European Defence Community, and left unsatisfied by the Coal and Steel Community ... rather than hard-headed calculations of net economic gains' that were the basic forces behind the common market proposal. For Triffin (1960, p.247) the formation of both the EC and EFTA is yet another example of the disregard of statesmen of orthodox economic advice concerning the dangers of discrimination and trade diversion that such regional trading groupings could incur.

For an argument that political factors are more important than considerations of increased economic welfare in the decision by states to form a customs union, see Gilpin 1972, p.52.

35 See below Chapter Five. These arguments in favour of market integration and free trade also provided the basis for the arguments of Raoul Prebisch, the Executive Secretary of the United Nations Economic Commission for Latin America (or ECLA) from 1950 until 1963 and Secretary-General of the United Nations Conference for Trade and Development (UNCTAD) from 1963 until 1969, in favour of regionalism in the developing world. (For an account of Prebisch's role in the formation of the Latin American Free Trade Area or LAFTA in 1960 see Dell 1966, pp.15-25). Here such arguments were combined with the belief that it was more advantageous for developing countries to specialise in the production of manufactures than in the production of primary products. Particularly important was the perceived advantage of industry over agriculture in increasing per capita income. See Hagen 1958. In a study first published in 1950 Prebisch (1962, p.1) argued that the assumption of orthodox trade theory - that as a result of the international division of labour based on comparative advantage the benefits of technical progress or higher productivity are shared equally by the whole community through lower prices and/or raised incomes - had been proven false. Industrialisation, not the international division of labour, he maintained, was the principal means by which developing countries could obtain the benefits of technical progress.

According to Prebisch, industrialisation was the only way for developing countries to escape the persistent deterioration of terms of trade that their primary products suffered in relation to the manufactured products of the industrialised countries. Prebisch (1962, p.6) explained the higher price of industrial products relative to primary products by the tendency for wage rises accorded to industrial workers in the industrialised countries during economic booms to be more resistant to decreases in economic downturns than wage rises accorded to primary industry workers in the developing countries. Later Prebisch attributed the deteriorating terms of trade of developing countries to the increased use of synthetic substitutes for natural primary products, technological advances that reduced the raw material content of manufactures, lower income elasticity of demand for primary products than for manufactures, the pressure of excess labour on real wage levels, and increased production of primary products due to improvements in productivity. (See Johnson 1967, p.28; and Sraos 1983, pp.30-42). Without sufficiently large markets of their own and denied access to larger markets by protectionism of developed countries, developing countries could only hope to obtain the economies of scale necessary for industrialisation through regional economic integration.
Despite this use of market size and comparative advantage arguments by those in favour of European and Latin American economic integration, for liberal trade economists the Pareto-optimal solution to the problem of increasing global economic welfare was not regional free trade but global free trade. This, they argued, was because the world is the largest possible market and free trade at a global level would result in optimal welfare efficiency in terms of resource utilisation and production location. However, many economists were well aware that given the enormous political obstacles to global free trade such a solution could not be implemented immediately and many were willing to endorse measures that enlarged markets at a less than global level.

The Customs Union Argument and Regional Economic Integration

The most commonly recommended measure for a less-than-global market expansion was the customs union. Such a union involved the complete elimination of tariffs among members of the union; the establishment of a uniform tariff on all imports from non-members; and the apportionment of customs dues between members.

Prebisch not only was influential in these arguments for regional economic integration among developing countries but as Executive Secretary of ECLA he was closely involved in the establishment of the Latin American Free Trade Association (or LAFTA) in 1959. The influence of such economic arguments is also reflected in the fact that ASEAN, one of the few successful regional groupings to be established in the 1960s, used the ideas of regional economic integration to justify something that was actually set up for security reasons. See below Chapter Eight.

Prebisch's arguments were later adapted by dependency theorists who saw underdevelopment not as the result of protectionism but rather an outcome of the structure of the world capitalist system. For an excellent summary of the thesis and counter arguments by both bourgeois and other Marxist scholars such as Warren, see Hoogvelt 1976. According to some of these scholars, one of the ways third world countries could escape underdevelopment was to cut economic ties with the developed countries (delinking) while at the same time promoting economic cooperation amongst themselves. See Viner below; and Lancaster 1956. According to the *MIT Dictionary of Modern Economics* (Pearce, 1992) a Pareto optimum is said to have been reached when the economy's resources and output are allocated in such a way that no reallocation can make anyone better off without making at least one other person worse off. The Pareto optimum in terms of free trade would seem to be that any move towards free trade must on balance increase world welfare understood as the efficiency of world production. According to Lancaster and Lipsey, Viner's distinction between the trade diversion effects and the trade creation effects of a customs union is an example of the 'theory of second best' showing that contrary to conventional wisdom partial or piecemeal fulfilment of the conditions necessary for a Paretian optimum (that is, regional instead of global free trade) may constitute a move away from and not towards that optimum situation (the most efficient utilisation of resources and production location at a global level). Yet at the same time, according to Lancaster and Lipsey (1956, pp.11-13), the theory of the second best also undermines the case for perfectly free trade by arguing the case that if one of the Paretian optimum conditions necessary for a completely undistorted allocation of resources cannot be fulfilled, the other Paretian conditions, although still attainable, are, in general, no longer desirable and an optimum situation can only be attained by departing from all other Paretian conditions. See also Vanek 1965, pp.5-6.

Viner 1950, p.135; Robinson 1960.

See the arguments by Meade, Balassa and Triffin below.

Viner 1950, p.5. Although Customs Union Theory deals specifically with the customs union, the differences between it and other forms of economic groupings such as reciprocal free trade is, according to Viner (1950, p.4), only slight.
Until 1950 customs unions had enjoyed the support of protectionists and free-traders alike, though not for the same reasons. In the past free traders had seen such unions as market enlarging moves and had therefore been willing to grant them exemption from the most-favoured-nation obligation. However, the experiences of the inter-war period had shown that such groupings could also be highly protectionist. They could be used to increase regional welfare and, in particular, the national welfare of the dominant economic state at the expense of the economic welfare of the rest of the world and of other partners. Some, such as Cordell Hull, US Secretary of State from 1933 to 1945, even felt that such groupings had been an important factor in causing WWII. Yet despite these reservations towards the customs union form of regionalism, it was still generally believed that they played a positive role in promoting free trade and this view was enshrined in the 1947 GATT where a special article - Article XXIV - was included permitting their formation.

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40 Viner 1950, p.41.
41 Many saw the Japanese Greater Co-prosperity Sphere and Germany’s Grosswirtschaftsraum as attempts to impose economic domination and exploitation on other countries. (Hirschman 1945; Dell 1963, pp.25-27). See also Arndt (1967) on fears that a free trade agreement between Japan and other developed Pacific economies would see Japan benefit at the expense of some of the other partners. This is also a forerunner of Grieco's argument about absolute versus relative gains discussed in Chapter Three.
42 Hull (1948, Vol. 1, p.349) This was in line with Hull's more general belief that unhampered trade dovetailed with peace while high tariffs, trade barriers and unfair economic competition were linked to war (p.81). But see Polanyi (1944) who argues that it was the threat that economic liberalism had posed to the human and natural components of the social fabric that had engendered the protectionist countermovement in the 1930s.
43 According to Paragraph 4, Article XXIV of GATT 'the purpose of a customs union or a free trade area should be to facilitate trade between the parties' Under this article an exception was made to the principle of most-favoured nation (MFN) outlined in Article I, and GATT members were allowed to reduce tariffs on imports from other members of a customs union or free trade area to which they belonged without having to extend these reductions to all other members of GATT. Nevertheless, the article also laid down conditions that must be met by a customs union or free trade area proposal before a derogation to Article I could be granted, reflecting concerns that customs unions and free trade areas could be used for protectionist purposes. Thus the GATT must be satisfied that a customs union or free trade area eliminates duties and other restrictive regulations of commerce across all traded goods within the union. To be sanctioned by GATT any proposal for a customs union or Free Trade Area must also include a plan and schedule for the completion of such a customs union or free trade area within a reasonable length of time. Should the Contracting Parties of GATT decide that the proposed agreement does not comply with these conditions then they may ask that the proposal be modified or else not proceeded with. See also Allen 1960, pp.2-3, 13-15. Bhagwati (1991, p.67) maintained that the original intention of Article XXIV had been to restrict the derogation accorded to preferential agreements from Most Favoured Nation obligations to only those agreements that required 100 per cent reduction in tariffs among their signatories and that therefore could justify the quasi-national status that such an exemption implied. According to Bhagwati, this original intention has been violated by skilful exploitation of certain ambiguities in Article XXIV.
However, in 1950 Jacob Viner broke the consensus on the part of protectionists and free traders in favour of customs unions when he provided a theoretical basis for the arguments about the impact of customs unions on global trade. Viner argued that customs unions and associated preferential tariff arrangements, from the point of view of free trade, were neither necessarily good nor bad. He distinguished between those arrangements that were trade diverting and hence should be opposed and those that were trade creating and hence should be encouraged. Customs unions were considered trade creating, if overall, there was an increase in the volume of goods supplied from lower money-cost sources, thereby freeing up additional revenue that could be used to buy other goods. On the other hand, they were trade diverting if they diverted purchases from lower money-cost sources outside the union to higher money-cost sources within the union. Trade diversion was considered wasteful and uneconomic because it resulted in a reduction in world output and a lowering of the general standard of living. Good customs unions were therefore those where the welfare gains from trade creation exceeded the welfare losses due to trade diversion.

According to Crawford (1968, pp.603-04), by including Article XXIV in the GATT, the signatories may have sown the seeds of the destruction of GATT. A similar view was expressed by Jackson (1969) and Curzon and Curzon (1976, pp.228-37). Curzon and Curzon maintained that the US, in pressuring the UK and Commonwealth countries to forgo their rights under the GATT to demand changes in the EC Treaty, had set a precedent that enabled future customs unions and free trade areas to be formed without formal GATT approval. They believed that changes to Article XXIV were necessary to safeguard the future of the open trading system. With the resurgence of regionalism in the 1980s and 1990s, there have been renewed calls for such a reform. See Anderson 1993, pp.49-51; Snape 1993.

Viner was fearful that the widespread interest in customs unions, particularly in Western Europe, in the immediate post-war period would detract from efforts to set up a world-wide multilateral trading system. Although free trade areas are generally included under customs unions in the trade diversion and creation debate, there is considerable disagreement over which is more likely to facilitate trade diversion. This debate concerns largely the relative merits of the common external tariff of a customs union and the mandatory rules of origin of a free trade area. See Anderson 1993, p.50.

Viner went against the until then widely held view that rivalry was a disadvantage and complementarity an advantage in the formation of customs unions. According to Viner (1950, pp.51-52), the reverse was true. It would seem then that customs unions between developed countries are trade creating (increasing specialisation plus rationalisation of existing productive capacity as a result of competition between parallel industries leads to freeing up of resources for other productive activity) while those between developing countries are trade diverting (from low cost extra-regional producers to high cost intra-regional producers) and hence are to be discouraged. Viner 1950, pp.42-43.

The cosmopolitan concerns of economists in the immediate post-war period such as Viner stand in stark contrast to the preoccupation of international politics scholars of the period such as Morgenthau with national interest and their efforts to dissuade US policymakers from pursuing policies inspired by universalism. Although Viner is largely known for his distinction between trade creation and trade diversion, he also saw other ways in which customs unions could be detrimental to general welfare. In this, he not only provided further arguments for why such unions should be opposed but also some insight into the motivation of countries in forming these unions. Thus Viner (1950, pp.55-56) argued that some countries might seek to form a customs unions so as to alter the terms of trade of the union with regard to the rest of the world. This could occur in two ways. First, trade diversion would lower the demand for imports by the union of certain goods from the rest of the world to such an extent that their price would fall to reflect the fall
Whereas customs unions had previously enjoyed the support of protectionists and free-traders alike - albeit for different reasons - Viner's distinction between trade creation and trade diversion broke that consensus and placed customs unions within the general debate of free trade versus protectionism, providing an enduring test for the stances taken up on these issues. Viner's principal focus was on the impact of customs unions on global economic welfare and not on the actual reasons for their formation, the principal focus of this thesis. His theory can be seen as both an attempt to dispel any misconceptions economists and policymakers may have about the beneficial effects of customs unions and more importantly to demonstrate to policymakers that such unions were not always in the general interest. Thus Viner's arguments against customs unions were important in that they strengthened the case of the multilateralists and probably made governments less sympathetic to regionalist schemes. They played an important role in the shaping of the attitudes of both economic theorists and policymakers in the 1960s and 1970s and hence constituted a formidable theoretical obstacle to regionalism.

The controversy about customs unions, and by association regional free trade areas, did not end with the publication of Viner's theory. Rather, it was kept alive in what was in effect an attempt by scholars to explain why it was that some governments seemed to favour customs unions and free trade areas as a means of trade liberalisation, when economic theory had clearly demonstrated that global free trade would be far more beneficial. This debate occurred in three quite distinct ways.

Some scholars such as Triffin, Balassa and Meade argued that although ideally free trade should be implemented on a world scale, practical considerations meant that it was more feasible at a regional level. Thus, according to Robinson, the decision to opt for a...
customs union rather than global free trade, was an empirical and political one based on what was practically achievable rather than an economic one concerning what was the more desirable.\textsuperscript{52}

Triffin attacked Viner's theory on various grounds. First, he contended that Viner's argument was flawed logically in that while it criticised the discriminatory effects of regional arrangements it accepted the trade diverting effects of current national boundaries.\textsuperscript{53} Second, he claimed that the criteria used by Viner to assess whether regional agreements were desirable or not were too narrow and based on economic reasoning of a static nature. The trade diverting effects of such arrangements, he argued, had to be offset not only by their trade creating effects but also by the stability and security that they afford against sudden, unilateral changes of policy by the partner countries.\textsuperscript{54}

Third, Triffin was critical of the failure of Viner's theory to take into account practical considerations - arising mainly from the change in the economic responsibilities of the state - that made agreements to reduce trade and payment restrictions less achievable at a universal level than at a regional level.\textsuperscript{55} For Triffin, 'the fundamental dilemma of international economic relations in this twentieth century lies in the inadequacy of national sovereignty as a framework for policy decisions and their administrative implementation in an interdependent world'.\textsuperscript{56} Yet, according to Triffin, this dilemma cannot be resolved overnight. Given the substantial increase in state intervention in the national economy, the \textit{laissez-faire} solution of the 19th century to world economic management inherent in the free trade doctrine is no longer possible.\textsuperscript{57} This is because states now value the objectives of economic stability, high employment, sustained economic growth and national security
more highly than the key objective of free trade, which is the rational allocation of resources.\textsuperscript{58}

Triffin stressed the importance of the number and homogeneity of participants in determining the degree and feasibility of cooperative arrangements.\textsuperscript{59} He argued that regional arrangements are therefore easier to negotiate than world-wide arrangements because of the smaller number and greater homogeneity of participants and the higher level of trust and confidence that is likely to exist among them. The partial integration of economic policies, he maintained, is more likely among countries that are both highly interdependent and conscious of their interdependence, and that have similar national viewpoints and policies as a result of ‘a common geographical and historical background and a relatively homogeneous stage of economic development.’\textsuperscript{60}

Triffin also disputed the claim that the regional arrangement would soon develop into a sheltered high cost area.\textsuperscript{61} He argued that in fact the removal of tariff barriers by member countries would force producers to compete with the most efficient producers in Europe and therefore reduce costs.\textsuperscript{62} He also dismissed claims that regionalism would lead to the division of the world into large rival autarkic blocs.\textsuperscript{63} Instead the liberalisation of post-war economic integration, he argued, had spread to non-members, resulting in freer, not more restricted world trade.\textsuperscript{64} Regional arrangements, Triffin, contended, would also introduce a

\textsuperscript{58} Triffin 1954, p.530. According to Triffin, states employ trade and payments restrictions as an important means toward attaining these objectives. They would therefore be unwilling to commit themselves to the elimination of those restrictions unless they were satisfied that these objectives could be achieved by another means. One such means, Triffin maintains, would be through simultaneous and reciprocal commitments to coordinate other elements of their economic policy. Since any agreement of this nature would require substantial surrenders of national sovereignty, states were likely to be highly reluctant to make such commitments.

\textsuperscript{59} Triffin 1957, pp.257-60. The belief by Triffin (1960, p.264) that regional cooperation ‘is far more likely to succeed in developing habits of continuous consultation and negotiation over a broad range of governmental responsibilities’ brings him close to the views of the neofunctionalists. See below, this chapter.

\textsuperscript{60} Triffin 1954, p.533. The regional level of partial integration of economic policies is one of three different levels of cooperation distinguished by Triffin. The other two are: total elimination of trade and payments restrictions and the complete integration of economic policy through political unification; and looser agreements at a world level to provide a general framework for cooperation at other levels.

\textsuperscript{61} Triffin 1960, pp.257-58.

\textsuperscript{62} This argument has been taken up in the 1980s and 1990s in defence of regional arrangements such as NAFTA and the EC Single Market. Scholars such as Morici (1993) have maintained that such arrangements, by increasing the international competitiveness of firms within the regional grouping, will in the medium to long term make these more eager to engage in competition with firms from other parts of the world and hence more likely to press for further global liberalisation. Those who believe that regionalism will impede global liberalisation, however, have argued that on the contrary the increasingly competitive environment within the region will increase the pressure from member country firms for protection and that this pressure will result in increased barriers for goods from non-member countries. The international competitiveness of such firms will be reduced even further. These and other more competitive firms will be disinclined to give up the advantages they derive from their privileged access to such a large market, thereby diminishing support for further liberalisation at a global level. See Robertson 1993.

\textsuperscript{63} Triffin 1960, pp.259-60.

\textsuperscript{64} Triffin also argued that the fact that intra-regional trade accounted for a much lower percentage of total trade in other potential blocs than in Western Europe would seem to rule
greater degree of security in international economic relations by acting as safeguards against future unilateral restrictions by member countries against one another. Triffin considered that this increased security might play as important a role as trade liberalisation itself in encouraging producers to export.\textsuperscript{65} He further argued that it would help limit the spread of the deflationary policies and trade restrictions during an international recession.\textsuperscript{66}

The major argument of the 1950s and 1960s was thus set out between Viner and Triffin, though major trade theorists, like Balassa continued to argue this issue over the following years.

Some scholars such as Meade, Scitovsky and Balassa tried to modify Viner's customs union theory by bringing in new factors that would determine whether a customs union increased or decreased global economic welfare.\textsuperscript{67} By far the most important modification out the autarkic bloc scenario. According to Triffin (1954, p.535; 1957, pp.xi, 143), it was regional economic cooperation undertaken through bodies such as the Organisation for European Economic Cooperation (OEEC) and the European Payments Union (EPU) that had finally enabled participating countries in Western Europe to liberalise their trade and exchange restrictions both among themselves and then against third countries after international institutions such as the International Monetary Fund (IMF) had failed to stop the proliferation of bilateral agreements.

As a result of the recent revival of interest by governments in regional arrangements, the debate among economists about the compatibility of regional trade liberalisation with global trade liberalisation using Viner's notions of trade creation and trade diversion is being pursued with renewed vigour in the 1980s and 1990s. See for example Schott 1991, p.2; Bhagwati 1992; Krugman 1991; Lawrence 1991, pp.25-26. Drysdale's concept of open regionalism can be seen as an attempt to overcome Viner's objections to regionalism and the resistance to institutionalised economic integration in the Asia Pacific region. See Drysdale 1991.

\textsuperscript{65} Triffin 1957, p.263.

\textsuperscript{66} Similar arguments in favour of regional economic integration were made by Meade and Balassa. Balassa (1961, pp.13-14) claimed that the considerable increase in government intervention in national economies in the post-war period constitutes a new impediment to free trade. To achieve genuine free trade, he maintained, it is no longer sufficient to remove all tariff barriers. Monetary, fiscal, and other economic policies must be harmonised as well. For reasons similar to those advanced by Triffin, such harmonisation is more feasible and likely to be more far-reaching among a smaller regional group of countries. The feeling of solidarity necessary for harmonisation would be greater among a group of adjacent countries and the mutual benefits of harmonisation would be easier to appraise. Finally, Balassa argued that the formation of customs unions and economic unions is not incompatible with multilateral trade liberalisation and cites the case of the EPU as proof that such unions can actually create trade with the rest of the world.

In his \textit{The Theory of Customs Unions}, first published in 1955, Meade (1968, p.114) justified regionalism on political and strategic grounds. He argued that even should the proposed Benelux customs union be shown to reduce rather than raise economic welfare, if he were a citizen of a Benelux country he would still support it on the grounds that 'with modern developments of transport, communications, and technology larger social and political units are likely to be more viable and self-reliant politically and strategically.'

One of the earliest modifications to Viner's theory was that of Meade who believed that the effects of customs unions on world consumption as well as trade should be considered. According to Meade (1955, pp.40, 44), a customs union which is trade diverting in terms of existing world production may still increase world economic welfare if, by reducing the market prices of existing imports, it expands the imports of member countries from the rest of the world. Welfare may still be increased despite the diversion of trade in a particular product from a cheaper outside source, if lowering the actual market price of that product in the importing country results in increased consumption and an expansion of that country's total imports.
to Viner's theory was that by economists such as Scitovsky, Balassa, Johnson and the Wonnacotts who maintained that as well as bringing welfare increases through trade creation, regional economic integration could increase welfare through greater economies of scale, external economies, increased competition and the reduction of oligopolistic opportunities, greater certainty about market access, the stimulus to investment and other dynamic factors. By increasing the potential gains in economic welfare that could be

68 Viner (1950, pp.45-47) had dismissed previously claims that customs unions could be justified on the grounds of welfare gains from economies of scale. In 1958 Scitovsky (1958, pp.10, 26) pointed out that the stock argument for free trade, that it would result in a beneficial reallocation of production based on the differences in comparative advantage between the countries involved, was of little significance to a customs union in Western Europe where the countries involved were all industrialised. Far more important, in terms of increasing economic welfare, he argued, were the effects of increased competition on the behaviour of governments, entrepreneurs and workers, and the resulting increase in scope for large scale production or economies of scale.

69 Balassa (1966, pp.122-23) also indirectly highlighted another effect of customs union formation on the economic welfare of non-member countries, namely investment diversion, when he described the diversion of US investment from the UK to the EC in order to benefit from increased economies of scale. It is likely that such a diversion played a part in the decision by the UK to seek membership of the EC. Kindleberger (1968, pp.192-93) was also concerned mainly with the effects of customs union formation upon investment patterns within the union. He discussed the possibility of a customs union stimulating new investment from abroad. This, he believed, could be due to the desire by overseas manufacturers to maintain their markets in the union. But he argued that it was more probably a consequence of the advertisement effect of the formation of a customs union upon overseas firms previously unaware of the investment opportunities in the countries in the union. Although he did consider the negative effects of such a stimulus in terms of investment diversion within the union he ignored the possibility of similar effects on non-member countries. Such effects, as we will see in later chapters, were a factor in the development of economic regionalism in the 1980s. See also Chapter Three, p.104.

70 Balassa 1962; Johnson 1962, pp.59-60; and Kindleberger 1968, p.191. In 1961 Balassa rejected the equilibrium bias or static nature of Viner's analysis and emphasised the increase in welfare that would result from dynamic factors. Increased growth brought about by the fusion of national markets, he argued, would also increase economic welfare. Although that increase would occur over a much longer period than increases due to trade creation, it could offset any short term welfare loss due to trade diversion. Although Balassa saw dynamic effects also applying to the EC - they were to become the driving force behind the push towards the Single Integrated Market in the 1980s - he saw them as particularly relevant to developing countries where welfare gains through growth were likely to be greater. According to Balassa, regional economic integration between developing countries could be beneficial on purely economic grounds. Moreover, the dynamic effects of integration will eventually result in increased trade with countries outside the regional grouping though the composition of that trade will be different. (Balassa 1962, pp.184-85). Balassa also maintained that regional integration schemes would occasion far less trade diversion than the most likely alternative: national import substitution based industrialisation. (See Balassa 1962, p.188). The Wonnacott brothers, in their study of the economic effects of free trade between the US and Canada published in 1967 also drew attention to the considerable static and dynamic gains from economies of scale in a customs union or free trade area. See Wonnacott and Wonnacott 1967. Given the difficulty economic analysis has had in quantifying these so-called dynamic effects, many studies have chosen to ignore them. Thus Kindleberger (1968, p.193) asserted that 'the importance of economies of scale cannot be demonstrated'. Robson (1984, p.34) justified his failure to consider the dynamic effects of integration on the grounds that 'economic analysis has so far shown itself incapable of throwing much light on them'. Yet according to the Wonnacott brothers (1967, pp.271, 335), even if the dynamic gains from economies of scale were excluded on the grounds that they were difficult to calculate, the static gains in a customs union from economies of scale alone would increase the total gains from previous estimates of between 0.05% and 4% of GNP to about 10.5%. These static gains were the result of the increased size of the firm, the increase in managerial and organisational efficiencies arising from the increased specialisation and competition of a
derived from the formation of a customs union, these new factors reduced the chances that a customs union would be trade diverting rather than trade creating. They thus weakened the theoretical arguments used by other liberal economists such as Viner against customs unions and at the same time increased the incentives for governments to enter such arrangements.71

Other scholars such as Johnson and Cooper took more directly into account the role of governments in the formation of customs unions. To differing degrees both were attempting to integrate political factors into their theories of custom union formation and their work reflected a broader concern by some economists and political scientists to combine both political and economic explanations in a revival of the field of enquiry of international political economy.72

Johnson widened the definition of economic welfare from its narrow preoccupation with private consumption of goods and services to include the consumption of public goods.73 Johnson posited a preference for industrial production by governments and treated industrial production as a collective or public consumption good.74 For Johnson, it was this preference for industrial production that led states to prefer a customs union to global free trade. The formation of a customs union, he argued, was motivated by concern to increase industrial production and efficiency through an expanded export market rather than to increase private consumption by replacing more expensive domestic production with cheaper imports.75

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71 Arguments about these gains made first in the 1960s were to play a significant role in the new regionalism of the 1980s and in particular in the move to complete the EC internal market and in the Canadian decision to request a free trade agreement with the US in the 1980s.
72 See Cooper 1972; Gilpin 1987, pp.8-11; Staniland 1985; and Murphy and Tooze 1991a; 1991b.
73 This new definition provided Johnson with the basis for a theory of protectionism, tariff-bargaining, and customs union formation. According to Johnson, past theories, because of their normative bias, had been more concerned with explaining why governments should act differently, rather than explaining their actual behaviour. His theory, he believed, would be able to explain why the commercial policies of countries in the real world are so different from those orthodox international trade theory and welfare economics would lead us to expect. See Johnson 1965, pp.256-57.
74 Johnson 1965, pp.281-82. He was, however, careful not to reject the arguments against protectionism and pointed out that although his theory assumes that government behaviour is based on the belief that industrial production increases economic welfare, it does not assume that such a belief on the part of government is justified.
75 Johnson 1965, pp.280-81. Johnson claimed that this preference for industrial production also explained why countries formed customs unions with other countries at a similar stage of economic development when, according to international trade theory, the economic gains from such unions were likely to be small. Johnson argued that countries are likely to prefer customs unions with countries at a similar stage of economic development, since such countries are more likely to share a similar preference for industrial production and enjoy a similar degree of comparative advantage in industrial production. Johnson also maintained that, given this preference for industrial production member countries are likely to insist on a fair distribution of industrial production amongst the members.
Johnson identified three reasons why such a preference may arise.76 First, given the link between the industrial strength of a nation and its power and influence in the international arena such a preference may be the result of nationalist ambitions and rivalry with other countries.77 Second, such a preference may be due to the power of industrial interest groups - both employees and employers - to effect a redistribution of income in their favour.78 Finally, it may arise out of the belief that there are important externalities to be derived from industrial activity. These three reasons may thus be considered causal factors in the formation of customs unions.79

Richard Cooper also rejected the arguments that justified customs unions on the basis of more efficient allocation of private goods.80 For Cooper the logical conclusion to be drawn from such arguments was that the optimum integrated area was the world as a whole and that anything less, such as regional economic integration, would result in an inefficient allocation of resources. Instead Cooper maintained that the case for regionalism had to be based on the argument that an enlargement of governmental jurisdiction was necessary for the optimal provision of public goods.

C.A. Cooper and Massell (1965, pp.461-76) made similar arguments to those of Johnson concerning the preference for industrial production and the formation of customs unions but dealt specifically with less developed countries. They argued that many of the less developed countries have accepted the arguments of Prebisch and others in favour of a policy of accelerated industrialisation. They maintained that given a preference for industrial production a customs union will enable two or more countries to protect a given amount of industry at a lower cost than that each would have to bear if they were to do so separately.

According to Johnson (1965, p.258), the preference for industrial production might be due to one or more strongly held beliefs on the part of the electorate in a particular country concerning the contribution of industrial production to the attainment of certain key objectives.

This explanation has strong affinities with the realist explanation of state behaviour in the international arena.

This argument about the role of interest groups in determining domestic and international policy foreshadows a similar argument by Mancur Olson about the link between powerful interest groups and economic stagnation. See below this chapter, p.41.

Johnson's explanation for a preference by governments for regionalism would appear to be borne out in the argument of Servan-Schreiber (1969) that further economic and political integration was necessary in Western Europe if European firms were to be able compete successfully with US and Japanese firms. Extending Schumpeter's contention (See Schumpeter 1976, pp.84-85) that in future, world economic competition will be centred on the development of new products and new production techniques, Servan-Schreiber argued that if Europe did not wish to become a mere subsidiary of corporate America or to be relegated to the status of a second-rate industrial power, it would have to become more competitive in high technology. Since the Common Market had not reversed the growing technology gap between the US and Western Europe, nor had it reduced the high level of US foreign investment in Western Europe or stemmed the loss of European human capital - the so-called brain drain - to the US, Servan-Schreiber called for the establishment of a federal Europe, common economic, financial and industrial policies, uniform company laws and an integrated capital market. Although Johnson conceded both the importance of the accumulation of capital in productive knowledge in the determination of a state's dynamic comparative advantage and the role played by large and competitive markets in increasing expenditure in research and development by increasing the returns such expenditure would bring, he still believed that the best way to increase that comparative advantage was through freer trade with the US and the rest of the world and not through increased European protectionism or government subsidisation of research and development activity - be it at European or a national level. See Johnson 1968a, pp.28, 39-42.

Cooper 1976, pp.43-44.
Cooper saw public goods as having two components. The first was technological in nature and the argument was similar to some of the arguments raised by customs union theorists in relation to private goods. A larger governmental jurisdiction would allow economies of scale in the provision of collective goods such as defence, scientific research, health, and irrigation.\(^{81}\) It would also limit the ability of persons and firms to evade government regulatory and fiscal measures.\(^{82}\) An enlarged governmental jurisdiction might also be necessary for the success of measures aimed at economic stabilisation, particularly those taken by small open economies to stabilise income and employment levels in the face of external macro-economic disturbances.\(^{83}\)

The second component was the diversity of preferences in terms of the nature and type of public goods to be provided.\(^{84}\) Cooper saw such a diversity as favouring smaller and more numerous jurisdictions that were homogeneous in their preferences for public goods and that allowed for closer democratic supervision of politicians whereas technological considerations would seem to justify much larger and less numerous jurisdictions.\(^{85}\)

In sum, customs union theory has had two almost contrary impacts on moves towards regionalism related in part to changing economic circumstances. Initially in the 1950s and 1960s, the arguments of Viner further strengthened the case of the globalists against the regionalists and probably made government policymakers less favourable to regionalism on ideological grounds. Yet the fact that the EC was established in the 1950s despite this unfavourable environment in terms of economic ideology lends support to the argument that political calculations were the real basis for its creation.\(^{86}\) The rather low initial estimates of the welfare gains that could be attained by forming a customs union no doubt also served to discourage states from doing so, particularly in the 1960s when most

\(^{81}\) Cooper 1976, pp.45-47. According to Cooper, larger governmental jurisdiction may be warranted due to the presence of externalities, that is, the effect of activities external to a jurisdiction on the welfare of the residents of that jurisdiction. The cost of providing services such as pollution control and malarial control will be reduced and the incentive to provide them increased if the size of the jurisdiction is increased.

\(^{82}\) Cooper argued that the ability of governments to provide adequate public goods was limited by the mobility of the objects of their policy action, that is, the ease with which the persons or firms that were subject to government policy decisions could relocate their assets and activities. If this mobility exceeded the limits of existing government jurisdictions, the ability of governments to regulate activity within their jurisdiction and to redistribute income would be impaired as firms and persons who were subject to such regulation and redistribution taxes might move their activities to another jurisdiction with less onerous regulations and taxes.

\(^{83}\) This argument is similar to that made by Triffin earlier in this section.

\(^{84}\) Cooper 1976, pp.49-50.

\(^{85}\) The diversity of preference argument seems to foreshadow the more recent argument that regionalisation is the result of preferences for different forms of capitalism. See Chapter Three, p.89.

\(^{86}\) This has already been argued above. But see also Robinson (1960, p.xxii) who maintained that the economic arguments for the further economic integration of nations are rather inconclusive and that those in favour of such unions for political and defence reasons should base their arguments on these rather than on economic grounds. Viner (1950, pp.91-105) argued that the motivation for a customs union differs according to the size of the country involved. Smaller powers are attracted to them on economic grounds while for larger powers the political arguments are more important.
governments were already experiencing high growth rates and so had little need to seek alternative ways of boosting growth. In the 1980s, however, the kinds of arguments made earlier by Scitovsky and Balassa about how customs unions and free trade areas can dramatically boost economic welfare, efficiency and competitiveness revived the interest of decision-makers in customs unions on pragmatic grounds, particularly at a time when the ideology of free trade was being questioned and governments were faced with slow or negative growth and high unemployment. The question remains, however, as to why that interest was not revived earlier in the 1970s when governments were faced with these same problems.

The neo-liberal argument: states and markets.

So far we have discussed the impact of liberal economic thought on arguments about free trade and customs unions related to regionalism. There is, however, another way in which the ideas of economic liberalism have impacted on the development of regionalism. Here again, that impact has at times reinforced regionalist tendencies, at times weakened them.

For our purposes, the main argument among the neo-liberal economists has been about whether the development of regions would encourage or discourage state intervention in the economy. One group of theorists such as Allais, Röpke, Heilperin, Racine and Hayek, argued that regions and federations would discourage state intervention in the economy. But others, such as Erhard, maintained that regionalism would actually encourage such state intervention.

The free trade argument against state intervention in international trade has, of course, its parallel at the domestic level in the form of laissez faire capitalism or neoliberal economics. The basic argument here is that the state should intervene as little as possible in the workings of the market. The market is the most efficient allocator of resources and any intervention by the state will only distort market forces and create inefficiencies. If left alone the market will eventually reach equilibrium of supply and demand. These ideas had been discredited to a large extent by the Great Depression and WWII and the post-war years had seen the rise of a new economic orthodoxy in the form of Keynesianism. Nevertheless, the victory of Keynesianism was not complete and many economists continued to adhere to neo-liberal economic ideas. In the 1950s certain economists such as Allais, Röpke, Racine and, to a lesser extent, Heilperin saw the creation of a single

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87 This argument against state intervention in the market was associated with Smith's theory of value. According to Smith (paraphrased in Deane 1989, pp.65-66), the real or natural price of a commodity was the price it fetched in a market in which there was long term competitive equilibrium in the supply and demand of that commodity. This kind of equilibrium, Smith argued, was possible in a market where producers and consumers enjoyed perfect liberty, that is, in a market free of government intervention and producers' monopolies.

88 See Johnson (1978) and Hall (1989) for a discussion of how this occurred.
European economic market as a way of decreasing state involvement in the domestic economy, particularly in the form of national planning.89

This view was similar to that of Hayek, a leading liberal economic thinker whose work was also to play an important role in the neo-liberal economic revival of the 1970s and 1980s. Hayek believed that much of the interference with economic life that had become commonplace at the national level since 1914 would be impracticable in a federation or economic union that was composed of people of different nationalities and different traditions.90 According to Hayek, planning or central direction of economic activity was only possible in a territory where the feeling of national solidarity or nationalism among the inhabitants was such that the majority were willing to sacrifice some of their economic well-being in order to subsidise one particular group of people.91 Hayek concluded that in a federation composed of people of different nationalities and different traditions there would be far less willingness to accept such sacrifices and the central government would meet with much greater resistance to any efforts on its part to interfere in and regulate the impersonal forces of the market.92

For Hayek, then, the abrogation of national sovereignties through interstate federation was 'a necessary complement and the logical consummation of the liberal program'.93 It is perhaps no coincidence then that given these arguments by Hayek about the consonance between the liberal program and interstate federalism the return to favour of economic liberalism in the 1980s was also accompanied by an increased interest in economic regionalism.

Thus liberal economics has provided an important ideological argument against state interference in international trade, an argument which has been used to redefine national sovereignty so as to offset concerns about any loss of economic sovereignty. A government that has an ideological commitment to less active intervention in the market is less likely to be concerned about abandoning some of the instruments of that intervention

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89 Balassa 1961, pp.8-9. According to Haas (1958a, p.22), others such as Racine felt that the more technocratic federal institutions in Brussels would be less likely to tolerate political interference in the economy by vested interests.

90 Hayek 1949, p.265. Hayek (1949, pp.255-57) argued that a federation created for the purpose of securing peace between its members could not succeed unless it was accompanied by an economic union. If the tariff barriers between the constituent states of a federation were not abolished the solidarity of economic interests among the inhabitants of a particular state would be maintained and even strengthened. The conflict of interests between it and the other states would then become so intense that the coherence of the federation would be threatened.

91 Hayek 1949, p.262.

92 Thus, for Hayek (1949, p.268) in a federation the powers for socialist planning that would have to be relinquished by the governments of the individual states would not be able to be taken over by the new central government. Some of these would be devolved to even smaller sub-units but competition between these units would ensure that their regulatory activities remained limited in scope.

93 Hayek 1949, p.269. Because economic life under a federation was likely to be less regulated, interstate federalism, Hayek argued, would bring us closer to the liberal ideal of the relationship between state and individual. It would also curb the dangerous trend toward dirigisme in Britain and elsewhere.
and may even engage in contractual arrangements in the form of customs unions and free
trade agreements to ensure that future governments of a different ideological persuasion
will not be able to reinstate them. Such governments are not likely to see the
abandonment of such instruments as commercial policy or monetary policy as a threat to
their sovereignty.

Hayek also saw a further benefit in interstate economic federations. The formation of
such federations, he maintained, would also bring an end to the monopolistic positions of
national organisations such as trade-unions, cartels and professional associations. In this
he foreshadowed Mancur Olson's argument - first outlined in *The Logic of Collective
Choice* and developed further in *The Rise and Decline of Nations* - that states are
really the captive of distributional coalitions of vested interests and act on their behalf.

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94 This has been seen as an important motivation on the part of the Canadian and Mexican
governments in seeking free trade agreements with the US in the 1980s. See below, in
Chapter Six.

95 Others are more likely to see the abandonment of sovereignty in areas of economic
policymaking as undermining the whole concept of democratic government and the basis of
much nineteenth and twentieth century democratic theory. (See Held 1991, pp.197-235). The
problem of democracy was an important issue in the Danish and French referenda on the
Maastricht Treaty. For a discussion of the growing tension between economic liberalism and
political liberalism in international relations, see Calleo 1973, pp.251-59. This liberal
economic view of the state is highly contested. Calleo, for example, was highly critical of
those liberal economists who see the state in wholly negative terms. He described the
democratic nation-state as 'the highest form of rational organisation man has yet developed,
or will develop in the foreseeable future.' According to Calleo, the destructive penetration of
the social and political organism of the state by either private interests or another state in the
name of liberalism is in fact 'nationalism' and 'mercantilism' in their pathological sense.
International liberal economics, he argued, needs to undergo a similar transformation to that
undergone by its domestic counterpart which under the influence of 'broader political
humanism, transformed itself from an apology for *laissez-faire* into the theory of the modern
welfare state.'

96 Hayek 1949, p.261. Such an argument was also used by Scitovsky (1958, pp.20-22) to show
that customs unions could increase economic welfare by breaking up monopolies and
oligopolies and increasing competition and efficiency. At the same time Scitovsky argued
that customs unions could also lead to increased protectionism and the formation of European
monopolies, oligopolies and cartels.

97 Olson 1982. Hayek's arguments in favour of regions were taken up by Olson who claimed that
the formation of the Common Market in the 1950s broke the power of the distributional
coalitions and brought about rapid economic growth. Olson (p.131) argued that the large
increases in economic growth in EC member countries during the 1960s were attributable to
the breaking up of distributional coalitions by jurisdictional integration. However, Olson
(p.141-42) conceded that jurisdictional integration in the past had not been inspired by liberal
teaching but was the result of nationalistic, political and military considerations. Thus the
formation of the Common Market was motivated by fears of Soviet aggression, the desire to
prevent further Franco-German wars and the wish to emulate the US and escape its
domination.

98 Olson 1965.

99 Thus pluralist politics leads to a proto-protectionist position and as a result everyone's welfare
- both inside and outside the state suffers. Olson's contribution was to show the conditions
under which distributional coalitions could be undone by state power. Olson has restated and
further refined his argument in an article published in *The World Economy* in 1987. According
to Olson, the real benefits of freer trade in terms of increased economic growth and
development come from the reduced ability of distributional coalitions to influence
government policy and not from the more efficient allocation of resources among existing
industries as the more traditional comparative-static approach would have it.
However, at the same time economic neo-liberals were also wary of the EC because they feared it would be captured by those who wished to institute economic planning at a European level. These fears were reinforced by the arguments of other economists such as Philip that 'the market can be extended not by liberalising but by organising.'\textsuperscript{100} Thus Germany's Economics Minister in the 1950s and early 1960s, Ludwig Erhard, maintained a hostile attitude to both the ECSC and the EC, preferring instead liberalisation at a global level under the auspices of the GATT. Erhard opposed the creation of supranational institutions at both the sector and regional level on the grounds that they would inevitably result in 'supranational centralising dirigisme'.\textsuperscript{101} It was this fear, fulfilled in part later in the paralysis of the central institutions of the EC, that was one major reason for the push to renewed regionalism of the 1980s.\textsuperscript{102}

Neo-liberal economics or economic rationalism as it has also been called was to play an even more important part in the revival of regionalism in the 1980s. With the failure of Keynesian economic policies to provide a solution to the stagflation of the 1970s, neo-liberal economic doctrine became the dominant economic ideology.\textsuperscript{103} Governments increasingly embraced neo-liberal inspired policies, particularly those that called for reduced government intervention and increased emphasis on market forces.\textsuperscript{104}

\textsuperscript{100} Philip 1957. For Philip, in an era of monopolistic competition, the choice was between an economy directed by the large enterprises or one directed in the wider public interest by the government. But, he argued, since increased economic interdependence had made planning at a national level impractical and counter-productive, planning to be effective had to be carried out on a wider scale. The EC, he believed, was an attempt to do just that. Similar views about the need for increased state intervention in a customs union were expressed by Balogh and Byé. (See Balassa 1961, pp.8-11). The debate about whether the EC should be used to promote or curtail government intervention in the workings of the market continues to the present. It has often taken the form of a debate over the need for industrial policy at the EC level. In the 1980s it was also evident in the debate about whether the EC should adopt common standards relating to wages and working conditions. See Chapters Four and Five below. This concern about wage and working condition has also figured quite prominently in the debate leading to the ratification of the NAFTA agreement by the US Congress.

\textsuperscript{101} Haas 1958a, pp.276-77. Erhard's opposition reflected no doubt a concern that the EC would be dominated by France, a country which at the time was avowedly protectionist and practised indicative planning. The fact that Adenauer chose to disregard Erhard's views and to take West Germany into the EC was seen as confirmation that political motives were more important than economic motives in the West German decision to participate in the EC. It is interesting to contrast the fears of Erhard with the accusation made in the early 1980s by Holland (1980) that the EC as it was originally conceived was a liberal capitalist project. Holland, working within the context of the politics of the British left and its traditional opposition to British membership of the EC, tackled two related issues: the reasons for the continuing crisis of European integration and the question of what the attitude of those who favoured socialist policies should be to the Community. He concluded that the original integration programme as outlined in the Treaty of Rome had been an attempt to legitimate the prevailing economic and political ideology of liberal capitalism.

\textsuperscript{102} See below, in Chapters Four and Five.

\textsuperscript{103} For a discussion of the differences between the ideas of Keynes, Friedman and Hayek concerning the causes of economic depression, see Lilley 1977, pp.25-32. For a discussion of the Keynesian revolution and monetarist counter-revolution, see Johnson 1978.

\textsuperscript{104} This was particularly the case with successive Thatcher governments in the UK and the Reagan and Bush administrations in the US. (See Held 1989, pp.139-140, 160). The idea of
Policymakers were swayed by the argument that economic growth, productivity and economic competitiveness would be increased if there was less government intervention in the economy and greater reliance on market forces.105

However, the neoliberal revival has been blunted by the counterposing of arguments that could be used to justify protectionism by the strategic trade theorists and traditional liberals. In short, there has been a return to both the free trade versus protectionism debate and the related debate over the role of the state in the economy. These issues will be dealt with in more detail when we come to the debates of the 1970s and 1980s in the next chapter.

In sum, liberal economic thought has an important place in any account that tries to explain why regionalism occurred and did not occur. As noted in the text and references here, the arguments of Viner, Triffin, Balassa and others have been very influential in the policy debates on regionalism. Further, the arguments advanced by Hayek have had a profound influence on government policymakers by providing them with an attractive economic rationale for adopting regionalist strategies as well as or instead of global free trade strategies. This has been particularly true of the 1980s and early 1990s when policymakers were able to argue that the benefits of free trade, such as increased economic growth and competitiveness through increased economies of scale, could be more readily obtained through regional free trade than through an imperfect GATT system. Others have been drawn by the argument that regional free trade is not inimical to global free trade but rather an intermediate step towards it. As we shall see later, this argument was even more persuasive to policymakers in the 1980s than it was in the 1950s and 1960s. Still others have been attracted by the claim by some advocates of a more extreme version of economic liberalism - economic rationalism - that regional free trade is a way of reducing state intervention in the economy and re-establishing the discipline of the unfettered market.

the minimal, ultra-liberal state is a persistent theme in the work of Hayek. See in particular, Hayek 1976, p.172.

105 For a discussion of the importance of ideas in bringing about change in government policy, see Odell 1982. Odell's argument would appear to be confirmed in this thesis since policymakers in embracing regionalism appear to have been swayed by arguments that trade liberalisation can increase economic growth, economic competitiveness and efficiency and promote industrialisation and movement to higher valued added production; and that regional trade liberalisation is not only easier than multilateral liberalisation but it can encourage further liberalisation at the multilateral level. (That is, policymakers in choosing regionalism are also choosing multilateralism). This points to the importance of theories not only in explaining why certain things are so but in helping to make them so. Thus we can see how some of the impediments raised by realism to regionalism concerning the loss of sovereignty have been weakened in the 1980s through the power of ideas, particularly those of economic rationalism about the need to constrain the power of the state. The importance of ideas in bringing about change in government policy has led some liberal scholars, such as Peter Haas (1990, 1992) to attribute a key role to certain groups of intellectuals or epistemic communities in facilitating the spread of ideas across borders and the development of common interests and cooperation among governments. See also Chapter Three for discussion of the role of both institutions and epistemic communities in facilitating cooperation generally among states and in promoting regionalism.
Yet economic liberalism was not wholly supportive of regionalism. In the 1950s and 1960s in fact it could be argued that it was more supportive of multilateral trade liberalisation than regionalism. This was due partly to the belief that closed regionalism had been an important factor in bringing about WWII and to the suspicion that this new regionalism was simply an attempt to return to the protected markets of the past. The push for multilateralism was also due to the optimism that the newly created multilateral arrangements would bring about trade liberalisation at a global level and hence should be preferred to any regional alternatives.

**Liberal political theories of regionalism in 1950s and 1960s**

These contending ideas in economic liberalism also had an important influence on the ideas of many liberal scholars of politics in the 1950s and 1960s who were to take up the study of regionalism. Scholars such as Haas believed that the pursuit of increased economic welfare was becoming increasingly important as a determinant of individual and group political loyalties than traditional nationalism. This interest in economic welfare, they believed, could be used to engineer a shift in loyalty from the nation state to regional authorities. Thus the liberal political science scholars used the arguments of economists to buttress their political arguments about integration and these ideas were fundamental to neofunctionalist theorists of regional integration.

In this section on the politics of regionalism I will discuss first the contribution of Jean Monnet to both the theory and practice of regionalism. Next I will look at the two variants of liberal integration theory: Haas's neofunctionalism and Deutsch's transactionalism, with particular focus on their explanations for how regionalism comes about. Then I will examine the debate that arose between liberal and realist scholars over regionalism. Finally I will discuss why liberal scholars abandoned the study of regionalism in the 1960s and declared their theories to be obsolescent if not obsolete.

**The practice of Jean Monnet.**

Any serious examination of post war regionalism must begin with its leading practitioner, Jean Monnet. Monnet played an key role in the establishment of regional institutions in post war Western Europe and these institutions and the regionalist practice that developed around them provided the basis for the later neofunctionalist theory of regional integration.\(^{106}\) It is also interesting to compare the arguments used by Monnet in

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106 Jean Monnet (1888-1979) was a distinguished French economist and expert in financial affairs who played an important role in both domestic and international policymaking. He was Deputy Secretary General of the League of Nations from 1919 to 1923. In 1925 he became the European partner of a New York investment bank. In 1939 he was a member of the Franco-British Economic Coordinating Committee and in June 1940 he proposed Franco-British Union in the wake of the German invasion of France. During WWII he served in Washington on the British Supply Council. In 1944 he was Minister for Commerce in the French provisional government and drew up a plan for the modernisation and equipment of France -
favour of regional integration in Western Europe with some of the explanations by liberal economic theorists examined earlier in this chapter.

At the end of World War II, Monnet had reached the conclusion that the economic and political unification of Europe was essential to achieve the two inseparable political and economic goals of peace and prosperity. A central union was required that had the power to lower customs barriers within Western Europe, to create a large European market, and to prevent a return to the nationalist rivalries of the past.\textsuperscript{107} A reconstitution of Europe on the old basis of national sovereignty, he feared, would see a return to economic protectionism and mutual suspicion, resulting in the build up of large armies and the consequent threats to European peace and security. New political and military alliances would be formed and social reforms would be prevented or postponed with their inevitable domestic political effects. In short, Monnet saw that if something was not done to stop this vicious circle, Europe would be condemned to relive the tragedies of the past. Thus economic integration would serve political necessity.\textsuperscript{108}

Recent technological developments had increased the necessity for a large European market. For Monnet there was a definite causal link between market size, economic prosperity and great power status. The European countries, he argued, were too small to ensure the prosperity of their peoples. Only a larger market brought about by the formation of a common economic unit could do so. European countries had become too small as a result of modern technical developments that favour countries the size of the USA and Russia, China and India.\textsuperscript{109} Neither France nor its neighbours could be modernised or enjoy world eminence through their own efforts.\textsuperscript{110} The relationship of these ideas of Monnet to the currents of economic thought at that time on economies of scale and customs unions (outlined above) is clear.

Monnet also believed that a European federation was essential for the survival of the alliance between the Western European states and the United States against the Soviet Union. He saw the dependence of European states on the US for their military security.

\textsuperscript{107} Monnet 1976, pp.319-20. These and all subsequent references to Monnet's \textit{Mémoires} have been translated from the original French by the author.
\textsuperscript{108} Thus, while Monnet shared Hull's belief that protectionism was likely to lead to political conflict, for Monnet the solution was not just free trade but political unification as well.
\textsuperscript{109} Monnet 1976, p.588.
\textsuperscript{110} Monnet 1976, p.400.
and economic support as likely to have negative consequences both in the US and Europe and hence as untenable in the long term.\textsuperscript{111}

However, Monnet was convinced that neither the more idealistic path to European unity in the form of the Council of Europe nor the more pragmatic path of the Organisation for European Economic Cooperation (OEEC) would work.\textsuperscript{112} Both these bodies lacked a clearly defined common interest and a regime of strong common discipline. Monnet saw that they would soon become paralysed as a result of the rule of unanimity that governed their decisions. He believed that while states retained full sovereignty, it would be impossible to solve any of the European problems.\textsuperscript{113} He argued then that the process of federating Europe should begin with concrete undertakings among states that were more ambitious than those envisaged for the Council of Europe and the OEEC but also more pragmatic in their process. There should be an area specific approach to cooperation but this should be pursued more boldly.\textsuperscript{114} This, he argued, would create real solidarity between the inhabitants of the countries involved. Gradually such cooperation would spread to other areas in a process that he called \textit{engrenage} and which bears close

\begin{itemize}
  \item \textsuperscript{111} Monnet 1976, p.393. For Monnet (1976, pp.418-20), only a federated Europe could develop the cohesiveness of effort to counter the threat posed by the Soviet Union. Only a European federation, he argued, would enable the European states to play an active role in international affairs and thereby overcome the temptation to move to neutrality, that he believed came with passivity. Only a federated Europe, Monnet believed, would remove the 'cancer of fear' that the rehabilitation of West Germany would engender among its neighbours and allow them to face the Soviet threat together. Finally, only a unified Europe would enable the European states to regain the eminent role that they had once played in world affairs and to have some influence over the future direction of such powers as the US. See Monnet 1976, p.448.
  \item \textsuperscript{112} The Council of Europe was established in 1949, originally with the aim of promoting greater political unity among Western European countries. The OEEC was set up in 1947 to coordinate US economic assistance to Western Europe under the Marshall Plan and to liberalise trade among its members. Both, however, failed to develop into the supranational bodies that some such as Monnet and Marjolin had hoped they would become. In both cases the main opposition to this development came from the British and Scandinavian governments. For further details, see Marjolin 1953, pp.44-50.
  \item \textsuperscript{113} Monnet 1976, p.643.
  \item \textsuperscript{114} Here Monnet had the European Coal and Steel Commission (ECSC) as his prime exemplar. See Monnet 1976, pp.395-6, 536; Haas 1958a, pp.242-44. The European coal and steel industries were to be that area. The proposed return of the control of German coal and steel production to the West German authorities heightened Monnet's fears that Europe could return to its old ways. As head of the team responsible for planning French post-war economic reconstruction and modernisation, he was aware that, if nothing was done, German steel production would eventually absorb all of the coke production of the Ruhr. This would limit steel production in the rest of Europe and in France where increased steel production was the crucial objective of France's economic plan. The lifting of controls on the German economy would signify a return to the insecurity of France's vital coal supplies and the subordination of French steel-making to its German rival. (Monnet 1976, p.409). It would spark a protectionist backlash in France and a return to the military alliance politics of the past. In proposing the European Coal and Steel Commission Monnet saw the opportunity to transform something that had divided France and Germany in the past into something that would bind them together. (Monnet 1976, p.417). By placing French and German industries on an equal footing the ECSC would eliminate the fear of German industrial domination, which for Monnet was the greatest obstacle to European union. (Monnet 1976, p.422). Moreover, coal and steel were at the time the key to both economic and military power. To unite them across borders would be to transform them from an instrument of war into a gage of peace. (Monnet 1976, p.424).
\end{itemize}
resemblance to the neofunctionalist concept of 'spillover'. For Monnet, the goals of this process were twofold: the political unification of Europe and the attainment of the most rational division of labour and the highest level of productivity.

It can be seen from Monnet's thought and practice that he developed a particular kind of political economy of regionalism. This sought to integrate domestic political and economic concerns with politico-strategic and international economic factors and involved a transformation in the status of a particular group of states in the world economy. What is remarkable is that many of these goals had a conservative basis: to retain the French social order, to prevent the rise of a new aggressive Germany, to preserve the Western alliance against the Soviet Union and to regain the influence of the European states in world affairs. Yet, a most radical departure from state sovereignty was necessary to achieve these goals.

The contribution of 1950s American behaviouralists

While Monnet was concerned about putting theory into practice and was concerned with the links between the system level and intra-region policy, American theorists were excited about the possibility of analysing this new phenomenon of region-making at the intra-region level only.

With the horrors of two world wars fresh in their minds, political scientists attempted once again to find a solution to the age old debate of international politics: how to abolish war. With world and even European federation not likely in the immediate future and the United Nations riven by the Cold War rivalry between the US and the USSR, some other path had to be found to the creation of a world community. Although many aspects of their theories were clearly influenced by the ideas of Monnet, their approach to regionalism was heavily influenced by the behaviouralist revolution that was sweeping the social sciences in the US at this time and this directed their attention to intra-regional social and political processes.

The chief theorists of this interest in regionalism, Ernst Haas and Karl Deutsch, came from a similar intellectual context. They shared a common objective: to eliminate destructive wars between countries through a gradual process of integration rather than immediate political union. Both were concerned with how nationalism is overcome by social processes and, in distinct contrast to the prevalent realist view of the times, they placed considerable emphasis on the ability of people to modify their behaviour and their

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115 Monnet 1976, pp.427-428, 405. Like the liberal institutionalists Monnet believed in the power of institutions, which once created have a force of their own that is greater than the will of individual actors. (Monnet 1976, p.701). Yet such institutions are the result of the action of individuals and can be further modified by the action of individuals. (See Monnet 1976, p.704). According to Monnet, nothing is possible without individual actors, nothing is durable without institutions. (Monnet 1976, p.441). Thus Monnet ascribed to the EC Commission a key role in keeping the momentum towards political union - 'spillover' process - going.


values and to change the object of their loyalties in the light of lessons learnt from past experience - a process Deutsch called social learning.\footnote{Deutsch 1968, pp.3, 37; Haas 1964, pp.47-48, 81. According to Deutsch, the basic aim of his study of integration was to discover how humans can learn to act together to eliminate war as a social institution. He emphasised the importance of social learning in the development of a sense of community. Learning was also a key element in Haas's theory of neofunctionalism. Human beings, Haas (1964, p.81) argued, 'are not condemned merely to act out a systemic tragedy because through learning, they are able to change the system itself.' Social learning, according to Haas (1964, pp.47-48), was the process whereby 'initially power-oriented governmental pursuits evolve into welfare-oriented action.' It also formed the basis of the spill-over mechanism, whereby 'integrative lessons learned in one functional context are transferable to others, thus eventually supplanting international politics.'}

Yet in many ways their concerns were fundamentally different and their work gave rise to two distinct theories of region-making. Deutsch was interested in the security problem and the Atlantic variant of this.\footnote{Deutsch's study was in two parts. The first identified those factors that had contributed to successful integration in the past in the hope that this knowledge would be of use in the promotion of integration in the post-war environment. The second part was an attempt to apply that knowledge to the emerging North Atlantic Community. See Deutsch 1968, pp.3-4, 8.} For Deutsch integration was a process which, if successful, resulted in the formation of security communities. His theory of region-making became known as transactionalism because of the significance it gave to transaction flows between states as an indicator of the degree to which integration was occurring. For Deutsch, integration meant the development of a sense of community between two or more states to the point that these states would not resort to force to resolve common problems.\footnote{Deutsch (1968, p.36) defined sense of community as 'a matter of mutual sympathy and loyalties; of "we-feeling", trust, and mutual consideration; of partial identification in terms of self-images and interests; of mutually successful predictions of behaviour, and of cooperative action in accordance with it - in short, a matter of a perpetual dynamic process of mutual attention, communication, perception of needs, and responsiveness in the process of decision-making.'} Deutsch maintained that integration in this sense can and has been achieved both with and without political union. Thus Deutsch argued there were two types of security communities: pluralistic security communities, such as that between Sweden and Norway or between the USA and Canada and amalgamated security communities, such as the federations of the USA or Australia.\footnote{Deutsch (1968, p.58) considered the following twelve conditions to be essential for a successful amalgamated security community: mutual compatibility of main values relevant to political decision-making; mutual responsiveness or the capacity to respond to each others' needs, messages and actions quickly, adequately and without resorting to violence; a distinctive way of life; expectations of stronger economic ties or gains; the existence of a core area and a marked increase in political and administrative capabilities of at least some of the participating units; superior economic growth on the part of at least some participating units; unbroken links of social communication, both geographically between territories and sociologically between the different social strata; a broadening of the political elite; mobility of persons, at least among the politically relevant strata; a multiplicity of ranges of communication and transaction; a compensation of flows of communications and transactions; a not too infrequent change of group roles; and considerable mutual predictability of behaviour. Of these only two - mutual compatibility of main values relevant to political decision-making; and mutual responsiveness or the capacity to respond to each others' needs, messages and actions quickly, adequately and without resort to violence - were considered essential for the formation of a pluralistic security community. Many of these conditions identified by Deutsch were clearly interrelated but Deutsch failed to establish a clear hierarchy of conditions based on these interconnections.} According to Deutsch,
while a pluralistic community may evolve into an amalgamated community, it does not always do so.\textsuperscript{122}

Haas on the other hand was concerned with political integration and in particular the experience of the ECSC and later the EC. His theory was called neo-functionalism because it had originally been conceived by Haas as a response to realist criticisms of functionalism.\textsuperscript{123} For Haas, integration was a self-generating process that led inexorably through economic integration to eventual political unification. However, before that process could be set in motion, Haas argued, the states involved must agree to surrender some of their sovereign decision-making powers to a central supra-national body. Whereas Deutsch focused on the factors that led to the development of a sense of community among states, Haas was primarily interested in explaining the evolution of the European integration after the establishment of the ECSC and the European Economic Community and paid only cursory attention to the factors that had led some European states to agree to the formation of these supranational authorities.

Deutsch was clear about his prescriptions for the formation of a pluralistic security community in the North Atlantic area.\textsuperscript{124} The best way to achieve such a community, he maintained, was through more and better communication. This would entail not only a greater exchange of goods, persons, and ideas but more institutions to facilitate consultation and joint decision-making. According to Deutsch, an increase in the volume and range of communications and other transactions between the countries concerned, particularly of those transactions associated with rewards and the expectation of reward, is an essential requirement for an increase in mutual responsiveness.\textsuperscript{125} Yet other scholars at the time were highly critical of this emphasis on quantitative rather than qualitative analyses of communications and used it to cast doubt on the validity of Deutsch's approach.\textsuperscript{126}

Haas found other reasons to reject Deutsch's approach to the study of integration. He maintained that none of Deutsch's case studies satisfied the conditions held essential in

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  \item \textsuperscript{122} Deutsch (1968, pp.29-31) found that in the past pluralistic security communities had been easier to attain and preserve than their amalgamated counterparts but that policymakers had often been prepared to risk war - either civil war or war between the participating units - in order to achieve the greater capacity to act quickly and effectively that only an amalgamated security community can provide. However he believed that, with the advent of nuclear weapons, states would be far less willing to risk war.
  \item \textsuperscript{123} See below fn.133.
  \item \textsuperscript{124} Deutsch 1968, pp.200-01.
  \item \textsuperscript{125} According to Deutsch, a high volume and wide range of transactions would also appear to make it more likely that the countries concerned had mutually compatible values and a common distinctive way of life, and that there were unbroken links of social communications between them. The significance that Deutsch attributed to transactions in the formation of security communities is born out by his use of quantitative analyses of transaction flows between countries as an indicator of the degree to which integration was occurring.
  \item \textsuperscript{126} See, for example, Nye 1971, pp.32-33; Puchala 1971, p.762; Chadwick 1972; and Cantori 1973, pp.478-79.
\end{itemize}
Haas's inquiry for political community formation. Haas pointed out that Deutsch's findings were derived from past cases of integration in pre-industrial and pre-mass mobilisation settings and cast doubt on the validity of these findings for the study of regionalism in our time. He argued that development of a larger political community required that 'the crucial expectations, ideologies, and behaviour patterns of certain key groups .. be successfully refocused on a new set of central symbols and institutions'.

For this to occur, he contended, the entities to be unified had to be industrialised economies deeply enmeshed in international trade and finance and societies that were pluralist in nature.

It can be seen from these criticisms then that Haas's theory of region-making concerns the role of elites in a modern industrial pluralist society. According to Haas, the fluid social relations and fragmentation of opinion and groups that typify a pluralistic society are important background conditions for integration in Western Europe. Pluralistic processes of decision-making and interest-perception are considered by Haas to be essential attributes of the process of political integration. Haas saw his theory of pluralism as simply an extension to the political arena of the basic tenet of liberal economic theory that the common good is the unforeseen consequence of the actions of individuals and groups competing in market place on basis of self-interest.

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127 Haas 1958a, p.xv. Haas (1958b, pp.445-47) also criticised Deutsch's analytical method for failing to distinguish cause and effect. He argued that many of the conditions for integration outlined by Deutsch were more likely the effects of integration rather than causes. Yet, notwithstanding Haas's criticism of Deutsch's approach, many of the structural conditions that they considered necessary for regional integration to take place are clearly very similar. (See Keohane 1975, pp.379-81. See also fn. 25, Chapter Three for Keohane and Nye's reassessment of the work of Deutsch and Haas on regionalism). These were: that the countries involved share common values (Deutsch) or have elites that are complementary (Haas); that their governments must be able to respond (Deutsch) or adapt (Haas) to the needs of their partners; there must be a wide range (Deutsch) or high rate (Haas) of communication and transactions between them; and their societies must be characterised by a broadening of elites (Deutsch) or pluralism (Haas).

128 Haas 1958b, pp.444-45.

129 Haas 1958a, p.xv.

130 Haas 1958a, pp.xv-xvi. For Haas these are societies in which the masses are fully mobilised politically and tend to channel their aspirations through permanent interest groups and political parties, societies where these groups are generally led by identifiable elites competing with one another for influence and in disagreement on many basic values, and where relations among these elites are governed by the traditions and assumptions of democracy and constitutionalism.

131 Haas 1958b, pp.457. Haas found fragmentation to have been important for the success of ECSC since it allowed different groups to support its formation often for totally opposed reasons.

132 Haas 1958a, p.11.

133 Haas (1964, pp.30-38) saw this notion of pluralism derived from the theory of interests politics as the answer to a major realist criticism of functionalism, namely that it was too utopian in assuming a natural harmony of interests both domestically and internationally and that it relies on the separability of power and welfare and the innate capacity of experts to make dispassionate decisions for the good of all humanity. Haas (1964, p.47) saw power not as an end in itself but as 'merely a convenient term for describing violence-laden means of achieving welfare aims.' As such it could, he believed be replaced by other means that proved themselves to be more effective in achieving those aims. The subsequent failure of neofunctionalism to explain the evolution of the EC might be attributable to this rather narrow
Haas argues, is the largely unintended result of the realisation by individuals from
different states that the best way to achieve their shared aspirations for increased economic
and social welfare is through cooperation not violence.\(^{134}\)

The crucial importance of pluralism to integration is clearly revealed in the spill-over
process, which Haas argues, is the basic mechanism driving economic integration forward
to political integration. According to Haas, spill-over occurs when ‘demands and
expectations for further integrating measures are voiced as a result of performance in
previously federated spheres of government activity. Performance is held to be inadequate
because of an insufficient grant of powers or timid policy on the part of central authorities;
hence the claim for new federal powers to achieve better performance is a direct outgrowth
of the earlier institutional system and the realignment of group expectations produced
through it.’\(^{135}\)

For Haas this spill-over effect acquires its own momentum and the integration process
once begun becomes automatic and unidirectional with economic integration leading
inevitably to eventual political union.\(^{136}\) Once governments have committed themselves to
certain common measures of fundamental importance to the daily lives of their entire
citizenry, Haas argues, they can only resolve any future problems of implementing the
agreement through a further delegation of power to the centre.

Yet for the spill-over process to work and for a transfer of loyalties to occur there must
be some central supranational authority. According to Haas, the integration process in
Europe did not ‘take off’ until after the actual institutions of ECSC had been set up, the
implication being that institutions form regions, regions do not form institutions.\(^{137}\) This
belief in the crucial importance of supranational institutions led him to dismiss Deutsch’s
claim that there can be a community without institutions in the form of pluralistic security
communities.\(^{138}\)

From even this cursory analysis of neofunctionalism it is apparent that like
transactionalism it was primarily concerned with the process and tended to be rather vague
about the causes of regional integration. Haas did identify as background factors to
continental European economic integration certain ideologies, attitudes, and expectations
that were prevalent among articulate organised groups between the end of World War II

\(^{134}\) Thus for Haas, ‘certain kinds of organisational tasks most intimately related to group and
national aspirations can be expected to result in integration even though the actors
responsible for this development may not deliberately work toward that end.’

\(^{135}\) Haas 1958b, p.451.

\(^{136}\) Haas 1958b, p.454.

\(^{137}\) Haas 1958b, p.450. Haas argued that in order to exist, a political community must possess a
national consciousness that can only come about with the presence of formal governmental
institutions and practices.

\(^{138}\) Haas 1958a, p.7. Haas points to a fundamental difference between his theory and that of
Deutsch when he declared that the process cannot be stopped as it could be in the case of
NATO when the external stimulant changes.
and 1950. He divided these into two categories. First were those where both the aims and the purposes of regionalism were shared by elites regardless of nationality. The second category of elite opinion includes all those reasons for European unity which were peculiar to a specific national group and hence not shared by other groups in other countries. Nevertheless, it is apparent that for Haas these background factors were only important in the initial stage of region-making. Once the supranational institution had been established, they faded from view and the dynamic of the spill-over effect became the driving force of integration.

Although Haas and Deutsch disagreed with each other, and were much criticised, their contribution in terms of generalised conditions for regionalism remains important not only as a piece of intellectual history, but also because it allows us to look at the relevance of these conditions to the causes of the new regionalism in the 1980s. The relevance of a theory such as Haas's neofunctionalism which is concerned with a process of political integration to a thesis that deals with what could be seen as economic integration can be questioned. Yet, an understanding of Haas's neofunctionalism is relevant to this thesis for two reasons. First, economic integration and political integration are not two separate processes. Many economists believed that economic integration was not possible without some form of political integration in the areas of monetary, fiscal and social policy. Without integration in these areas, they claimed, economic integration would prove highly destabilising and economic disintegration would ensue. Moreover, these economists were often called upon to play important roles in the establishment and running of the EC. The belief that economic integration would require political integration was also shared by some political theorists, such as Haas, and politicians like Spaak and Monnet. Many supported the establishment of the EC because they believed that despite the failure of attempts at political unification it could still be realised indirectly as a result of economic

140 Of these some wanted a united Europe to overcome the military, cultural, and political weakness of Europe, its dependence on the US, its inferiority to the Soviet Union and its inability to deal with the internal threat that communism posed to European values. Monnet was a leading example of these elites. These elites also called for the creation of a larger continental market by removing trade barriers and destroying cartels so as to regenerate competition and revive Europe's stagnant economy. Still others saw a united and re-invigorated Europe as a way of ending past national hatreds, wars, and class conflict.
141 These were the desire of most German interest groups to regain Germany's economic equality; the desire of some French interest groups to control an economically resurgent Germany and assure French industry non-discriminatory access to German coke and the German export market. Italian groups generally favoured closer European unity largely for economic reasons. They believed it would increase Italy's capital imports, boost its exports and establish the right of Italian workers to migrate to other European countries. Organised businesses in the Benelux countries were attracted to the idea of freer trade.
142 See for example the arguments of Marjolin (1953, pp.40-41), Secretary General of the OEEC from 1948 until 1955, and of Philip (1957, pp.254-56). Both Meade (1953, pp.82-83) and Triffin (1954, p.527) also argued that the full benefits of economic union cannot be obtained without far-reaching surrenders of sovereignty over domestic as well as foreign economic policy.
integration. Consequently the theories that Haas and Deutsch advanced are as much about the process of economic integration as they are about the process of political integration.

There is, however, another reason why theories such as neofunctionalism are of importance to this thesis. The first case study is concerned with the creation of the EC Single Market. The revival of regionalist practice in Europe in the 1980s has renewed interest by political theorists in the theories of Deutsch and Haas. Many see this revival as proof that neofunctionalism is still a valid explanation of the integration process, at least as it has unfolded in Europe. Therefore, it is important to have some understanding of the process of integration as outlined by neofunctionalists and transactionalists if we are to be able to assess the extent to which these factors are responsible for the single Market.

The debate with realist scholars

The ideas of Haas and Deutsch raised important issues for realist scholars - not least the possibility that their state-centred model of international relations might be superseded by a regional one. As we have seen earlier in this chapter, realist scholars of the 1950s and 1960s showed only a passing interest in regionalism in general and in European integration in particular. Realist theory appears to rule out regionalism because of the

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143 Although Haas (1958a, pp.11-13) recognised that integration in Western Europe had been mainly confined to economic measures, he maintained that economic integration was at least in part politically motivated. However, he argued that not all economic integration would lead to political integration. According to Haas, free trade is not political integration unless there is a degree of central decision-making. Yet at the same time he argued that some kind of central decision-making would almost certainly be required to attain specific welfare standards in a larger market.

144 Thus Wallace (1990, p.4) drew parallels between the approach used by Deutsch and his collaborators to map the extent and nature of integration in the North Atlantic Community in the 1950s and that used by his own team of scholars to map the nature and extent of integration in present day Europe. Moravcsik (1991) contrasted his explanation of the adoption of the SEA in terms of intergovernmental institutionalism with that of Sandholtz (1989) and Zysman which he called supranational institutionalism and which he claimed is in reality a form of neofunctionalism. There has also been an attempt to rehabilitate Haas's concept of supranationality and spill-over, with scholars such as Hoffmann (1991, pp.18-22) and Keohane (1990, p.756) maintaining that past scholars had distorted Haas's concepts of supranationality and spill-over. They argued that these concepts are still useful tools in understanding the process of integration in the EC in the 1980s. The problem here is that Haas's definition of these concepts varied quite markedly over a relatively short period and Keohane and Hoffmann have selected the variant that is most appropriate to their needs. For further details see Chapter Five, pp.178-81.

145 Thus Taylor (1989, p.23) maintained that there is a need to return to the neofunctionalist writings to understand the events following the SEA while Tranholm-Mikkelsen (1991, p.2) called for a re-opening of the debate on neofunctionalism as an approach to the study of the EC. Keohane and Hoffmann (1991, p.22) saw a new form of the neofunctionalist spill-over mechanism as an important factor in the adoption of 1992.

146 Thus in an addition to the third edition of Politics Among Nations in 1960 Morgenthau (1967, pp.511-14) gave a brief account of the formation of the EC which he saw as both a way of compensating through united effort for the loss of power of the individual European nations and as a revolutionary attempt to solve the problem of German natural superiority. He also described the means by which the European nations were trying to realise these objectives as equally revolutionary. But Morgenthau did not attempt to generalise from this particular occurrence. He cast serious doubts on the claims by proponents of regionalism that such an undertaking would overcome nationalism and bring about a more peaceful world. He
stress it places on the centrality of the principle of state self help and the importance of relative gains over absolute gains to states. At the most the formation of regions might be considered a new form of alliance or sphere of influence or even a maxi state. However, a few scholars with realist leanings and who were versed in European politics did engage with the neofunctionalists.

The debate between the realist and the liberal regional integration scholars concentrated on two questions. The first of these asked whether the process identified by neofunctionalism could move beyond nationalism towards the abolition of the nation state. The second question was whether the formation of a regional entity would make any fundamental difference to the way the international political system operates and in particular whether it would bring an end to conflict and war among states. On both these questions the realists defended the negative position.

147 Morgenthau 1967, p.88; Gilpin 1972, p.69; and Keal 1983, p.216-17. It seems that Churchill had such a conception of regions in mind when, in discussions with the US during WWII, he had advocated a post-war international system of regions with each region centred on a great power. (Claude 1968, p.4-5). In Churchill’s scheme regional councils were to assume prime responsibility for maintaining international security. In the end, however, US Secretary of State, Cordell Hull, was able to convince US President Roosevelt that supreme responsibility for political and security questions should rest with a general international organisation. A regional system, he argued, might recreate the competitive balance of power system that had led to so many wars in the past and could play into the hands of US isolationists who wanted to restrict US involvement to the Western Hemisphere. Keal raised the question of whether regions might be considered as a variation of spheres of influence and wrote of the possibility of the present international system being replaced by a number of regional groupings, each under the control of a dominant power.

148 By questioning the claim that a regionally integrated world would be a more peaceful world, the realists were attacking the idealism that underpinned both neofunctionalism and transactionalism. Morgenthau (1967, pp.131, 513) doubted whether such units would behave any differently in relation to the world community. They might, he argued, aggravate rather than mitigate the 20th century phenomenon of nationalistic universalism. This point was also made by Claude (p.107) and Carr (1945, p.53) who wrote of the danger of competition and conflict between the larger multinational units. A similar criticism was made by Mitrany (1965, pp.123-34), the leading proponent of the rival liberal international politics school of functionalism. Bull (1977, pp.282, 286) was critical of those who described the existing state system as dysfunctional for ignoring the positive role of the state system both as a solution to the breakdown of consensus in mediaeval Europe and in maintaining internal law and order. Bull (1977, pp.264-65, 255, 285) saw the EC as perhaps part of a process towards a new medievalism, a system of overlapping segmented authority but warned that there was no guarantee that such a system would prove more orderly and peaceful than the present one, particularly when the old medievalism had been more violent than the state system that had succeeded it.

149 Yet the leading realist theorists have all stressed the historical specificity of the nation-state and its dysfunctionality in current international politics. The nation state, they argue, has not always existed and may not always exist though what could replace it is unclear. (See Morgenthau 1967, pp.490-516; Aron 1966, pp.395-403; Carr 1945, 1984; and Bull 1977. But see Waltz (1979, pp.94-95) who, replying to Kindleberger's claim that the state is finished as an economic unit, maintained that this is not true of the major states and that as long these major states remain 'the major actors the structure of international politics will be defined in terms of them.'). On the whole Carr (1984, p.226) was more positive than Morgenthau, Aron and Bull about the possibility of the nation-state being replaced as the basic unit of power in international relations. He pointed out that in many periods of history the largest and most
The principal advocate of the realist position in debate with the neofunctionalists was Stanley Hoffmann. Hoffmann's criticism of neofunctionalism was based on difficulties that were becoming increasingly apparent in the integration process in Western Europe, difficulties that Hoffmann attributed to differences between the French leader de Gaulle and US policymakers over the future shape of Western Europe. In the early 1960s de Gaulle increased his opposition to attempts to reinforce supranationality which he saw as a way for the other five members and the US to impose on France policies which he believed were contrary to its national interest. In 1965 de Gaulle's opposition culminated in a French boycott of the EC Council in response to a Commission proposal.

Comprehensive units of political power in the world were not in fact territorial. Carr (1984, p.229) discerned a trend evident since the late 19th century towards integration and larger political and economic units, a trend closely linked to the rise of large-scale capitalism and industrialism and to better means of communications and technical instruments of power. Yet he pointed to other evidence that showed that there were limits to this trend and that units beyond a certain size might provoke disintegrating tendencies. Carr (1984, p.231) also drew a distinction between real and formal sovereignty and argued that future units of power might well consist of groups of formally sovereign states with effective (though not necessarily nominal) authority exercised from a single centre. In a later work, Carr (1945, pp.37-59) argued that small units because of their inability to assure the military and economic security of their inhabitants were anachronism in the post 1945 world and were being replaced by new forms of organisation. Carr believed, however, that regionalism provided a much more practical and workable alternative to the present system than theoretical and ineffective universalism and was more likely to be the operative factor in any transition from nationalism to internationalism. He already saw the world gravitating towards several centres of power but was uncertain about the exact form this new form of organisation would take. He felt that the multinational units of the US, USSR and the British Commonwealth were perhaps the forerunners of other similar units and that the boundaries of these units would be determined on the basis of cultural, economic and politico-strategic ties. According to Carr, a system of multinational units of military and economic organisation does not preclude the maintenance, or even the further extension, of national administrative and cultural units. The result could be a system of overlapping and interlocking loyalties which he believed was in the last resort the sole alternative to sheer totalitarianism.

Both Bull and Morgenthau also expressed doubts as to the permanence of the nation-state. Yet the focus of interest for both remained the functioning of the international system and the key question was whether what might replace the nation-state would be any less likely to engage in conflict. The questions of how and why regionalism might occur were only of passing interest.

150 Hoffmann 1963, pp.24, 30. See also Aron (1964, pp.55-57) According to Hoffmann (1963, p.20), the US favoured either a union of European nations that had economic, military, and foreign policy objectives similar to those of the US, or a European political federation where such policies would be decided by majority vote by supranational institutions on the grounds that in such a federation the majority would have similar views to its own. De Gaulle, however, proposed a confederation of European states based on the coordination of European foreign policies and a joint defence scheme centred around the French nuclear deterrent. Such a confederation would pursue policies that were first and foremost in the interests of Europe and not necessarily in the interests of the US. In 1962 a plan based on that proposal was rejected by the other EC members.

151 Hoffmann 1964, p.95. De Gaulle's increased opposition to supranationalism came after the rejection by the other members of his 1962 plan for a confederal Community. Pinder (1991, p.192) attributed that rejection partly to disagreement by some members with de Gaulle's policy to the US, and partly to de Gaulle's preference for intergovernmentalism rather than supranationality. Johnson (1962, pp.154-55) maintained that suspicions on the part of other members that the plan was motivated by a desire by de Gaulle to establish French hegemony in Europe and to weaken the EC were also a factor. According to Hoffmann (1963, p.24), de Gaulle's fear of a US dominated EC also led him to veto the British request for membership in 1963. He argued that de Gaulle saw the UK as too closely aligned with the US, particularly after Britain's decision to subordinate its nuclear forces to those of the US.
to subject the Community's agriculture budget to the approval of the European Parliament. He only agreed to return on the understanding that he would not accept majority votes on important issues. This in effect halted progress to the third transitional stage of integration, which as of January 1 1966 would have instituted majority voting in the EC Council of Ministers and required a unanimous vote to overrule the Commission.\textsuperscript{152} This understanding known as the Luxembourg compromise was widely seen as a consolidation of intergovernmentalism at the expense of supranationalism.\textsuperscript{153}

This halt to the EC integration process in 1960s led to the questioning of neofunctionalism's predictions and its validity, especially the continuous spill-over aspect. Hoffmann saw the integration process as a mixture of interest groups politics and traditional interstate politics.\textsuperscript{154} He rejected the neofunctionalist theory of political integration on the grounds that it had exaggerated the automaticity of the spill-over process.\textsuperscript{155} Political integration, he maintained, was not cosmically self-generating but had been set in motion as a result of the political decisions made by the political leaders of states and the whole process therefore could be undone by states.\textsuperscript{156} He also rejected Haas's postulate that in industrial societies the welfare calculus had replaced the power calculus.\textsuperscript{157} Even in economic and social spheres, he asserted, governments intervene for political reasons rather than just reacting to interest groups.\textsuperscript{158} As the integration process begins to involve more functions, leaders perceive that more vital national interests are at stake and their resistance to the operation of the supranational model of politics increases.\textsuperscript{159} In these cases traditional interstate politics come increasingly into play.

\begin{itemize}
\item \textsuperscript{152} Haas 1967, p.326.
\item \textsuperscript{153} Pinder (1991, p.13) saw the enforcement of unanimous decision-making as a major reason for the Community's slow progress for almost two decades. Majority voting was only to become normal practice in the Council following the signing of the Single European Act in 1986.
\item \textsuperscript{154} Hoffmann 1963, p.11.
\item \textsuperscript{155} Hoffmann 1963, p.12.
\item \textsuperscript{156} Hoffmann 1963, p.11. Deutsch (1962, pp.215-217) also maintained that the spill-over had been less effective than neofunctionalist theory had purported it to be. According to Deutsch, most of the integrative institutions had been established by a deliberate choice of policy and not due to quickly mounting needs or pressures. Although still confident that integration would occur, he believed that it would take longer to achieve and that for the next five to ten years its mode of operation would be more that of the intergovernmental cooperation and policy coordination of a pluralistic security community.
\item \textsuperscript{157} Hoffmann 1964, p.92.
\item \textsuperscript{158} Hoffmann 1964, p.93. Hoffmann (1964, p.92) did concede that smaller nations can (within limits) afford to act on the basis of welfare calculations alone under the shelter of a big brother's political and military establishment. But even this will be temporary as the protector will soon tire of carrying the burden alone. In this Hoffmann foreshadowed Waltz's claim that the formation of the EC was possible only because of the US defence guarantee which ensured that no member would use the increase in its economic welfare relative to other members to pose a greater security threat. (Waltz 1979, pp.70-71). A similar point was made by Bull (1982, p.163) who argued that the Western European nations only acquired the habit of collaboration under the shadow of the American presence and the Soviet threat. See also Mearsheimer's argument (1990, pp.46-48) that with the end of the Cold War and the removal of the US guarantee the EC will break up. Such arguments seem to parallel the arguments that a hegemon is necessary for the creation of a liberal international trading order. See below Chapter Three.
\item \textsuperscript{159} Hoffmann 1963, p.12.
\end{itemize}
When the functions in question concern issues of *Grosspolitik* the dynamics are fully those of traditional interstate politics.\textsuperscript{160}

Hoffmann attributed the halting of the integration process in Europe and the enduring nature of the nation-state in general to three factors.\textsuperscript{161} Two of these he saw as unique features of the new international system that was the result of WWII. The first of these unique features was the global nature of the new international system. In such a global system the autonomy of regional sub-systems such as the EC was reduced and the attraction of regional forces offset by the pull of all the other forces. Differences in national situations were exacerbated by interaction with the international system and countries were distracted from community building by domestic problems and differences over global issues such as their defence relationship with the US and their attitude to international trade liberalisation. The second unique feature of the international system that had halted the integration process was the atrophy of war. Force in the nuclear age was no longer seen as a legitimate way to forge larger units. Militarily weaker states therefore had less of an incentive to merge in order to enhance their security. The third factor that had halted the integration process was the revival of nationalism in France under de Gaulle's presidency.\textsuperscript{162}

As a result of these telling criticisms by Hoffmann and other realist scholars of neofunctionalist explanations of the integration process in the EC,\textsuperscript{163} scholars of European

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\textsuperscript{160} Hoffmann 1963, p.13. According to Hoffmann (1964, p.92), the autonomous sphere of high politics will continue to exist as long as there is international competition.

\textsuperscript{161} Hoffmann 1966, pp.864-66.

\textsuperscript{162} Hoffmann 1966, pp.892-95. Nevertheless, Hoffmann did not rule out entirely the possibility of political integration. In the light of these criticisms Hoffmann (1966, pp.904-06) revised the domestic conditions that neofunctionalists had determined as necessary for successful political integration and added two external conditions. Like the neofunctionalists, he believed that the countries involved in political integration must themselves be domestically integrated communities with intense communications and common habits and rules across regional and social and ethnic divisions. He also agreed with the neofunctionalists that the countries involved must have pluralistic social structures and elite groups. But in light of the de Gaulle experience he revised this condition by adding the proviso that they must also have executive leaders who are not only favourable to integration themselves but who have support bases who are also favourable. Unlike neofunctionalists he maintained that two external conditions must also be met. First, both the past and present situation of the countries vis-à-vis the international system must be subjectively similar. Political integration will be difficult, he argued, among countries that have had a long history of separate existence. Second, the difficulty of achieving political unification increases as the degree of involvement in the international system increases, though the presence of a compelling external threat may counter this effect.

\textsuperscript{163} See also Bull (1982, p.163) who argued that the EC was not a supranational community but merely a group of nation-states whose power derived ultimately from the capacity of its member states to inspire loyalty and to make war. Bull also dismissed the description of the EC as a 'security community' as mere wishful thinking and argued that contrary to popular belief war between the members of the EC was still possible. The French realist scholar Raymond Aron (1966, pp.395-403) was also highly critical of the neofunctionalists. He dismissed claims that the national territorial state was in decline or coming to an end and should be replaced by larger entities. The nation-state might have been devalued by new military technology such as ballistic missiles, he argued, but larger entities would be just as incapable of protecting their territories or citizens. He countered claims that national borders were becoming more permeable to transnational ideas and parties resulting in confusion.
integration turned increasingly to explain the process in terms of intergovernmentalism.\textsuperscript{164} Such an explanation stressed the important role played by national governments in integration, their reluctance to abandon national sovereignty and the importance of national interest as a determinant of the willingness of governments to permit further integration. Thus the integration process was no longer seen as self-generating but was considered the result of successive interstate bargains.\textsuperscript{165}

Although liberal international relations scholars had abandoned the idea that conflict between nation-states could be eliminated by abolishing the source of that conflict - the nation-state itself - through a process of regional economic interdependence, they still remained critical of the realist paradigm and refused to accept that war-threatening conflict was the key to understanding the human or the international condition. Whereas realist

between external and internal affairs, with the argument that this phenomenon was not new and was the result of the very heterogeneous nature of the system. Aron also dismissed the argument raised by Carr that most nation-states were of sub-optimal dimension economically. According to Aron, the capacity for economic progress was more a function of national cohesion or of government authority than of size or the volume of resources. Smaller, more cohesive states, he claimed, were therefore more likely to succeed economically than larger, less cohesive ones. They would also be better able to resist subversion - the most likely form of aggression in the post-war period.

While he did not rule out common markets as a means of attenuating the economic disadvantages of small states, Aron (1964, pp.54-66; 1966, pp.747-49) did not see these as developing into political federations. Thus Aron (1966, p.747-48) rejected the suppositions of the Europeanists such as Monnet and of neofunctionalists such as Haas that economics controls and encompasses politics, and 'that the fall of tariff barriers will of itself cause the fall of the political and military ones'. A new political entity can only come into being, he argued, when there exists among its citizens a common will to be 'autonomous as Europeans and no longer as members of historical nations'. Aron further argued that the decision to establish the EC owed more to traditional realist motives than to the logical appeal of the economic arguments for larger units. The formation of the EC, Aron (1966, p.402) argued, was not the result of a collective desire for improved economic viability but a consequence of a desire by certain states to regain their great power status in a period when it appeared that such greatness could only be enjoyed by continent-states. Thus regionalism, from this perspective, would appear to be a new form of alliance politics and yet another permutation of one of the basic mechanisms of realist world order, the balance of power. For a realist view of the workings of the balance of power, see Morgenthau 1967, pp.161-215; and Bull 1977, pp.101-26. The categorisation of regionalism as a form of alliance politics, however, does not accord with the established definitions of alliances of scholars such as Morgenthau (1967, pp.175-87) and can be questioned on several grounds. First, alliances are generally short-lived. Second, they have been traditionally of a military nature, not economic. Third, they have involved little formal loss of sovereignty on the part of the members and that loss usually takes the form of a commitment to assist another member militarily if it is attacked. It does not, as is the case with institutionalised economic integration, involve the long term surrender of certain elements of economic sovereignty. Thus Morgenthau (1967, p.512) described the EC as a revolutionary attempt by inferior powers to find another way of countering a superior power other than the traditional method of a system of alliances that had been tried unsuccessfully in the past. This attempt 'at fusing a superior power with an inferior one for the purpose of creating a common control of their pooled strength' is seen by Morgenthau to be quite distinct from an alliance. A similar problem is posed by the classification of the EC as a regime. See below.

\textsuperscript{164} For a fuller description of this, see Webb 1983, pp.10-15; and Bulmer 1987, p.37.

\textsuperscript{165} This description of the integration process as more in line with the intergovernmental bargaining of other international organisations led some scholars to describe the EC as an international regime. (See Webb 1983, p.30; Hoffmann 1982, p.33). This description was contested by others (Webb 1983, p.36; Wallace 1983, pp.403-405; Garrett 1992, p.559) who pointed to the supranational aspects of the EC not found in more traditional intergovernmental organisations.
theory asserted the primacy of security issues over all other issues, liberal scholars claimed that, with the decline in the use of military force and increasing economic interdependence among the advanced industrial societies, economic issues had replaced security as the key foreign policy issue. The primacy of economic issues, they maintained, had increased the scope for cooperation among the advanced industrial nations. As we shall see in the next section their major concern was how to preserve and extend cooperation between sovereign states. Yet unlike the neofunctionalists their objective was to integrate the new concepts derived from integration theory into traditional realist theory and not to replace that paradigm. Keohane and Nye also saw the way integration theory had merged two traditionally separate disciplines of politics and economics at a regional level as having paved the way for a similar interdisciplinary approach at the international level. The result of course has been the creation of a new field of study - international political economy - an important feature of the second time period of this theoretical survey. Nevertheless, despite the appropriation of many of the key concepts of integration theory by interdependence scholars, as a result of the failure of regional integration theory there was a shift in the level of analysis away from the region to international/global sphere. By the end of the 1960s regions had ceased to be a focus of theoretical debate.

Summary

Before we move to the examination of the theoretical literature of the 1970s and 1980s in the next chapter it is useful to briefly summarise the kinds of argument about the causes of regionalism that have been identified in the literature so far reviewed.

There would appear to be four general arguments or propositions - one concerned with the relationship between institutionalised regional economic integration and the GATT system; a second linking the emergence of institutionalised regional economic integration to the desire of states to enhance their economic and political security; a third proposition that sees the emergence of institutionalised regional economic integration as the result of efforts by states to offset the decline in their ability to regulate the economy and ensure domestic political control and social stability; and a final proposition that groups together some normative principles that have been advocated by scholars and that have influenced the attitudes of policymakers and elites toward regionalism. The specific direction of each argument is worth noticing briefly. A fuller commentary on these and later arguments is set out at the end of the next chapter.

The first main argument is that regionalism is the result of the desire by states and vested interests within those states to escape the discipline of the liberal international trading order and increase their protection against outsiders. This proposition derived

166 Keohane 1975, p.401.
principally from the work of liberal economic scholars who see regionalism as undermining a preferred GATT system. A specific form of this is that states may seek to enter regional arrangements to escape their MFN commitments under the GATT so as to protect their less competitive industries.

The second main argument is the realist-mercantilist/marxist 'advance and compete' proposition that institutionalised regional economic integration is a type of economic alliance that states enter into so as to enhance their economic and political security in relation to members and non-members of the alliance or more particularly to boost their competitive position in the global economy.

The third argument is the 'domestic and the region' proposition that the re-emergence of institutionalised regional economic integration is the result of efforts by states to offset the decline in their ability to regulate the economy and ensure domestic political control and social stability as a result of increasing economic interdependence. Because of the closer geographical, historical, strategic and cultural links between the states there is a greater likelihood that agreement can be reached on common principles of economic management at a regional level than at a global level.

The fourth argument is the 'ideas and learning' proposition that the re-emergence of institutionalised regional economic integration is the result of cognitive change, that is, changes in the ideas and beliefs of policymakers and elites that have made them more favourably disposed towards regionalism. Of particular importance are changes in opinions on whether institutionalised regional economic integration fosters or constrains protectionist forces, on whether it diminishes or augments the risk of war, on whether it enhances or reduces a state's economic security, on whether it will automatically bring about eventual political union, and on whether certain policy objectives are more likely to be attained if pursued at a regional level rather than just at the level of an individual state.

From even this brief outline of the arguments and propositions that emerge from the theoretical literature of the 1950s and 1960s it is apparent that these arguments or propositions are not mutually exclusive categories and may in fact be mutually reinforcing. It should be remembered, however, that these explanations for the emergence of regionalism are derived from the work of scholars who were dealing with the problems and issues of the immediate post-war period and that the purpose of this thesis is to elucidate the re-emergence of regionalism in the 1980s and early 1990s, a period which in many respects is quite different from that of the 1950s and 1960s. In Chapter Three we will see how durable the arguments and propositions advanced at the end of this chapter proved to be in a period of great change.
CHAPTER THREE

In the preceding chapter we looked at what the general international relations and economic literature had to say about regionalism and examined certain liberal theories of the 1950s and 1960s which were specifically concerned with the phenomenon of regionalism. On the basis of this examination we then identified some general propositions that had been advanced by scholars in the 1950s and 1960s concerning the emergence of regionalism. In this chapter an account is given of the more recent debates in both the international relations and economics theoretical literatures that have implications for the new economic regionalism of the 1980s and 1990s. Throughout the chapter an attempt is made to draw out further propositions concerning the emergence of regionalism in the 1980s. These propositions are then assembled at the end of the chapter to provide the analytical framework of the thesis.

The arguments about the conditions of regional integration of Monnet, Haas and Deutsch and the responses of the realist critics had reached something of an impasse by the 1970s, and the nature of the debate on regionalism began to shift in response to changes in the international economic system. The major intellectual preoccupation in international relations and international political economy in the 1970s and 1980s was with the meaning and impact of interdependence and this led to a revival of interest in regimes and international institutions. Although functional integration or interdependence had also been a concern of the regional integration scholars, they had tended to see it as leading

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1 Cooper (1972, pp.159-60) defined economic interdependence as 'the sensitivity of economic transactions between two or more nations to economic developments within those nations'. He also stipulated that interdependence implied two-way sensitivity while dependence was one-way sensitivity. Keohane and Nye (1975, pp.368-70) maintained that the workings of interdependence could be better understood with the addition of the concept of vulnerability. Vulnerability refers to the degree to which the costs a country would incur in adjusting to the termination or alteration to an existing relationship with another country are higher or lower than those incurred by that other country. Thus a country may be highly sensitive to changes but still have low vulnerability.

The concepts of interdependence and vulnerability had been employed earlier by Hirschman (1945, pp.13-28), though he emphasised the way states could manipulate them to influence and coerce other states and hence further their national interests. For Hirschman interdependence used in this manner was a form of economic nationalism. He also argued that a state might be willing to forgo some short term gains in trade in order to lock its trading partners in to a pattern of trade that would increase its ability to influence their behaviour in the longer term. Strange (1982, p.485) argued that Hirschman's definition of 'interdependence' is in fact closer to the mark and accused American scholars of 'euphemistic newspeak' in referring to what is in fact highly asymmetrical and uneven dependence or vulnerability as interdependence.

Triffin (1954, p.533; 1960, pp.247-50) had also used both interdependence and vulnerability. He saw the interdependence between a country and its neighbours, and that country's awareness of that interdependence, as factors likely to facilitate the integration of economic policies among a regional group of countries. Triffin appears to consider vulnerability as a negative consequence of interdependence and hence as likely to discourage states from becoming too dependent on foreign trade.
inevitably to economic and political institutional integration at a regional level. In the period under study here, however, scholars saw functional integration or interdependence at the global level as threatened by the unwillingness of the leading states in the global economy to adopt common macro-economic policies. Their primary focus became the preservation and management of interdependence at a global level. Regionalism at the most was seen as a threat to global interdependence and hence to be discouraged. The possibility that regionalism might be a means to preserve and manage global interdependence or provide a fallback position should global interdependence prove unsustainable at least in the short term was largely overlooked. In these circumstances, regions as a topic of intellectual interest was largely seen as a subset to these larger concerns and partly became an afterthought to them. Nevertheless, in the 1980s there was resurgence of interest in regionalism at the empirical level and this led to a resurgence of interest at the theoretical level.

The literature in the later period on regionalism is therefore fragmentary and often incoherent in nature. Nonetheless, the great international relations, international political economy and economic debates still bear on regional outcomes and are reviewed here from a regionalist point of view. There is also considerable continuity between the period under study here and the earlier period. In both periods the literature is concerned with the same two overarching debates of free trade versus protectionism and cooperation versus conflict. The difference is that here there is an attempt to coalesce these two debates and the two previously quite separate disciplines in which they took place under the rubric of international political economy where various scholars have tried to integrate the study of politics with economics, states with markets, and the pursuit of power with the pursuit of wealth. The revival of interest by scholars of both international politics and economics in

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2Keohane (1984, p.12) has defined cooperation as active attempts by states to adjust their policies to meet the demands of others. According to Keohane, the existence of common interests among the states involved is a necessary but not a sufficient condition for cooperation. He argued that institutions are also necessary for cooperation as they reduce uncertainty and limit asymmetries in information. (See below). The existence of common interests does not mean the complete identity of interests or harmony in which case cooperation would be unnecessary. Thus, cooperation is not the equivalent of harmony, nor is it necessarily good from a moral perspective. (Axelrod and Keohane 1985, p.226).

3See Strange 1970; Cooper 1972; Gilpin 1987, pp.8-11; and Staniland 1985. The separation of the disciplines of economics and politics had led economists in the past to concentrate on the negative role of state in terms of its interference in the market and to overlook the positive contributions of the state to the market by way of maintaining the political consensus and stability necessary for its smooth operation. (See Offe (1984). This problem had been of little concern in the 19th century when democracy was limited to the propertied classes or in the 1930s when the main concern of the state became the preservation economic and political stability and interdependence was sharply curtailed. (See Carr 1945; and Triffin 1960, p.251). But in the post-WWII world there was an ideological shift in favour of an open international trading system and states became increasingly torn between this objective and the equally if not more important objective of maintaining domestic political and economic stability in what were far more democratic societies. But the warnings given by some economists such as Triffin about the difficulty of maintaining the normative project of free trade in an era when a large amount of government intervention in the domestic economy was required to ensure political stability went largely unheeded. Most liberal international trade economists in the earlier period focused their attention almost exclusively on the market and on the effects of trade diversion and trade creation on global economic welfare. By the 1970s, however, it was
the field of international political economy also brought the concerns of these scholars much closer to those of Marxist scholars who had always insisted on the importance of the link between economics and politics.\textsuperscript{4} From the 1970s onwards liberal, realist and Marxist scholars were to share a common preoccupation with the way political and economic factors interacted to bring about change in the world political and economic structure and in international relations in general. They were particularly interested in the erosion of the post 1945 world order of pax americana and the nature of the new order that might replace it. Given these common interests there was a tendency for many of the debates on these issues to intersect and for non-Marxist scholars to engage with Marxist perspectives in their work.\textsuperscript{5}

The order of treatment is as follows. First we review the arguments of the economists Cooper and Gilpin on the limits to global economic interdependence and on the utility of regionalism as a more sustainable form of economic interdependence that was preferable to a return to economic nationalism. Next we examine the contrary arguments by the political scientists Keohane, Nye and Haas that global interdependence had brought a halt to the integration dynamic in Europe and that the phenomenon of global economic interdependence offered a better explanation of state behaviour in international relations than integration theory. Yet like Cooper and Gilpin, Keohane and Nye soon realised that global economic interdependence was being threatened by the attempts of states to shift the costs of economic interdependence onto other states through increased protectionism. Keohane and other international relations and international political economy scholars turned their attention to the question of preserving and managing global interdependence in general and the multilateral trading system in particular. We look briefly at the debate between liberal and realist scholars about the conditions for cooperation under anarchy, which focused on the role of regimes and hegemons and the issue of relative versus absolute gains. Although this work largely ignored regionalism or saw it as a negative

\textsuperscript{4} This convergence of interests was also the result of the shift in focus by Marxist scholars from the domestic or national political economy to the international or world political economy, and from the study of class relations to the study of the relations between states, with the interests of states often reduced to those of the dominant capital classes. This shift in focus was first evident in the work of dependency theorists such as Frank (1967) and of world system theorists such as Wallerstein (1974, 1979).

\textsuperscript{5} See, for example, Gilpin 1975, 1987; Keohane 1984, pp.41-45; Ruggie 1983, p.262; and Calleo and Rowland 1973, pp.172-74, 187.
phenomenon, it does provide some useful insights into the emergence of the new regionalism in the 1980s and early 1990s. We then examine the theoretical explanations given for the decline of the liberal economic order and the associated rise of regionalism. There follows an overview of the theoretical literature of the late 1980s and early 1990s, which was marked by a resurgence of interest in regionalism. For many scholars the new regionalism of the 1980s and 1990s was part of a broader neo-mercantilist challenge to the liberal economic orthodoxy. Some saw it as largely state-driven. Others including many neo-marxists saw it as the latest manifestation of the ongoing struggle between rival capitalists and in particular between multinational enterprises. Still others argued that it was the result of cognitive learning in which both pre-existing regional institutions and epistemic communities were instrumental. The resurgence of regionalism also led theorists to revisit the debates of the 1950s and 1960s on the merits of regionalism, particularly as a means of promoting global trade liberalisation. The chapter concludes with a list of propositions concerning the emergence of regionalism in the 1980s.

The limits of interdependence

One of the first scholars to raise the problem of interdependence and its negative implications for economic integration was Richard Cooper. In the late 1960s Cooper drew attention to the problems arising from ever increasing economic interdependence among the members of the Atlantic Community and to the ways in which these problems were limiting integration in that Community. Cooper argued that the ability of governments to successfully manage their national economies was being undermined not only by economic interdependence but by the fact that the decision-making domains of business were increasingly going beyond the jurisdictions of governments. Yet those same

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6 Cooper 1968. The spectacular rise in world trade in the post-war period was indicative of the dramatic increase in interdependence. Between 1950 and 1960 alone the volume of world trade doubled. (Strange, 1988, p.162). This had been accompanied by a dramatic rise in the share of exports as a percentage of the total world product. Even for a country such as the US with its huge domestic market the share of exports of US GNP increased from 6.3% in 1950 to 19.1% in 1980. (Destler, 1992, p.45). For Cooper (1972, pp.162-63), this increase in economic interdependence was due to technological advances in transportation and communication which had increased the speed and reliability of moving goods, funds, persons, information and ideas across national borders.

7 See also above, Chapter Two, p.38. A related point was made by Mandel albeit from a different ideological perspective. Mandel (1970, p.98) saw a growing contradiction arising between the need for the state to be able to implement positive anti-recessionary measures at a national level so as to maintain social and political stability, and the decline in its ability to do so due to increased interdependence and to the growing interpenetration of so-called national capitals. He argued that the result would be either a reversal of integration or a shift in the economic planning process shift from the national level to the European level. Strange (1985, pp.238-39) argued that, although it may be in the collective (universal) interest for a state to continually adjust its economic structure in accordance with the law of comparative costs, because of the high economic, social and political costs involved, it will not always be in the interest of individual states and may well be beyond their material and cultural means. According to Strange, these costs have probably increased in recent times due to the acceleration of technical change and the rising costs of capital investment in the latest technology, thereby making adjustment an even less attractive option.
governments were not prepared to accept the infringement of sovereignty that would be implied by the joint determination of economic policies and objectives in the regional community. Nor were these governments willing to provide other members with the substantial amounts of credit that would be required to overcome the prolonged balance of payments deficits that unmanaged economic interdependence would bring about from time to time.

Fearful that these negative consequences of economic interdependence would lead to increased competition between states and eventually to the indiscriminate rejection of international economic integration, Cooper called for the restraining of the tendencies towards higher economic interdependence. According to Cooper the world economic order established after WW II had begun to erode in the mid-1960s with growing dissatisfaction by the US with the EC and Japan for their infringements of GATT principles and similar dissatisfaction on the part of the rest of the world with US non-tariff barriers and its increasing use of voluntary export restraints.

Cooper saw some form of regionalism as one answer to the problems occasioned by increasing economic interdependence. According to Cooper in restraining the tendencies towards higher economic interdependence, states will have to cooperate to prevent the controlled use of restrictions from negating the principal benefits from trade. He argued

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8 Cooper 1968, p.262. This problem had been raised earlier by Triffin. See above in Chapter Two, pp.32-34. Cooper (1972, p.179) saw increased economic interdependence as having broken down the sharp distinction between external and internal policies that characterised the Westphalian system of sovereign, territorially-based nation-states. According to Cooper (1972, p.173), increasing economic interdependence in the international arena had impacted on what heretofore had been traditionally domestic issues, transforming these into foreign policy concerns. In another article, Cooper (1972-73, pp.18-19) described this change as the intrusion of trade issues into high foreign policy. One of the best examples of this is the action by de Gaulle who in his challenge to US leadership linked both security, trade and monetary issues.

9 Cooper 1968, pp.262, 278. In an article published in *World Politics* in 1972 (pp.176-77), Cooper proposed three possible solutions to the problem: unilateral action by governments to reduce interdependence; shift to an internationally supervised system of more flexible exchange rates; and harmonisation of national tax and regulatory policies.

10 According to Cooper (1972-73, pp.19-20), the world economic order that was established after WWII had formalised the separation of trade and monetary issues or low foreign policy issues from the traditional high foreign policy issues of security and survival. The establishment of separate rules and institutions for the area of trade (the GATT) and the area of finance (the IMF) had been designed to keep bargaining on issues within the one area and to inhibit linkages being made to issues in other areas. A notable exception to this had been the use of a common market to promote the political integration of Europe. (See Cooper 1972-73, p.29).

11 Cooper 1972-73, p.23. Cooper noted the absence of a hegemon: that is, a country that was both willing and able to exercise the world leadership that was required to establish a new trading system more appropriate to the 1970s. The US had lost confidence in its ability to lead and the Europeans having regained their economic strength were less inclined to follow. As the world's largest trading unit, the European Economic Community (EEC) was the most likely successor. Yet it was too preoccupied with its own construction and the relationship between the member states and the central institutions was still unclear. Besides, the US still maintained leadership in the security arena. Cooper (1972-73, pp.36-37) drew parallels between the situation in the early 1970s and that in the 1920s and 1930s when Britain was no longer able to exercise world leadership and the US was as yet unwilling to do so. The possibility of a link between hegemony and free trade was first raised by Kindleberger. That link was a central issue in the debate between realists and neo-liberal institutionalists in the 1970s and 1980s. See below pp.79-85.
that if the Atlantic Community did not have the political cohesion necessary for such cooperation, 'then the term "community" is a misnomer and it would be better to break it into smaller groups which are of sufficiently like mind to cooperate closely in these matters and to allow exchange rates to vary much more between these units than they do now.'

Another scholar, Robert Gilpin expressed similar concerns in the early 1970s about the future of economic interdependence - or as he called it transnational economic relations - and the existing world economic order that sustained it. Gilpin was critical of those scholars who asserted the primacy of economic rationality over the political and strategic interests of states and of those who argued that transnational actors, such as multinational corporations, by undermining the loyalties of citizens to the nation-state, were replacing the nation-state as the principal actor in international relations. Instead Gilpin argued that the contradictions between the nation state and transnational economic relations might well be resolved in favour of the nation-state or more likely regional arrangements centred on the dominant industrial powers of Japan, the United States and Western Europe.

Like Cooper Gilpin saw the possibility of a reversal of the multilateral transnational process and of a return to a form of economic nationalism, which he called neo-mercantilism. This tendency towards economic regionalism was already evident in the new impetus given to the EC by British membership and efforts by Japan to build an economic base less dependent on the US. These regional arrangements, Gilpin argued, were basically economic alliances between sovereign governments, alliances which were partly motivated by a desire to balance American economic power.

Gilpin saw the rise of neo-mercantilism as a consequence of the end of the rapid economic growth of the 1950s and 1960s and the subsequent increase in competition among states for markets and raw materials. The easing of the Cold War and the unilateral decision by the US to abandon Bretton Woods had brought to the fore once again the question of how the world economy should be organised. Gilpin maintained that, although neo-mercantilists saw the universal liberal economic system as fragmenting into a system of regional blocs and preferential trading arrangements, they disagreed over whether such a world economic order would be benign or malevolent. Some scholars such

12 Cooper 1968, pp.262, 278. Calleo and Rowland (1973, p.252) also took up Cooper's idea that interdependence in the Atlantic Community could undermine support for the existing liberal international economic system and saw looser ties internationally and closer regional ties as the solution. They rejected the argument that regionalism had caused WWII.

13 Gilpin 1972.

14 Gilpin 1972, p.48. The question of the primacy of economic or political factors in determining the behaviour of states in international relations has been the subject of considerable debate among scholars and the different positions taken on this question form the basis of three competing approaches to international relations: Marxism, liberalism and realism. See Gilpin (1987, pp.8-9).


16 Gilpin 1972, p.69.

17 Both Monnet and Haas gave this as one of the motivations for the establishment of the EC, see Chapter Two, pp.44-46, and fn.140.

as Mandel saw regionalism as leading to increased competition and conflict between blocs of nations as these seek to redistribute the gains of interdependence in their favour. Others, such as Calleo, Rowland and Cooper, maintained that on the contrary regionalism would have a stabilising effect on world economic relations by providing states with the economic benefits of larger scale production and interdependence at a smaller economic and political cost.

Writing at the same time as Gilpin and Cooper, the Marxist scholar Mandel was also preoccupied with the consequences of increasing economic interdependence. He too saw regionalism as one possible way of resolving those problems. Responding to the argument by Servan-Schreiber (1969) that further economic and political integration was necessary in Western Europe if European firms were to be able compete successfully with US and Japanese firms, Mandel maintained that such integration was part of a strategy by European capitalists to enhance their ability to compete against their US and Japanese counterparts. According to Mandel the fall in the average rate of profit as a result of the end of the long expansionist boom in the 1960s had forced the Western European capitalists, who up till then had largely confined their activities within their home state, to find new ways to boost their competitiveness in relation to US and Japanese capitalists. One way was to take advantage of the greater possibilities of capital accumulation that a wider market could provide - economies of scale, more rational location of factories, and more efficient use and greater concentration of investment capital - through the interpenetration of their previously separate national 'capitals'. Mandel argued that this interpenetration would, if it continued, eventually necessitate the creation of a European state that was capable of defending the interests of these new European transnational capitalists. Mandel's view, however, was contested and with the continued stagnation of

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19 Mandel 1970. See below.
21 Servan-Schreiber 1969. For a brief outline of the arguments used by Servan-Schreiber, see Chapter Two, fn.79.
22 Mandel (1970, pp.61-64) used a similar argument to explain the decision by the British government to apply for membership of the EC. That decision, Mandel claimed, was the result of pressure from British capital who had become increasingly concerned about the formation of European firms. Such firms would be able to use their competitive advantage in terms of economies of scale to squeeze UK firms out of world markets. Moreover, the smaller size of UK firms meant that they were at a competitive disadvantage in relation to larger US firms. The only solution was to join in the interpenetration of capital taking place in Western Europe.
23 However, Mandel qualified this argument in two ways. First, the process of interpenetration itself had barely begun and was encountering strong resistance, particularly in France, from those who favoured the continued concentration of capital at a national level. This resistance and the inability of existing European supranational institutions to defend the interests of interpenetrated European capital meant that it was still not certain whether Western Europe would proceed on the path of capital interpenetration and European unity in order to enhance its ability to compete internationally, or whether it would revert to narrow economic nationalism and thus bring about the disintegration of the EC and increased American domination of the world system. Second, according to Mandel (1970, p.111), interpenetration of capital by itself was not enough to bring about the creation of a European state and there also had to be interpenetration of economic, social and political relationships. The shift from national capitalism to European capitalism, he argued, was therefore not inevitable and socialism therefore remained a possible alternative.
the EC in the 1970s the focus of both Marxist and neo-marxist scholars remained elsewhere.24

Here Cooper, Gilpin and Mandel in the late 1960s and early 1970s foreshadow many of the concerns of later international relations scholars, some of which are taken up in relation to regionalism in the remainder of this chapter. Well before the actual re-emergence of regionalism took place in the 1980s and 1990s both Gilpin and Cooper had predicted its resurgence. Their explanation for that resurgence echoed in part the argument of Triffin outlined in Chapter Two. Economic interdependence had increased to the point where it was undermining government regulation of the national economy. If that economic interdependence was to increase or even be maintained at its present level then states would have to agree to coordinate their macro-economic policies. But given their concerns about loss of sovereignty and their inability to agree on common principles of economic management, states would be unlikely to agree to coordinate their macro-economic policies at a global level. The absence of a hegemon also ruled out the possibility that states might be coerced into doing so. In the absence of an agreed set of rules that could serve to discipline their macro-economic policies states were likely to resort to defensive measures in an effort to regain regulatory control of their domestic economies and protect their citizens from the adverse effects of interdependence. The result would be a vicious circle of defensive reactions which would bring about the gradual erosion of the liberal international trading system.

However, given the reluctance of states to forgo in their entirety the welfare benefits that they derived from economic interdependence, a return to national autarky was ruled out. As in the 1930s the most likely scenario was the breakdown of the liberal international economic order into a system of regional economic groupings where as a result of the closer geographical, historical, strategic and cultural links between the states there was a greater likelihood that agreement could be reached on common principles of economic management. Thus from this perspective the re-emergence of regionalism would appear to be a response to an uncertain post-hegemonic order in which the costs of global

24 Writing about the EC integration at the beginning of the 1980s at a time when the Community was still seen as stagnating, Cocks (1980) further refined Mandel's argument and defined institutionalised political and economic integration as an means to re-establish the conditions for capitalist economic growth - the accumulation of capital and the realisation of surplus value - and political legitimation. However, according to Cocks, the process is not a smooth one, due to the difficulty in reconciling these two objectives. Thus the growing economic interdependence that results as the accumulation process is extended beyond state borders undermines two important tools used to legitimate capitalist social arrangements. Not only does it seriously impair the effectiveness of state intervention in the form of social welfare policies in reducing class antagonisms, it also undermines the sense of nationhood that underlies strong government. For Cocks, the most serious constraint on the institutionalisation of economic and political integration in the EC is the inability of the EC to command mass loyalties. It is this inability which he sees as explaining the largely intergovernmental structure of the EC, since only national elites can command the mass loyalties necessary for political legitimation.
interdependence are too high and the authority of the GATT regime is eroding and where a retreat either willing or unwilling to regions is the second best option.

Gilpin's explanation for the resurgence of interest in regionalism also provides the basis for a neo-mercantilist proposition. For Gilpin regional arrangements were in fact economic alliances formed by states partly to balance American economic power but also in response to the increased competition for markets and raw materials in a period of stagnant economic growth. Mandel's explanation for a possible resurgence of regionalism in Europe would seem to support the proposition advanced by Gilpin that the re-emergence of regionalism was the result of the rise of neo-mercantilism. The end to the rapid growth of the 1950s and 1960s and the subsequent increase in competition among states for markets and raw materials had encouraged states to form economic alliances, partly in an attempt to balance American economic power. Mandel's explanation further develops the proposition outlined in Chapter Two that states will choose regionalism because they believe that a larger market will increase their national competitiveness and boost domestic growth. For Mandel, however, the driving force behind regionalism (in Western Europe) was the increasing competition among the capitalists of different states and the possibility that regionalism afforded capitalists within the same region to join forces to overcome their declining competitiveness in relation to capitalists in other parts of the world (in Japan and the US). From this perspective, the resurgence of regionalism is the result of the intensification of competition among the capitalist classes of different states.

In the remainder of this chapter we will survey the theoretical literature of the 1970s and 1980s in order to see whether it confirms and further develops these hypotheses or provides other explanations.

From integration theory to the study of global economic interdependence

Paradoxically, while Cooper was warning of the limits to economic interdependence and of the necessity to break it into smaller more cohesive groups where cooperation is more likely and Gilpin was talking of the emergence of new forces favouring economic regionalism, other scholars, such as Keohane and Nye, were abandoning the study of regions on the grounds that states were no longer willing to privilege intra-regional relations over global relations. Keohane and Nye, the leading scholars in international relations of interdependence, argued that the phenomenon of interdependence at the global level offered a better explanation of state behaviour in international relations than integration theory and that the study of integration was a subset of this. 25

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25 In 1975, twenty years after Haas and Deutsch's work was first published, Nye and Keohane (1975) revisited the issue. In a telling and detailed critique they pointed to need to develop perceptual conditions for regionalism to supplement the structural conditions identified by Haas and Deutsch.
The integration theories that had sought to explain and predict developments in the North Atlantic and Western Europe had been discredited by their failure to account for the stalling of integration moves in practice. Realist theorists saw this as a vindication of their own paradigm which saw conflict as the predominant feature of international politics, the nation-state as its basic unit and the predominance of politics and security issues over economic welfare concerns. Some liberal theorists of international politics, however, were not so ready to admit defeat. Keohane and Nye conceded that the slow down in European integration in the 1960s had thrown doubt on the general validity of integration theory but maintained that the concepts developed in the study of regional integration might be useful for analysing the new patterns of political economy among advanced industrial societies, which they called interdependence.

According to Keohane and Nye there are three main perceptual conditions. First, there must be a perceived equity in the distribution of benefits. Second, states must have similar perceptions of their relations with outside states. Third, the visible costs of integration must be perceived by prospective members to be low. For producers the costs of increased competition might be offset by the promise of increased protectionism. However, according to Keohane and Nye, the addition of perceptual conditions only served to further weaken the explanatory power of neofunctionalist theory. Although their addition strengthened its ability to explain the successes and failures of different integration attempts, the perceptual variables that it introduced to do so were highly subjective and their evolution over time difficult to predict. Keohane and Nye believed that the result was a far less powerful and parsimonious theory.

At the same time as regionalism in Europe was stagnating, regionalism in Latin America and elsewhere was considered to have failed at least in practice. To these failures was added the challenge that the rise of the newly industrialised economies (or NIES) in the 1970s seemed to pose to the basic tenet of dependency theory itself.

Keohane and Nye 1975, pp.365, 389, 394, 401. The 1970s also saw several earlier integration theorists abandon their regionalist focus in favour of interdependence. Following the actions of de Gaulle in 1965 and the Community's response to them, Haas (1967, pp.315-16, 326) had rejected some of the basic tenets of neofunctionalism, particularly the belief that economic integration automatically led to political unity. He also criticised the original theory for not taking into account disintegrative as well as integrative phenomena and admitted that pragmatic interest politics, concerned with economic welfare, had its own built-in limits, particularly when it came up against the charisma and national assertiveness of a heroic statesman-leader. But he argued (1967, p.316) that an improved theory that took these into account was possible. However, by 1976 Haas (1976, p.208) had declared regional integration theory to be obsolete in Europe and likely to become obsolescent elsewhere. According to Haas (1976, p.174), integration theories tended either not to predict events very accurately or not to explain very convincingly why events which were predicted did in fact come about. He claimed that these theories could be improved to overcome these shortcomings but he believed that it was not worth the effort as recent empirical and conceptual developments had brought to the fore more pressing and important problems on the global agenda of policy and research such as turbulence, interdependence and system change. The focus of attention, he argued, had shifted away from the region. He shared the belief of Keohane and Nye that a new phenomenon - interdependence at a global level - offered a better explanation of the dynamics of international relations and that the study of integration can and should be subsumed under the study of interdependence. (See Haas 1976, p.208, fn.32; Keohane and Nye 1975). Haas (1976, pp.175, 194-200) saw global interdependence as having brought a halt to the regional integration dynamic as countries often preferred to keep their options open by developing closer ties with extra-regional partners rather than with regional partners. According to Haas (1976, p.187), such a behaviour change implied that learning was not as unidirectional as had been assumed in the concept of spill-over and that under conditions of turbulence a dilution of regional commitments was also a possible outcome. Haas believed that this change in state behaviour was in fact a change in decision-making rationality syndromes. Incrementalism - which he defines as 'the penchant for seeking institutional
For Keohane and Nye interdependence and integration were conceptually interchangeable terms, the only difference being that integration often took place within an institutional framework. According to Keohane and Nye the intertwining of politics and economics, the blurring of what are domestic and foreign policy concerns, and the diversity of actors and complexity of issues, which were distinguishing features of the EC, are increasingly characteristic of relations among advanced industrial societies. For these advanced industrial societies the threats to state autonomy were economic rather than military and their main task was how to shift the burden of adjusting to change on to other countries. Thus the study of interdependence, like the study of integration, was concerned with economic issues as well as the politico strategic concerns that dominated realist studies of international relations. Another feature common to both the study of integration and that of interdependence was the key role played by institutions as leaders, in shaping agendas and linking issue areas, and as foci for control when the traditional hierarchy of issues had broken down and the number of actors involved had increased in size and diversity. This belief in the ability of institutions as sites of social learning to affect outcomes and to preserve and promote cooperation between states was to form the basis for regime theory.

Cooperation under anarchy: neo-liberals, neo-realists and neo-marxists

In international relations the attempt by both realist and liberal scholars to merge the two debates on free trade and protectionism and conflict and cooperation has been facilitated by the broadening of the war versus peace debate of traditional international political relations to a conflict versus cooperation debate. Whereas the terms of war and peace limited the issues largely those of a strategic and military nature, the analytical concepts of conflict and cooperation can be applied equally well to economic relations and centralisation by walling the Community off from the world' - had given way to the fragmented issue linkage characteristic of interdependence.

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28 Keohane and Nye 1975, p.368.
29 Keohane and Nye 1975, p.394.
31 This view of institutions as relatively autonomous political actors is similar to that held by scholars of the new institutionalism approach to politics. See for example March and Olsen 1984. Both Keohane and March and Olsen stressed the importance of rules and norms that are embedded in institutions as determinants of actor behaviour. But while March and Olsen saw this in opposition to the view that human behaviour is determined by individual choice based on welfare calculation, for Keohane the norms and rules are in fact the result of a preference by actors for optimal outcomes in terms of welfare benefits.
32 Both Deutsch (1968, p.37) and Haas (1964, pp.47-48, 81) had stressed the ability of people to modify their behaviour and their values and to change the object of their loyalties in the light of lessons learnt from past experience - a process Deutsch called social learning. For neofunctionalists such as Haas, and for scholars of interdependence such as Keohane, institutions are sites where social learning takes place and the behaviour and interests of actors modified. While both the neofunctionalists and interdependence scholars shared the conviction that social learning within institutions would result in a shift towards a more optimal cooperative behaviour pattern, the neofunctionalists went even further and maintained that social learning within a particular type of institution - one with supranational powers - would lead eventually to economic and political integration.
in particular to the issues of free trade and protectionism. There is also a tendency on the part of some liberal and realist scholars in this latter period to pair protectionism with conflict and free trade with cooperation and to see regionalism as a negative phenomenon associated with both protectionism and conflict.\textsuperscript{33}

Moreover, the rise of the field of international political economy has been closely associated with the development of the theory of hegemonic stability, a theory which ties together the free trade versus protectionism and the cooperation versus conflict debates.\textsuperscript{34} This theory has been the focus of much of the debate concerning stability and change in international relations in general and the fate of the present international order in particular. It cuts across the ideological divide and is a common element in the work of realist, liberal and Marxist scholars.

In the conflict versus cooperation debate there has been a considerable narrowing of the gap separating political liberal scholars and their realist opponents. Liberal scholars such as Keohane and Nye rejected the teleological arguments of the integration theorists that war would be abolished by the elimination of the nation-state through a process of economic and political integration leading to regional political unification.\textsuperscript{35} They also gave away their belief that transnational actors were supplanting the nation-state as the principal actor in world affairs.\textsuperscript{36} Instead, these political liberal scholars now accepted the realist position that the state was the main actor and anarchy remained the main distinguishing feature of the current world political environment.\textsuperscript{37} They also conceded that in a world environment that lacks an overarching central authority cooperation is difficult to achieve, that regimes of cooperation are required and that in these defection and cheating are endemic.\textsuperscript{38}

Yet, according to these political liberal scholars, cooperation still existed in the international system. The fact that the degree of cooperative behaviour exhibited by states had varied over time, they argued, suggested that there were some other factors that impacted on the behaviour of states apart from the realist constant of the distribution of capabilities. These factors, they believed, were the prevalence of mutual interests among states and the presence of institutions or regimes.\textsuperscript{39} Like their liberal integrationist

\textsuperscript{33} See Krasner 1976.
\textsuperscript{34} See Kindleberger 1973; and Keohane 1980.
\textsuperscript{35} Keohane and Nye 1975.
\textsuperscript{36} Keohane and Nye 1977, pp.3-5.
\textsuperscript{37} Keohane 1989, p.1; Grieco 1988, p.486. Already in \textit{Power and Interdependence} Keohane and Nye had come to see realist and liberal 'interdependence theory' as necessary complements to each other and not alternatives in explaining outcomes in international relations. Later in \textit{After Hegemony} Keohane (1984, pp.14-16) accepted the basic assumptions of realism as the essential starting point for an understanding of international relations and maintained that, rather than discarding realism, there was a need to go beyond it. According to Keohane and Nye (1987, pp.728-29), it was possible to combine the liberal and realist paradigms because both shared similar conceptions of the nature of political action. Both paradigms shared a utilitarian view of the world, both stressed the importance of bargaining, and they both posited states as rational or at least intelligent actors.
\textsuperscript{38} Axelrod and Keohane 1985, p.226.
\textsuperscript{39} But see Strange (1982) who challenged the usefulness and validity of the regime approach to international cooperation on five grounds. First, the study of regimes, Strange argued, is a fad
predecessors, they believed that the learning process that took place within institutions served to maintain and extend cooperative behaviour amongst those that participated in them. Institutions, they claimed, could change the incentives for governments to cooperate and thus alter the way states perceived their own self-interest. This altered self-interest in turn affected the strategic choices states made.

Yet having rejected political unification at a regional level as a means of eradicating war, neo-liberal institutionalists also abandoned any idea that cooperation might be more likely to occur among states of the same region than at the global level. They assumed mutuality of interest rather than attempting to see how it came about and failed to see that geographic proximity might an important factor in its development.

Nevertheless, the game theoretic arguments used by the neo-liberal institutionalists Keohane and Axelrod to explain the emergence or non-emergence of cooperation under anarchy would seem to imply that cooperation is more likely to emerge at a regional level than at a global level. According to Axelrod and Keohane, three factors affect the propensity of actors to cooperate under anarchy: mutuality of perceived interest; the

and hence not a long lasting contribution to the understanding of international relations. Second, it is imprecise in that its meaning can vary from the more narrow definition of an explicit or implicit internationally agreed arrangement to the broader definition of 'any fairly stable distribution of the power to influence outcomes'. Third, it is value-loaded towards the preservation of the status quo and against change. It not only assumes that there is a shared preference for greater order and managed interdependence but that the existing regimes have been successful in achieving this in the past and hence should be maintained. Fourth, it gives too static a view of regimes, mistakes the continued existence of regimes such as the GATT for stability when in reality there has been substantial change both in the application of the rules and the functioning of the system. The study of regimes, Strange contended, places too much emphasis on the end result rather than the factors that led to that result. Finally, it is too state-centred and pays insufficient attention to the relationship between states and markets, and in particular between states and multinational enterprises.

Keohane 1989, p.2. Keohane (1989, pp.3-4) defined international institutions as 'persistent and connected sets of rules (formal and informal) that prescribe behavioural roles, constrain activity, and shape expectations'. This definition is very similar to Krasner's definition of regimes as 'sets of implicit or explicit principles, norms, rules, and decision-making procedures around which actors' expectations converge in a given area of international relations'. (See Krasner 1983, p.3). According to Keohane international regimes are one of the three types of international institutions. The other two types are formal intergovernmental or cross-national non-governmental organisations and conventions.

For the role of institutions in generating new consensual knowledge and in changing the national interest so that it is more favourable to the adoption of cooperative solutions to international problems, see Ernst Haas 1980. Both Ernst and Peter Haas (1990; 1992) argued that this change in the way states perceive their national interest is often due to the action of transnationally organised networks of knowledge based communities or epistemic communities.

The importance that these scholars place on institutions has led to them being called neo-liberal institutionalists. Robert Keohane (1989, p.2) adopted neoliberal institutionalism as an apt description of this perspective on international relations. In doing so he was taking up the term neoliberal that Nye had used to refer to Keohane's work, and term liberal institutionalism employed by Grieco (1988, p.486) to refer to the different liberal challenges to realism.

But see Jervis (1988) for a criticism of game theory and in particular of its assumption of static values, preferences and beliefs and of its inability to account for the ordering and transformation of preferences. Jervis's criticisms reflect the more general criticisms by March and Olsen (1984, pp.736-37) of utilitarianism as a theory of political behaviour.

Keohane (1984) had attempted to construct a functional theory of international regimes by combining game theory with the theories of public goods and market failure.
shadow of the future or iteration; and the number of participants.\textsuperscript{45} The greater the conflict of interest between the states involved, they argued, the more likely it was they would defect from cooperative agreements.\textsuperscript{46} The more future benefits from a cooperative arrangement were perceived by states to outweigh current benefits, the less likely it was they would defect.\textsuperscript{47} Finally, the greater the number of participants in a cooperative arrangement, the more difficult it is to identify defectors, to focus retaliation on them and to have sufficient incentive to want to punish them.\textsuperscript{48} These three factors seem to suggest that cooperation amongst smaller groups of like-minded states is more likely to be successful. This point is reinforced by Keohane who states that institutions that promote cooperation need not be universal and that 'they are often most useful when relatively few like-minded countries are responsible for making the essential rules and maintaining them'.\textsuperscript{49}

Thus even though Keohane and other neo-liberal institutionalists had rejected regionalism as a main arena of interstate cooperation, the conditions that they identified as necessary for cooperation under anarchy implicitly supported it. Not only could regions be seen as a specific form of regime but, as the findings of game theory implied, they had a greater chance of success than global regimes.\textsuperscript{50} This was in fact the basis of the argument in support of regionalism that was advanced by both Triffin in Chapter Two and Cooper earlier in this chapter.\textsuperscript{51} From this perspective regional regimes would seem to be the norm and global regimes the exception. The question to be answered would seem to be not that of why regionalism but rather that of under what exceptional circumstances are

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  \item \textsuperscript{45} Axelrod and Keohane 1985, pp.234, 253. Shadow of the future or iteration means that those involved in cooperation are likely to cooperate on several occasions. As a result they will be disinclined to cheat or free ride for fear that this will make cooperation less likely the next time around.
  \item \textsuperscript{46} Axelrod and Keohane 1985, p.228.
  \item \textsuperscript{47} Axelrod and Keohane 1985, p.232.
  \item \textsuperscript{48} Axelrod and Keohane 1985, pp.234-38.
  \item \textsuperscript{49} Keohane 1984, p.245. Indeed it could be argued that increased concerns on the part of the US concerning Japanese and East Asian free riding has led it to adopt a regionalist strategy.
  \item \textsuperscript{50} Some participants in the debate about the nature of the EC have described the EC as a regime. See Webb 1983, p.30; Hoffmann 1982, p.33. However, the use of the term to refer to the EC is contested because of the degree of supranationality present in the EC and not normally associated with regimes as intergovernmental cooperation. See Webb 1983, p.36; Wallace 1983, pp.403-405; Garrett 1992, p.559. Keohane and Hoffmann (1991, pp.10-15) have argued that the EC is neither an example of intergovernmentalism nor of federalist hierarchy and is best described as 'an elaborate set of networks, closely linked in some ways, particularly decomposed in others, whose results (task expansion or stagnation) depend on the political style in ascendancy at the moment.'
  \item \textsuperscript{51} See also Yarbrough and Yarbrough (1987, pp.23-26) who argued on similar grounds that liberalisation agreements among small groups of countries or 'minilateralism' are more likely to be successful than multilateral agreements in a non-hegemonic politico-economic environment. They argued that the opportunities to cheat or defect are greater or smaller depending on the nature of the economic and political environment and the degree of transaction-specific investment for trade (or the risk opportunistic protectionism or vulnerability), and that the form that trade liberalisation takes will differ accordingly. Thus Britain pursued a policy of unilateral trade liberalisation in the mid-19th century because it faced little threat of opportunistic protectionism, whereas the US in the 1950s and 1960s used its hegemonic leadership position to support and enforce multilateral trade liberalisation by acting to reduce the high risk of opportunistic protection.
\end{itemize}
global regimes possible. As we shall see in the sections that follow one possible explanation for the existence of global regimes is hegemony, another the existence of shared common values and common interests among the most powerful states. When one or both of these conditions is absent then regional regimes are more likely to emerge.

Realists - or neo-realists as they were often called - rejected the claims by neo-liberal institutionalists that their modified version of realism - neo-liberal institutionalism - offered a more complete understanding of world politics in general and of international cooperation in particular than either realism or neo-realism. Neorealists were also dismissive of the assertion by neo-liberal institutionalists that realist theories were overly pessimistic as far as welfare-increasing cooperation was concerned.

The issue of conflict and cooperation also tended to divide Marxist and neo-marxist scholars. The debate among the Marxists, however, was a minor theme in the context of the more influential contest between the neo-liberal institutionalists and the realists.

53 See Block 1980. Some neo-marxists such as Cox (1987; 1986, pp.237-38) and Gill (1990, 1989) took a position similar in some ways to that of Kautsky. (For the earlier debate between Kautsky and Lenin, see above Chapter Two, pp.21-22). They claimed that the global mode of production had created a new historic bloc led by an international capitalist class and composed of those groups whose livelihood depended on transnational production and capital or who worked for international institutions such as the IMF, GATT and the World Bank. They saw global politics as the struggle between this new historic bloc and the social forces tied to national capital. (See Cox 1987, pp.223-35). According to Cox (1992, pp.178-79), the power of the forces of global finance and production is such that they now exercise a considerable constraint on the state system and could force its transformation. Cox argued that the capacity of states to conduct economic and social policies that protect their citizens from the vagaries of the world economy has been constrained by their need to remain attractive as destinations for international finance and as sites for international production. He foresaw the breakdown of the territorial limits imposed by existing states and the rise of a new medievalism in the form of micro and macroregionalisms and transborder identities. (This possibility was also flagged by Bull, see Chapter Two, fn.148). This view is also shared by post-imperialists such as Becker and Sklar (1987, p.14.) who claimed that the world is at the beginning of the post-nationalist and post-imperialist age. According to Becker and Sklar the nationalist question, the bugbear of traditional Marxist analysis, will no longer require an answer, as class identity will stretch across national boundaries, which will become increasingly irrelevant. But current events in Europe, the US, Canada, the USSR and even Australia would suggest that the nationalist/ethnicity question has not disappeared and Fukuyama (1989) in pronouncing the end of history has drawn the opposite conclusion that class is no longer an important issue. According to Cox, the forces of global capital would probably prove the stronger of the two and that therefore the most likely scenario of the future in international relations was the concert of dominant states. Cox (1992, pp.179-80) listed five logically possible future scenarios. In addition to the two discussed here Cox listed three over scenarios suggested by other scholars: the revival of US hegemony predicted by Nye (1990); a new hegemon - Vogel (1986) suggested Japan and Thurow(1992) Europe; and a counter-hegemonic order in which power is more widely diffused and there are some agreed universal principles. Under this scenario there is little reason for regionalism to develop unless one could see it as serving to strengthen the position of one group of capitalists against the others. Although this group gives a coherent analysis of forces pushing towards globalisation it fails to give due weight to the considerable obstacles that make regionalism a more likely outcome. Thus Cox and Gill are too inclined to overlook the security dilemma and how it cuts across the economic coalition of interests. They tend to gloss over the problematic relationship between state and transnational capital and the fact that the state is still privileged in terms of international decision-making in the G7, IMF, OECD, UN and similar bodies. They also privilege one type
Hegemony, the liberal international economic order and regionalism

This debate between neo-liberal institutionalists and realists focuses on two related questions. The first concerns the conditions necessary for cooperation and, more importantly for this thesis, whether cooperation can be maintained once those conditions are no longer in place. The second is about whether states are more interested in absolute or relative gains. As neither debate is directly concerned with the question of why regionalism arose in the 1980s I will give only a brief summary of the debates and concentrate on their implications for the question of this thesis, namely the emergence of regionalism in the 1980s and 1990s.

of identity - class - and tend to minimise the importance of non-economic determinants of identity such as ethnic ties and nationalism. Recently, however, Cox (1993, pp.179-80) has appeared less certain that the future world order will take the form of a coalition or oligarchy of powerful states and now considers a non-hegemonic order of conflicting world powers each with their client states to be equally as likely. That order, he argued, will be most probably based on an organisation of rival world regions.

Others such as Wallerstein and Block have taken positions closer to that of Lenin. They see the tendency to competition and conflict between the leading national economies and national capitalist elites as stronger than the tendency to collaboration and cooperation. See Wallerstein (1979; 1980, pp.376-77; 1984, pp.43, 62, 142; 1988; 1991, pp.58-64); and Block 1980. Indeed, according to them, it is this tendency which is the driving force of capitalism and ensures its constant renewal. Wallerstein (1984, pp.65, 68, 77) saw the rise of Western Europe and Japan as economic powers as leading to a realignment of the world interstate system and the formation of two axes: Paris-Bonn-Moscow and Washington-Tokyo-Beijing with Western Europe as the new ascending hegemon.

Yet Wallerstein failed to explain how Europe had become a potential hegemon, which was presumably as a result of economic integration. Nor did he explain why integration took place in the first place. Much of his analysis could be extended to do just this. Thus while Wallerstein (1984, pp.41-43) wrote about the different ways that crises of accumulation might be overcome he did not mention a possible role for economic integration in this. It could be argued that the fact that states can no longer resort to military force so readily as they did in the past in order to expand their markets and limit those of their competitors might compel them to negotiate the sharing of markets with other countries. Moreover, although Wallerstein (1984, p.50) stressed the role of the state in the accumulation process through its granting of quasi monopoly privileges to certain enterprises he failed to see that the rents from that monopoly would be larger if the size of the market could be increased through regional economic integration. A large market would also make it easier to raise large amounts of capital for R&D and would guarantee greater returns on that capital. Thus regionalism, according to this adapted Wallerstein approach, would be a means of overcoming the latest crisis of world capitalism, a way for countries which would otherwise be relegated to the semi-periphery to maintain their status in the core. Whereas Wallerstein (1984, p.7) saw the present capitalist world-economy, with its one economy, multiple polities and cultures of the future - as being replaced in one hundreds years or more by a socialist world economy with one polity, one economy and multiple cultures, under this modified world systems approach it is more likely to give way to a world of integrated regional economies with multiple economies, polities and cultures. This would result in the break up of the world-economy into hostile multiple hegemonies each with its client states.

The arguments of both Wallerstein and Cox confirm to varying degrees the argument of Gilpin that the resurgence of regionalism is the result of increasing competition between states for markets and raw materials and that of Mandel that the resurgence of regionalism is the result of the intensification of competition between the capitalists of different states.
Neo-liberal institutionalists and realists both agree on the importance of hegemony for the initiation of cooperation and on the role of the US in the creation of the EC.\textsuperscript{54} Both kinds of theory derive their understanding of hegemony from the theory of hegemonic stability.\textsuperscript{55} This theory has not only provided one theoretical underpinning for the new discipline of international political economy, it has also joined the two debates of conflict versus cooperation and free-trade and protectionism. Thus the question posed here is no longer the general question of whether cooperation between states can be maintained in a post hegemonic world order, but the more particular question of whether in such an order a specific type of cooperation - that typified by the GATT - can survive. Whereas regionalism as a form of interstate cooperation is part of the first question, it is clearly excluded from the narrower definition of cooperation in the second and as in the custom union debates is often seen as undermining cooperation in this sense.

It was Kindleberger who first drew attention to the coincidence of the two most recent periods in which free trade policy enjoyed widespread support with those periods of British and American hegemony.\textsuperscript{56} He argued that for the world economy to be stable, it required a stabiliser, a banker of last resort, that is, a country 'that would undertake to provide a market for distress goods, a steady if not counter-cyclical flow of capital, and a re-discount mechanism for providing liquidity when the monetary system is frozen in panic'.\textsuperscript{57} Such a stabiliser or hegemon would be able and willing to impose on other states institutions that foster cooperation among states in accordance with its own norms and values.\textsuperscript{58}

\textsuperscript{54} Keohane 1984, p.15. According to Gilpin, the US actively encouraged the formation of the EC for a variety of reasons, both economic and strategic. The US, he argued, saw in the EC a means of overcoming the problem of the dollar shortage that was holding back post-war recovery in Europe, of abolishing the pre-war colonial markets of the European colonial powers and of eradicating the economic nationalism that had fragmented the European economies in the past. The EC would rehabilitate West Germany and compensate it for the loss of its traditional markets now under Soviet control so that it would not be tempted to seek accommodation with the USSR. It would also reassure France and the other European states that the re-arming of West Germany that was required for the defence of Western Europe against the USSR, would not see the revival of German nationalism and aggression. According to Gilpin (1972, pp.61-62) the US was willing to tolerate the existence of a preferential trading zone that would discriminate against its own goods in order to achieve these political goals.

\textsuperscript{55} By 1984 Keohane had become more critical of the theory and, in particular, of its deterministic view of the relationship between cooperation and hegemony, and rejected hegemony as either a necessary or a sufficient condition for the emergence of cooperative relations between states. Hegemonic stability theory, he maintained, was a useful though simplistic starting point, an interpretive framework and not an explanatory systemic framework. Nevertheless Keohane (1984, p.182) accepted that US hegemonic leadership did contribute to the establishment of the post-war liberal international economic order and that its decline does pose problems for the survival of that order.

\textsuperscript{56} Kindleberger 1973, pp.292-93, 307-08.

\textsuperscript{57} Kindleberger 1981, p.247. Stability as it is used here implies the maintenance of a liberal economic order. The maintenance of such an order is seen as a public or collective good which will be undersupplied unless one actor sees it in its interest to assume a disproportionate share of the costs of providing it.

\textsuperscript{58} Keohane 1980, p.132.
Krasner lent support to the argument that there was a link between the liberal economic order or openness and hegemony. A hegemonic distribution of potential economic power, he maintained, is likely to result in an open trading system. He also posited a link between between hegemony and regionalism. One of his measures of openness was the degree of regional encapsulation or regionalism. He found that a period of hegemonic ascendancy was characterised by a low incidence of regionalism and therefore by a higher incidence of trade between the more advanced states. Hegemons, he argued, used their symbolic, economic, and military capabilities to entice or compel other states, particularly the more powerful medium-sized states, to accept an open trading system and to refrain from closed regional trading arrangements. These states, believing the hegemon's open economic policies to be the reason for its success, might adopt similar open economic policies in the hope that they too would be equally successful.

Neo-liberal institutionalists and realists disagreed, however, on the implications for cooperation of a decline in that hegemony. According to hegemonic stability theory, a hegemonic system is intrinsically unstable and through both the actions of the hegemons themselves and the inexorable forces of the markets, hegemons will gradually decline.
The popular and contested prediction that follows is that cooperation will give way to conflict and international institutions and regimes will decay and become increasingly irrelevant as new powerful states begin to challenge the old values and norms on which they were based. The international trading system will break down as free trade gives way to increased protectionism, economic nationalism and finally world-wide depression. A war will ensue and the victor will emerge as a new hegemon and re-establish a stable world trading system based on its own particular set of norms and values.63

According to Krasner, just as a low incidence of regionalism is associated with hegemonic ascendancy, the rise of regionalism is an indication of hegemonic decline.64 Krasner sees this increase in regionalism as an attempt by the leading industrial states to insulate themselves from the vagaries of the global economic system and at the same time to maximise their own economic and political interests.65 If we are to accept Krasner's line of reasoning then the rise of regionalism in the 1980s could be seen as the result of the...
erosion of the multilateral trading system, itself a consequence of the decline of US hegemony. We return to this question later.

Cooperation after hegemony: regimes and relative versus absolute gains

In contrast to the views of Krasner, neo-liberal institutionalists such as Ruggie and Keohane maintained that institutions or regimes, although dependent on the existence on hegemony for their creation, were not dependent on its continued existence for their survival. According to Keohane, the fact that the decline in cooperation had not been complete despite the decline in US hegemony was proof that cooperation was possible without hegemony and that some existing international regimes might be adaptable to a post-hegemonic era. Keohane argued that international institutions might even be a substitute for a hegemon. By providing some of the sense of certainty and confidence that had been formerly provided by the hegemon and that was necessary if states were to cooperate, multilateral institutions could maintain existing levels of cooperation. By

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66 Shonfield (1976, p.108) would appear to have confirmed Krasner's thesis concerning the relationship between the decline in hegemony and the rise of regionalism when he argued that the increase in preferential trading by the late 1960s had become a major divisive issue between the US and the EC and was undermining US support for the GATT. See also Curzon and Curzon 1976, pp.228-30; and Harry Johnson 1974, pp.14-19. Writing in the early 1970s, Harry Johnson described the EC as the epitome of modernised mercantilism and argued that because of the EC's preoccupation with British entry into the Community and with efforts to reform the international monetary system, and of its refusal to liberalise trade in agricultural products, it was unlikely that the EC would be able to respond to the call made by the US in 1971 for an integrated approach to international monetary and trade policy problems. As a result, he claimed, the drift into modernised mercantilism would continue.

67 Ruggie 1982, pp.412-13; Keohane 1984, pp.14, 182, 208. This argument parallels that of Haas concerning integration that the integration process once initiated takes on a life of its own, independent of the specific conditions that brought it into existence.

68 Keohane 1984, p.182.

69 Keohane 1984, p.182. Drysdale (1988, pp.265-60) appears to have taken a similar approach to that of Keohane when he argued that the system of of relatively open economic relations in the Pacific can be maintained in the absence of the conditions that were necessary for its creation by the establishment of mechanisms or vehicles for economic policy consultation within the Pacific. According to Drysdale, 'growing knowledge among Pacific countries of each others' institutions and policy practices strengthens the level of mutual confidence in national economic policies and reduces psychological and political barriers to the movement of commodities and capital and the relocation of production, all of which help to improve international welfare'. For Drysdale (1991, p.3), the growing interest in the establishment of such mechanisms in the Asia Pacific is partly due to the inability and unwillingness of Japan to play a leadership role commensurate with its status as an economic power. However, Drysdale seems to have largely ignored the problem of relative gains raised by Grieco. Like Keohane he saw states as primarily motivated by absolute gains and their resistance to free trade as largely due to a lack of information concerning the policies and intentions of other states. Drysdale (1988, p.208) did concede that the failure of the attempt to establish a Pacific Free Trade Area in the late 1960s was partly due to concern by some states that the benefits of free trade would not be equally distributed and would largely favour Japan. Nevertheless, he maintained that increasingly complementary nature of the different national economies in the Asia Pacific region ensures that all will gain from freer trade. While he wrote of the need to ensure the continued industrialisation of the developing countries in the region, he did not raise the question of regional assistance to individual countries to help them overcome the problems of structural adjustment brought about changes in comparative advantage. The assumption would appear to be that while some groups within a country may lose as a result of these changes these losses will be balanced out by the gains made by other groups. Nevertheless, the assertion by Drysdale (1988, p.107) that, unlike in Europe,
generating a considerable amount of high-level information institutions reduced uncertainty and made agreements between states more likely. Keohane asserted that realist assumptions needed to be revised in the light of the impact institutions had on state behaviour. He maintained that the way states conceived of their interests and the means they chose to pursue their objectives depended not merely on national interests and the distribution of world power as realist theory would have it, but on the quantity and quality of information and its distribution.

Defending the realist position, Grieco argues that Keohane, despite his claim to have accepted the basic assumptions of realism, has overlooked an important element of the realist assumption of anarchy. States do not only eschew cooperation because they fear others may cheat but also because they fear that if a state gains more from cooperation than others it may use that gain to enslave or destroy the others. For Grieco, states value relative gains over absolute gains. Interestingly, Grieco uses examples from regional economic arrangements to support his argument. According to Grieco, disputes about relative gains have impeded attempts at economic and monetary union in the EC and have hampered attempts at regional economic integration among developing countries.

Thus Grieco argues that institutions are not sufficient conditions for cooperation. Collaborative arrangements, if they are to be successful, must also address concerns by participating states over relative gains. They can do this, he maintains, through the inclusion of mechanisms ‘that allow otherwise disadvantaged partners to enjoy preferential treatment, or programs whereby stronger partners compensate weaker participants’. The discriminatory trade liberalisation is not necessary to get Asia Pacific nations to agree to regional trade liberalisation as most of the benefits regional trade liberalisation on a most-favoured-nation basis would be reaped within the region would appear to be an acknowledgement that relative gains are important.

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71 Keohane 1984, p.245.
72 Grieco 1990, pp.9-10.
73 Grieco (1990, p.46) did concede that not all states are concerned to the same extent by relative gains. More powerful states are less likely to be worried about small gaps in gains and for weaker states who cannot assure their own security in any case, it is not really an issue. Concern about such gains is likely to be greatest among medium-rank powers who aspire to becoming first rank powers or fear being relegated to the level of a third-rank power.
74 Grieco 1990, pp.222-226. Mytelka (1979, pp.11-13) blamed the failure of the laissez-faire type of regional integration schemes among developing countries on the unequal distribution of the welfare gains from integration, and, in particular, on the inequitable distribution among participants of the industrial development that resulted from the enlarged market. But see Bhagwati (1991, p.70), who blamed their failure on attempts by bureaucrats to plan the allocation of industry rather than relying on market forces.
75 Grieco 1990, pp.46-48. Although Grieco used regional integration arrangements as examples of how the failure to ensure a proportionate distribution of gains among participants can lead to the collapse of such arrangements, other examples can also be found of how such arrangements can indeed endure when they do address this problem. We have already seen in the previous chapter that one important factor in the decision of the French government to support the creation of the ECSC was the conviction that the pooling of French and German coal and steel production would ensure France a greater share of relative gains than the restoration of German economic sovereignty within the OEEC. The provisions of Treaty of Rome lend further support to Grieco’s argument. Thus French insistence on a common agricultural policy was seen as an attempt to balance the gains that German industry was
failure of international arrangements to bring about a proportionate distribution of gains, he argues, will lead to conflict among the participants and perhaps even the collapse of the arrangement itself.  

This argument about the importance of relative gains versus absolute gains need not detain us here. It is obvious that states are concerned about relative gains. Whether they are to the extent that cooperation becomes impossible is a moot question. What is important, however, is that even liberal institutionalists admit that cooperation though not impossible would be difficult in a post-hegemonic world. According to Keohane, there is still great uncertainty as to whether states will use existing regimes and institutions to forge new agreements and ensure compliance with old agreements. Faced with this uncertainty states are likely to want to check out other possibilities including regional groupings. In such a situation regionalism may be looked upon favourably as a fall-back position should cooperation at a global level be unsustainable, as a type of cooperation where participating states can have a greater influence on the distribution of relative gains, and as bargaining chips to increase their leverage over the shaping of future international regimes. Grieco’s argument about the importance of relative gains would seem then to provide further support for the proposition derived from Triffin and Cooper that the re-emergence of regionalism was a response to an uncertain post-hegemonic order in which the costs of global interdependence are increasing and where a retreat either willing or unwilling to regions is the second best option. It could also confirm Gilpin’s argument that a trend towards regionalism is likely to occur in an increasingly more competitive

expected to make through the liberalisation of trade in manufactures. Further compensation to France came with the agreement of West Germany and the other members to take on some of the financial burden of providing assistance to France’s colonies. Italian insistence on the creation of special funds to promote the development of the economically disadvantaged southern part of Italy is another case. These compensatory arrangements reflect an unwillingness on the part of some members to leave the distribution of the gains from integration solely to the market mechanism.

Grieco’s argument about the importance relative gains is similar to that used by Waltz, another realist scholar, to explain the establishment of the EC. Waltz (1979, pp.70-71) argued, in what could be described as a partial hegemon thesis, that cooperation among members of the EC was possible because the means of their preservation was provided by an outside power, namely the USA. He maintained that as a result of the US military guarantee, EC member states no longer feared that the greater advantage that one of the participants obtained from the cooperative exercise would be used against the others. According to Waltz, ‘(o)nce the possibility of war among states disappears, all of them can freely run the risk of suffering a relative risk’. Waltz did not say what would happen once the US guarantee is removed. More recently Mearsheimer (1990, pp.46-48) has argued that without a common Soviet threat and without the American nightwatchman, the European states will become fearful and suspicious of each other and their concern about the imbalances in the gains obtained from cooperation will increase. Cooperation will become more difficult and conflict more likely. Alternatively the survival of the EC could be attributed at least in part to the fact that it has not relied totally on the market mechanism to determine who gains and who loses from cooperation but has developed various mechanisms and programmes designed to ensure a more equitable distribution of the gains amongst the participants. It could be argued then that the removal of the external condition of hegemony for regional cooperation will lead to a greater insistence by participant states on mechanisms to ensure a distribution of benefits that does not upset the existing relative power equation of the states involved.

Keohane 1984, p.182.

Keohane 1984, p.245.
international environment where states are likely to be more concerned with the question of relative gains.

The declining ideological commitment to liberal economic values

On the preceding discussion, it would seem then that the renewed rise of regionalism could be explained theoretically by states reacting to a combination of factors: the costs of increasing interdependence, the related decline of US hegemony and the erosion of the multilateral trading regime. As US hegemony declines, cooperation at a global level becomes more difficult and countries revert to more regional trading patterns. When this structural condition of increasing interdependence and declining hegemony is allied with a regime condition - the decline of the GATT system (itself a product of US hegemony), the effect is to undermine still further the confidence of states that alternative arrangements for hegemony - for example, a directorate of major economic powers - will work to maintain an open system and world economic and trade growth. Thus the combination of adverse factors in the structure and regimes governing international economic interchange pushes states towards regions.

Part of the problem with this argument though is that many scholars dispute that US hegemony is in fact declining. If they are right, then how can we then explain the rising incidence of regionalism? Gilpin in arguing that hegemony alone is not a sufficient condition for global cooperation and the existence of an international economic trading order may provide a solution.

Scholars, such as Krasner (1977, p.670), Russett (1985), Strange (1987), Huntington (1988), Nau (1990) and Nye (1990) have argued that US hegemony has not declined or at least not to the extent where it can no longer influence outcomes in the world economy. Although these scholars disputed that US hegemony has declined to extent that it has no longer the external capacity to provide leadership, they did not deny that the multilateral trading regime is being eroded. But they argued that this erosion is the result of factors internal to the US polity that have seriously impeded its ability to exercise that hegemony. However, Strange (1985) took a different view to the others. She was highly critical of the literature concerning hegemonic stability, not only for its assertion that US hegemony is in decline, but also for what she sees as its inherent liberal bias. See below, pp.92-93.

This criticism of hegemonic stability theory follows from the arguments above that US power has not declined and was often made by the same scholars but was also conceded by scholars who saw US hegemony as declining. It follows then that the liberal international economic order may decline in the absence of a decline in hegemony. Some scholars such as Keohane (1984, pp.31-35) went as far as to argue that hegemony may not even be a necessary condition for such an order and that therefore a liberal international economic order may continue to exist in the absence of a hegemon.

This rejection of hegemony as a sufficient condition for a liberal international economic order has led to the positing of an additional condition for the existence of that order - the willingness on the part of a hegemon to establish such an order. (Keohane 1984, p.35). Scholars such as Krasner, Strange, Nau and Nye saw this willingness as largely determined by one or more domestic factors such as interests and preferences of different actors, political structures and ideology. Since the erosion of the liberal international economic order is then not due to a decline in US hegemony but to domestic problems within the US, scholars such as Strange and Nye argued that if the US addresses these problems the liberal economic international order can be restored. Both Keohane and Gilpin posited other non-domestic conditions as necessary for a liberal international economic order to exist. (For discussion of
According to Gilpin past hegemonies have been associated more with command economies of empire than economic liberalism.\(^{81}\) A hegemon will only seek to promote a liberal economic trading order if it believes it is in its interests to do so, that is if it is also the most efficient producer of tradeable goods for world markets. Thus Gilpin argues that the existence of a hegemon is a necessary but insufficient condition for the establishment of a liberal trading order. For such an order to be established that hegemon must also be the most efficient producer. Britain and the US were the first states to satisfy both the conditions of hegemony and economic efficiency and hence the first to promote a liberal economic trading regime.

Yet even these two conditions, Gilpin argues, are not sufficient for the establishment of such an order. According to Gilpin, two other conditions are necessary for the establishment of a liberal international economy.\(^{82}\) One such condition is that the states be bound together by common economic, political, and security interests.\(^{83}\) The other is that the states have a common ideological commitment to liberal values.\(^{84}\) Thus the post WWII these see below). What is important here is not just whether US hegemony is declining but the fact that it is perceived by the US and other countries to be declining.\(^{81}\) Gilpin 1986, pp.311-12. This point was also made by Ruggie (1982, p.382).

Keohane (1984, pp.14, 108, 244) also saw hegemony as an insufficient condition for the establishment of a liberal international economic order or regime. He argued that shared interests and the prevailing expectations and practices are also important conditions for the creation of regimes and that these together may be sufficient in themselves to ensure the survival of a regime. His understanding of common interests, however, is not the same as that of Gilpin. Keohane's condition of common interests seems like an amalgam of Gilpin's condition of the same name and his condition of a common commitment to liberal ideology. Thus Keohane saw common interests as the result of either economic conditions or the effect of ideals and ideas on state behaviour. (Keohane 1984, p.6). Like Gilpin, he argued that one of the most important common interests necessary for the existence of a liberal international economic order, though not for cooperation per se (Keohane sees managed trade as cooperation), is of course economic liberalism. (Keohane 1984 pp.189, 208-09, 213). Keohane warns that should the growing questioning of economic liberalism be translated into strong opposition the potential for cooperation would be reduced. Cox (1983, 1986) also considered common interests and a commitment to a common ideology as an essential condition for the establishment and maintenance of a hegemonic order.

Calbee and Rowland (1973, p.217) have also argued that it was the consensus among Europeans, Japanese and Americans regarding the Sino-Soviet threat that had permitted the US to exercise military, political and economic hegemony. They also maintained in the early 1970s that this consensus no longer existed.\(^{83}\)

Ruggie (1982, p.382) also stressed the need to separate the form an international order will take because of the distribution of economic power and its content which reflects the prevailing values and beliefs of the time or what he calls social purpose and which legitimizes the exercise of authority necessary to establish and maintain an international order. Thus he distinguished the different content of past hegemonies: the mercantilism of 17th century Dutch hegemony, the laissez-faire liberalism of 19th century British hegemony and the embedded liberalism compromise of the post WWII period. Moreover, Ruggie (1982, p.392) argued that even if there had been a hegemon in the inter-war period it would not have been able to establish an international economic trading order, given the prevailing economic nationalism of the time and the overriding pre-occupation of governments with preserving domestic stability. McKeown (1983) also argued that the decisions of France and Prussia to reduce tariff barriers in the 19th century were more a result of the influence of liberal ideology and domestic politics than any pressure exerted by Great Britain. For a discussion of the importance of ideas in effecting changes in government policy, see Harry Johnson 1978, pp.183-202; Odell 1982; and Hall 1989.
liberal economic order was based on US global hegemony and superior economic efficiency, the anti-Soviet alliance, and a Keynesian, welfare-state ideology. If Gilpin is right then the re-emergence of regionalism would still be due to the erosion of the liberal international trading order but the cause of that erosion would lie not with the decline of US hegemony but with the growing divergence of interests among the major world economies.

For Gilpin then the current crisis in the liberal international economy is due not only to the relative decline of US hegemony but also to the increasing strains within the anti-Soviet alliance and a lessened commitment on the part of key states to liberal ideology. Gilpin believes that a liberal economic trading order might still survive the decline of hegemony if a reasonable rate of economic growth is maintained and the trading interests of the key economies are complementary.

Yet the seventies and eighties have been decades of stagnant and erratic growth patterns marked by a growing divergence of interests among the world's largest economies - the EC, the US and Japan. Gilpin points to the breakdown of the embedded liberalism compromise that had been the basis for the post-war reconstruction of international economic institutions. According to Gilpin, the 1970s and 1980s have seen revival of the conflict between domestic autonomy and international norms. The embedded liberalism

85 Gilpin 1986, p.312. This view was also shared by Keohane (1984, pp.15-16) who argued that the decline of US hegemony only partially explains the decline of post-war international regimes and that other factors such as changes in macro-economic conditions and international economic competitiveness, the role of ideas and learning, and the impact of domestic politics on foreign economic policies must also be considered.

86 Gilpin 1986, p.311. Nevertheless, Gilpin (1987, p.365) still doubted whether a liberal world economy could survive without a liberal hegemon committed to its preservation. Gilpin's doubts would seem to be confirmed by the findings of Cohen (1993) concerning the fate of international cooperation in the realm of monetary policy in the late 1980s and early 1990s. Cohen concluded that effective and sustained international management is unlikely to be achieved in the absence of a hegemon. He argued that this is because governments are generally unwilling to sacrifice national policy autonomy for the benefits that they could obtain from exchange rate stability. Drawing on the example of the European Monetary System (EMS) among members of the EC, Cohen (1993, p.155) maintained that a sustained commitment to monetary cooperation is only possible from countries which share a real sense of community and 'a real willingness to pool elements of sovereignty around a range of issues'.

87 Gilpin 1987, p.380. The term 'embedded liberalism' was first used by Ruggie (1982, p.393) to describe the nature of the international economic order established after WW II in that part of the world outside of the Soviet bloc. According to Ruggie, that order was the result of a negotiated compromise between mainly US interests that wanted a return to the old laissez-faire order, and the other states that wanted a system that would allow for differing degrees of government intervention in the domestic economy. Shonfield (1976, pp.93-105, 137) took a different view to Ruggie, arguing instead that the post-war international economic order was the result of a fortuitous convergence of political and economic forces. It could also be argued that such a compromise was more the result of similar domestic political pressures in each of the major countries involved leading to the adoption by governments of Keynesian economic policies rather than any actual agreement by states to reach a compromise. For the purposes of this thesis it is not important whether the resulting order was the result of a conscious political choice or not.

88 Gilpin 1987, pp.388-89. According to Gilpin (1987, p.384), that compromise had attempted to reconcile the economic liberals and Keynesian interventionists by combining norms of multilateralism with domestic interventionism and yet at the same time rejecting the economic nationalism of the 1930s and the laissez-faire of the 19th century. (See also Ruggie 1982, p.393). The breakdown of this compromise was the result of the increasing conflict
compromise has given way to a series of ad hoc and temporary arrangements that were agreed to by the world's largest economies at economic summits.\textsuperscript{89} The short term and ad hoc nature of these arrangements and the fact that more often than not they are not acted upon has reinforced the impression and the reality that the major economies are divided on important issues of policy.\textsuperscript{90}

In the remainder of this section we look at two factors that may have contributed to a lessened commitment on the part of key states to liberal ideology - the rise of new economic competitors such as Japan, and the neo-mercantilist challenge to liberal economic orthodoxy. In the next section we consider the other essential condition advanced by Gilpin for the liberal economic trading order, namely that states be bound together by common economic, political and security interests.

\textbf{The impact of Japan's economic success on liberal economic norms}

The reduced adherence to liberal economic norms, particularly by the US and the members of the EC, is partly attributable to the rise of new competitors and the geographical relocation of whole sectors of production - more commonly known as the New International Division of Labour - due to a dramatic shift in comparative advantage.\textsuperscript{91}

between state sovereignty and the integrating forces of the world economy as governments, faced with the twin problems of high inflation and high unemployment were forced to choose between continued adherence to international norms and domestic stability. The problem was further exacerbated when non-tariff barriers replaced tariffs as the major impediments to trade. Given that tax policies, social preferences and government regulations could be considered non-tariff barriers, their removal was a direct challenge to domestic autonomy and the right of governments to intervene in their economies. It was becoming increasingly apparent that the separation of domestic economic policies from international economic policies could no longer be sustained. Ruggie (1982, p.384), however, did not see such developments as an erosion of the international trading regime or GATT but as reflecting norm-governed change and the continuity of common purpose among the leading economic powers. The norms and values of the GATT regime, he argued, were not those of pure economic liberalism but those of embedded liberalism, under which multilateralism in international trade was predicated upon domestic interventionism. The regime of embedded liberalism, Ruggie (1982, p.399) claimed, accepts the principles of multilateralism and non-discrimination only to the extent that they are compatible with domestic stability and social cohesion. For Ruggie (1982, p.410) the new protectionism, therefore, is not an aberration from the norms of post-war liberalisation but a continuation of the very rationale behind the domestic safeguards that are to be found in the original GATT articles. As further proof that the GATT regime has not broken down, the proponents of embedded liberalism point to the fact that, unlike in the 1930s, world trade has continued to grow despite unfavourable economic circumstances, and that a new round of multilateral negotiations designed to extend the principles of GATT to sectors such as services and investment has been concluded. This argument by Ruggie that domestic stability and cohesion take precedence over free trade in the hierarchy of principles governing the post WWII liberal international order was further developed by Strange (1985) and given a more general application. See below.

\textsuperscript{89} Gilpin 1987, p.380.
\textsuperscript{90} See Cohen 1993.
\textsuperscript{91} See Hymer 1979. More recently some scholars have argued that the international division of labour is changing again as a result of new knowledge intensive methods of production that reduce the labour and materials content of production processes and products and hence the advantages of siting production in low wage countries. With new knowledge now a more important source of comparative advantage, MNEs are shifting production to locations in the United States, Europe and Japan - or what Ohmae (1985) has called the Triad - where new
The rise of Japan to its present status of a world economic power has been spectacular. But the improved economic situation of Japan would by itself not have been sufficient to cast serious doubt on the validity of liberal trade policies if it had not been accompanied by a marked deterioration in the economic situation of both the EC and particularly the US. The alarming increase in the US trade and budget deficits led many American scholars to draw the conclusion that Japan's success had been largely at the expense of the US and more significantly that this success was due to Japan's failure to adhere to liberal economic norms. They argued that the impact of the rise of Japan on liberal economic norms has been threefold. First, by specialising in labour-intensive industries such as textiles and apparel and then in more capital intensive industries such as steel and automobiles, Japan has threatened similar industries in Western Europe and the US. This has led to increased demands for government protection by both unions and proprietors from these industries, resulting in the imposition of new protectionist measures such as Orderly Market Arrangements (OMAs) and Voluntary Export Restraints (VERs). Such measures are clearly in contravention of one of the basic principles of GATT and have served to undermine the norms of the trading system as a whole. Free trade would appear to be giving way to managed trade.

knowledge is more likely to be generated and where there is an abundance of cheap skilled labour. See Eden (1991, pp.102, 111-12) and below.

According to Destler (1986, p.46), in 1960 Japan's per capita income was only 30% of that of the US, but in 1979 it had reached 70% of that of the US. Japan's share of the world GNP over the same period had increased from 3% to 10% and its share of world exports almost doubled between 1965 and 1984.

Gilpin 1987, p.346; Destler 1992, pp.41-63. This causal link between the twin US deficits and unfair trading practices by Japan is highly contested with many scholars maintaining that the deficits are the result of bad US macro-economic policies. (See Destler 1992, pp.57-61; Drysdale and Garnaut 1993; and Gilpin 1987, pp.345-46; 369-72). This disagreement over the causes of the US deficits has played an important part in the debate over the relative merits of NAFTA. While some scholars more favourably disposed to NAFTA, such as Young (1993) and Morici (1993), saw the free trade agreement as a means to increase the US bargaining position in its efforts to get Japan and East Asia to adhere to liberal economic norms, others less inclined to support NAFTA, such as Robertson (1993, p.58), saw it as a way for the US to avoid making the domestic structural adjustments necessitated by shifts in its comparative advantage.

Japanese industries were more competitive than their American and European counterparts largely as a result of lower wage costs, an undervalued yen and a relative absence of competition from rival foreign producers in its domestic market.

According to Gerard and Victoria Curzon (1987, p.175), it is the US, the EC and Japan, the world's largest traders, who are mostly to blame for the erosion of the GATT principles and rules. The American agricultural waiver of 1955 set a precedent for the Common Agricultural Policy of the EC and Japan's protective agricultural regime. The restrictions agreed to by Japan in 1955 on Japanese exports of cotton to the US and the Short Term Arrangement Regarding International Trade in Cotton Textiles of 1961 eventually led to the Multi-fibre Arrangement.

Krasner (1986, pp.801-06) saw this as occurring at the policy level and in a rather ad hoc manner. The US, he argued, is still attached to the principles of diffuse reciprocity and global liberalism and that this attachment is not only no longer in the US interest but is also the source of considerable tension between the US and Japan, with each side accusing the other of not playing fair. In adopting the principle of specific reciprocity, he argued, the US will be better able to negotiate the inevitable transition from a world economic order based on its own hegemony to a new order, the basis of which is as yet unclear. Krasner (1986, p.787)
A second consequence of the rise of Japan has been the adoption of its strategy of export-led economic development by other less developed countries in Asia, commonly known as the Newly Industrialising Economies (NIES). The spectacular growth in exports that has been achieved by these countries, even in the difficult economic times of the 1970s and the 1980s, has only strengthened the trend towards new protectionist measures in the US and Western Europe. It has also helped legitimise government intervention as governments come under increasing political pressure to finance and facilitate the restructuring of those industries threatened by the rising tide of cheaper imports. In their efforts to restructure their economies and adapt to the new international division of labour and faced with stagnant or even negative domestic demand, many developed countries have also begun to pursue policies of export-led growth.

A third consequence of the economic success of Japan has been the partial rehabilitation of the doctrine of economic nationalism and a further undermining of the rival liberal economic doctrine. With many countries aggressively trying to boost their exports, a new struggle for world markets has emerged. Increasingly, large economies such as the US and EC have sidestepped multilateralism and attempted to use unilateral measures and leverage in the form of bilateral agreements that enable them to maximise the benefits from increased trade while at the same time minimising the costs.

Japan's economic success has been widely attributed to the heavy protection it extended to its export-competing manufactures and its use of a wide range of commercial and investment policies to encourage industrial development. The use of the so-called

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attributed the difficulty the US has in discarding its principles of diffuse reciprocity and its obliviousness to the importance of relative gains to the hold that ideas, such as Lockean liberalism and the lessons of the 1930s, have over US foreign policy. Keohane and Nye (1985, p.167) also advocated a greater emphasis by the US on reciprocity in the GATT and other fora for multilateral cooperation, in preference to the abandonment of multilateral cooperation altogether. See also Curtis (1985, pp.57-58), who argued that both the terms 'free trade' and 'managed trade' are misnomers and should be replaced by 'freer trade' and 'attempts to manage trade'.

98 Gilpin 1987, p.395.
99 Gilpin 1987, p.395. Keohane and Nye (1985, p.149) were particularly critical of the rejection by the Reagan Administration in the early 1980s of international policy coordination, which it had equated with excessive government intervention at the domestic level, in favour of unilateralism.

100 See, for example, Vogel (1979), Chalmers Johnson (1982) and Prestowitz (1989), on the role played by the strategic targeting of growth areas in Japan to create comparative advantage in these areas. This explanation of Japan's economic success has been contested. For a good summary of the two conflicting interpretations of Japan's economic success - the market-oriented model and the developmental or network state model, see Krasner (1986, pp.787-806). Krasner argued that '(i) the developmental state model is an accurate description of Japan's political economy, then an international economic strategy based on diffuse reciprocity, universal procedural rules, and the assumption that costs and benefits will balance out in the long term will not be optimal for the United States'. Because of the differences in national institutions between Japan and the US, he claimed that the US would be better advised to adopt instead a strategy of specific reciprocity or managed trade. Under such a strategy Japan would be required to ensure that Japanese imports of US goods within a specified sectors accounted for a fixed percentage of the Japanese market in those sectors by a set date.

For the argument that Japan is not a predatory or exotic trader, see Bhagwati 1991. See also Trezise 1976; and Saxonhouse 1983. For a summary of arguments that Japan is not an unfair trader, see Curzon and Curzon 1987.
industrial policy by Japan has strengthened the arguments of those in the US Congress and elsewhere who favour making access of goods from other countries to the United States market conditional on the granting of similar conditions of access by those countries to US producers in their markets.\textsuperscript{101} Why should Japan or the NIEs be allowed relatively free access to the US markets when the access of American products to the Japanese and NIE markets is being restricted, they ask.\textsuperscript{102} While they do not call specifically for an end to free trade, they stress that any concessions should be reciprocal.\textsuperscript{103} Free trade should be fair trade, they argue.\textsuperscript{104}

The problem has been further compounded by a suspicion that the second largest economy in the world is not a liberal one in the Western sense of the word and that there is a 'Japanese problem' which must be solved. Scholars such as Johnson, Prestowitz and van Wolferen have claimed that the problem goes much deeper than tangible barriers to trade and government unwillingness to remove them.\textsuperscript{105} For these scholars the failure of the US and EC to increase their exports to Japan is attributable to the non-liberal nature of Japanese culture and society.\textsuperscript{106} Liberalisation in the case of Japan, they argue, requires more than formal adherence to GATT norms and rules, it requires that Japan become a liberal society.\textsuperscript{107}

Many scholars have taken a different approach to so-called cultural barriers to liberalisation and free trade. Instead of seeing these as deviations from the universal capitalist norm as it is practised in the USA, they consider them as different forms or models of capitalism. They argue that capitalism has taken a different form in the three

\textsuperscript{101} It also gave rise to a substantial debate among political scientists and experts in public and business administration in the US between 1980 and 1985 on whether the US should also establish its own industrial policy. For an excellent summary of the evolution of the debate, see Thompson 1987; and Destler 1992, pp.182-89, 230-34.

\textsuperscript{102} For an account of the growing pressure from within the US Congress for tougher action by the US Executive to open up foreign markets and reduce the enormous US trade deficit, see Destler 1992, pp.65-137.

\textsuperscript{103} For an interesting comparison of the increasing demand for fair trade in late 19th century Britain and late 20th century USA, see Bhagwati and Irwin 1987. For a presentation of the arguments against the fair trade position, see Bhagwati 1991. Goldstein (1988, pp.216-17) explained the recent resurgence of calls for fair trade by the fact that even at the height of US support for the doctrine of free trade in the US fair trade norms and institutions continued to coexist with their free trade counterparts. Nevertheless, Goldstein is optimistic that there will be no sudden shift in US policy in support of fair trade as there is currently no legitimate theoretical alternative to liberalism.

\textsuperscript{104} This demand for fairer trade was frequently translated into a demand for managed trade. This was particularly the case concerning trade with Japan where the US insisted on agreements, such as the US-Japan Semiconductor Agreement and the Market-Oriented, Sector-Specific talks, in which Japan committed itself to sectoral reciprocity and quantitative targets for import penetration. See Destler 1992, pp.127-28, 218. Destler (1992, pp.182-83) argued that the theoretical challenges to the liberal trade orthodoxy both reflected and contributed to the erosion of elite support within the US for liberal trade. See also Chapter Six, pp.211-13.

\textsuperscript{105} Vogel 1979; Chalmers Johnson 1982; Prestowitz 1989; and van Wolferen 1989. According to Gilpin (1987, p.390), by the mid-1980s Japan had the least formal barriers to trade in manufactures of all the advanced capitalist countries.


\textsuperscript{107} Gilpin 1987, p.391. However, according to Kuttner (1991, pp.164-65), given Japan's success in resisting westernisation over the past century, any solution that requires the liberalisation of Japanese society is implausible.
economic giants of the world, the USA, Japan and Germany and that these forms are competing for the allegiance of other nations.\textsuperscript{108} Each of the three, it is claimed has been 'building its own empire in its own backyard'.\textsuperscript{109} The implications for an ideological form of regionalism are obvious. From this perspective the resurgence of regionalism in the 1980s and 1990s could be seen as the consequence of the inability of these different centres of economic power to agree on the rules that are to govern the world trading system - hence the erosion of GATT - and their efforts to increase the bargaining power \textit{vis-à-vis} one another by the formation of economic alliances with neighbouring states.

\textit{The neo-mercantilist challenge to liberal economic orthodoxy}

A more far-reaching effect of Japan's successful industrial policy has been a growing acceptance by many economists that some of the central tenets of classical liberal economic doctrine are outmoded.\textsuperscript{110} In particular there is a growing realisation that

\textsuperscript{108} Garten 1992, p.16. According to Lester Thurow (1992, p.32), there are two forms of capitalism not three. Japan and German capitalism constitutes one form which he call communitarian capitalism. The other is US or individualistic capitalism. Morici (1990; 1991a; 1991b; 1993) also used this argument of different models of market capitalism to explain the division of the world into three trading blocs. According to Morici, although there has been a general global movement towards market oriented policies, this has not resulted in any significant liberalisation of trade globally because of different conceptions by the three economic giants of the world economy - the US, the EC and Japan - of how the market should work and, in particular, of the relationship between government and business. Morici maintained that further progress in the area of trade liberalisation requires the removal of non-tariff barriers. But such barriers can only be removed if governments agree to harmonise their domestic policies on market regulation. This has not proven possible at global level due to the inability of the three largest economies to agree on what constitutes the legitimate role of the state in the economy. Morici argued that because states in the same region often share similar conceptions of the market economy, or because smaller states may be willing to adopt the paradigm or model of the dominant regional economy in exchange for a more secure access to that economy's market, harmonisation may be more manageable at a regional level. However, according to Morici, the US model of capitalism or 'atomistic' capitalism is closer to the EC model or 'social market capitalism' than to the Japanese model or 'syndicate' capitalism. The election of Clinton, he argued, was also likely to see the US and its NAFTA partners adopt policies closer to those of the EC and these two blocs could then join forces to pressure Japan to increase access to market and to modify the 'predatory' behaviour of its MNCs in North America and the EC. For Morici, then, regionalism is not a cause of the breakdown of the multilateral economic system but a consequence of the same factors that have made further liberalisation at a global level increasingly difficult.

\textsuperscript{109} Garten 1992, p.175. Thurow (1992, pp.251, 256) argued that Japan was not likely to be able to create a Pacific Rim common market to rival the European Community as it was unwilling to make the necessary adjustments that would be required to do so. He also doubted the ability of the US to create a common market with Mexico, let alone with Central and South America.

\textsuperscript{110} According to Stegemann (1989, p.75-78), the new thinking in international trade theory is a response by some North American economists to three related developments. The first of these is the emergence of new evidence that cannot be explained by existing models. Thus, contrary to what the theories of natural comparative advantage would lead one to expect, the formation of the EC was followed by a much greater increase in intra-industry specialisation than in inter-industry specialisation. Further evidence seemed to suggest that government intervention in the form of strategic trade policy could increase the competitive edge of national companies. The second development is the availability of new analytical tools that allow economists account for this new evidence theoretically. The third development is a change in the public mood in the US in favour of increased protectionism. According to Stegemann, this more favourable attitude towards protectionism was the result of a widespread conviction that the decline in the international competitiveness of US companies was due to the unfair means that were employed by other countries to protect their own firms.
comparative advantage which traditionally depended on resource endowments or on the slow accumulation of capital, is now determined by major investment decisions by governments and transnational corporations and by their development of human capital through training in research. The growing mobility of capital and certain categories of professionalised labour in the past decades has undermined the key assumptions of traditional international trade theory of the immobility of capital and labour. Countries now use subsidies and tax concessions to attract internationally mobile capital in the form of foreign direct investment. These and other similar measures that form the basis of industrial policy are capable of moving capital endowments from one country to another. Reich argues that a nation can thus choose its own comparative advantage.

Related to this challenge to orthodox international trade theory is the assertion that certain industries and technologies are crucial to maintaining the economic competitiveness of a nation and to stimulating economic growth and that governments should therefore try to promote the development of these industries rather than allow their economic structure to be determined solely by market forces and natural comparative advantage. Economies of scale and technology, it is argued, now have a greater influence on world trade and national economic success than the Ricardian theory of comparative advantage.

Another key tenet of the classical liberal economic doctrine - the perfect market - has also been challenged. An increasing number of economists see the international market as being characterised by oligopolistic competition so that nations can adopt policies that shift profits in the direction of their own firms. The adoption of such a strategic trade

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111 Winham 1986, p.405. See also Porter 1990. Cecchini (1988, p.85), in his report outlining the benefits of the EC single market, argued that comparative advantage is no longer seen as the result of divine inheritance and market structures and that the behaviour of rival firms is no longer considered immutable. Competitive edge, he maintained, is not just a question of costs and prices but also depends on other dynamic non-cost factors, of which the most important is innovation. Governments can encourage firms to innovate by creating the right environment both in terms of the market and in funding research and development programmes in key areas. See also Grossman and Helpman (1991, pp.338-39) who argued that "by strengthening the incentives for private research, the government of a technologically lagging country can "level the playing field"."

112 Richardson 1990, pp.70-71.

113 Reich 1983, p.782. The growing mobility of capital has intensified competition among countries - be they developed or developing - for investment. Since one way of making a country a more attractive destination for foreign direct investment is to increase the size of its market through membership of a free trade agreement, the rise in the mobility of international capital and the resulting increase in competition among states for that capital could be a reason for the resurgence of regionalism in the 1980s. See below.

114 See for example the arguments put forward by the President's Commission on Industrial Competitiveness 1985, pp.33-34. The Commission argued that "(t)echnological innovation provides more benefits than its creators can reap, and its value is greater than the dollar amounts of trade that high-technology products earn. The benefits of a strong domestic technology sector include increased productivity in affected industries and the creation of whole new industries based on new technologies. Domestic research and development yields external benefits to the economy, benefits beyond those represented by the product itself." See also Prestowitz et al. 1991, p.4, who expressed concern at the loss by the US of key industries and of preeminence in key technologies. For the link between these arguments and regionalism, see below this chapter, fn.153.


policy by certain states not only threatens the whole ideological foundations of the present trading system but is used by ailing industries to justify their demands for new protectionist measures.\textsuperscript{117}

One scholar of international political economy, Susan Strange, has gone so far as to question the validity of the claim made by liberal economists that a liberal trading order is essential if the protectionist and interventionist tendencies that it assumes to be inherent in the nature of the state are to be countered and world economic growth, the expansion of international trade and world peace maintained.\textsuperscript{118} She sees the relatively small decline in world trade in the decade till 1982 in comparison to the more substantial decline in the 1930s as evidence that increasing protectionism and the resort to bilateralism and managed oligopolistic industries. See also Lawrence and Schultze 1991b. For the response of a freetrader to these arguments, see Bhagwati 1991. According to these new theories (Krugman 1983; 1987, pp.131-44), markets are not perfectly competitive but more oligopolistic in nature and the behaviour of a firm is influenced by the decisions and actions of its rivals and by government policy. As a result strategic targeting by a government of a particular industry with economies of scale may be used to force a foreign competitor to withdraw. That withdrawal could raise profits of the domestic firm by more than the amount of the subsidy accorded to it by the government by transferring monopoly rents from the foreigners to domestic residents.

However, Krugman (1987, pp.141-43) was quite sceptical of the US government's ability to select targeted industries selectively. He also maintained that economists are still not sufficiently knowledgeable to make recommendations based on these theoretical arguments and warned that strategic targeting of high-technology industries may well lower national economies, not raise it.

Such theories also maintained that the existence of external economies, particularly in innovative industries, was further justification for government intervention. The development of new products by one firm can provide benefits to other firms either in terms of the experience that their production generates or through the possibility of using the results of that firm's research and development to improve their own technology. External economies are also said to exist between innovative industries and their customers. Thus the US advantage in semi-conductors, it is argued, has allowed the US to maintain its competitive lead in most other high technology fields. Yet if the benefits obtained by a firm in developing the new product are far less than the actual cost of the research and development, that firm will decide against developing the product even though the benefits to other firms and the economy as a whole may be far greater than that cost. In such a case government intervention in the form of industrial targeting would be justified to ensure that those benefits are realised. Yet while the problem of externalities may lead some smaller and newer firms to underinvest in new technology, other more established firms may overinvest in new technology in order to deter potential competitors. The duplication of resources that results from this tendency to overinvest could be avoided by a government strategy aimed at reducing the number of firms in a particular industry and/or at encouraging them to do joint research.

The influence of this new thinking concerning industrial targeting and comparative advantage is evident in the policies and statements of both the Commission and national governments in the early 1980s. See Chapter Five, fn.66.

Strange 1985. Strange argued that the adherence to liberal doctrine in the form of free trade on the part of a hegemon, either in theory or practice, is not a necessary condition for a stable and efficient world economy. According to Strange, what a hegemon must be able to do, is maintain international peace and a stable monetary system and a steady supply of international credit. The decline in trade in 1914 and in 1929 and 1979, she contended, was not a result of rising protectionism but of the failure to maintain either peace and/or monetary order. Thus for Strange WWII was not the result of protectionism and regionalism as argued by liberal economists but of the collapse of the international financial and monetary systems. Regionalism was a response to that collapse, an attempt by states to re-establish trading relations in the absence of a stable international monetary system and a hegemon willing to maintain a steady supply of credit.
trade in the 1970s and early 1980s have not been detrimental to world trade and may have even helped to maintain it. A return to multilateral negotiations under the aegis of GATT is, she believes, therefore, not essential to continued prosperity and continued growth in world trade.119

Given the number of challenges to liberal ideology and practice it is not surprising that the so-called post-war embedded liberalism compromise should break down due to declining adherence by states to the liberal economic international norms. Yet paradoxically this breakdown was partly the result of an increasing disaffection by some of the advanced industrialised states with the less liberal economic domestic component of the compromise.120 The rising costs of the welfare state coupled with the slow down in economic growth in the 1970s and early 1980s and the failure of Keynesian economic policies to solve the twin problems of unemployment and inflation led to the rejection by governments of Keynesian interventionism in favour of more market driven laissez-faire policies. A revival of laissez-faire in its new forms of monetarism and economic rationalism had occurred in the late 1970s and early 1980s as governments disillusioned with the inability of Keynesian policies to overcome the twin problems of inflation and high unemployment searched desperately for alternatives. This adoption by some

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119 Strange 1988, p.185. In fact, Strange argued that bilateral agreements and practices such as countertrade have been particularly important for certain Less Developed Countries (LDCs) since they have enabled them to maintain trade in essential goods in the absence of hard currency credits. Moreover, Strange saw bargaining between LDCs and transnational corporations as a far more effective way for LDCs to improve their trading prospects than multilateral negotiations in intergovernmental organisations. Strange (1985, pp.235, 255) maintains that the model of a web of bilateral contracts is not only a more adequate approximation of reality in trade matters than either the hegemonic model or the multilateral regime model, but it also produces more durable and generally satisfactory trade-offs among the basic values of political economy. Strange's criticism of liberal economists for upholding the primacy of economic values over political values is similar to that made earlier by Calleo and Rowland (1973, p.253). Strange (1985, pp.236-39) maintained that wealth and the associated value of efficiency in the production of wealth, which are the goals of free trade and of liberal economics, constitute only one of the four values of political economy that shape state behaviour. According to Strange, governments in making policy must find an appropriate trade-off between this and the other three basic values of order, justice and freedom. Yet she stressed that order, whether it be security from external attack and/or the maintenance of internal order and social cohesion, must be the first concern of any government, and that even justice and freedom may be chosen over wealth and efficiency. Thus, Strange, echoing a point made by Triffin in the 1950s (see Chapter Two, pp.32-34), argued that liberal economists are mistaken in presuming that state policy should or can be based on the sole criterion of maximising market efficiency. They are also wrong in assuming that the best interests of a state are served by observing the law of comparative costs. The adjustment costs involved in observing that law may place in jeopardy the more important value of order and thus states may decide not to meet them. They may prefer instead to pursue bilateral or regional arrangements where they can control the pace of change so that it does not pose such a threat to internal cohesion. Thus, if Strange is correct, the more rapid pace of change, the increased costs of investing in new technology, and growing interdependence could explain the revival of conflict between domestic autonomy and international norms that has led to the erosion of the multilateral trading regime.

120 For Morici (1993), this paradox is explained by the existence of competing models of market capitalism. See above this chapter, fn.108. Thus, although there appears to be a consensus concerning the need for greater liberalisation and increased competition within domestic economies, the major players are unable to agree on the role of the state in facilitating this process and in easing the structural adjustments that it occasions.
governments of policies more in tune with economic liberalism only served to increase the divergences between the leading economies and make agreement on new norms and rules for the world economy even more difficult. Moreover, the increased emphasis on market forces and a reduction in the role of government in the national economy did not seem conducive to increased regulation and coordination at an international level. Nevertheless, their rejection of Keynesian interventionism did make some governments more favourable to subjecting their economies to the discipline and competition of a larger regional market.

Regionalism and the growing divergences within the Western Alliance

Thus, it would seem that one of the essential conditions for the liberal economic trading order, the commitment of the major economies to liberal values, no longer obtains. Yet Gilpin's other essential condition for the liberal economic trading order - that the states be bound together by common economic, political, and security interests - may also be no longer present. In the 1970s and 1980s as Gilpin has noted there was growing tension in the anti-Soviet alliance as European and American interests in regard to the USSR diverged. These divergences were certainly not helped by other divergences over trade. Yet while the dramatic changes in Eastern Europe and the former Soviet Union may have brought an end to these politico-strategic divergences they also appear to have deprived the alliance of its raison d'être. As result the US no longer feels the need to sacrifice its economic interests and principles for more important security objectives. It no longer has to fear that conflicts over economic issues will threaten Western solidarity in the struggle against Soviet Union.

The end of the Cold War has had two seemingly contradictory effects as far as the US is concerned, both of which have served to strengthen the concerns of other countries about the direction of US trade policy and the future of the multilateral trading system and thus increased their interest in the second best option of regionalism. On the one hand, the

121 Some scholars have argued that it was never really met and that the US had been willing to turn a blind eye to the non-compliance by the EC and Japan to the liberal international norms in return for their allegiance in the struggle against the USSR. (See Calleo and Rowland 1973, pp.43, 62-65, 200; Strange 1985, 1986). Prestowitz et al (1991, p.2) argued that the adherence of the US to the orthodox theory of free trade actually facilitated the subordination by the US of its economic interests to its geopolitical goals. The orthodox theory, they claimed, in assuming that no economic activities were inherently better than others and that subsidies practiced by other governments actually decreased their economic welfare and increased that of the US, made the US more willing to tolerate actions by other governments designed to foster competitive advantage in certain key industries and technologies.

122 Gilpin (1972, pp.61-66), in support of his claim that political and strategic interests are crucial determinants of international economic relations, pointed out the exceptions the US made in the immediate post war period to the regime of free trade, particularly in relation to the EC and Japan, in order to secure their support in the effort to contain the Soviet Union. (See also Destler 1992, p.7). Thus the influential Senator Bentsen (1986, p.129) expressed his disapproval of the fact that 'too often the economic interests of our country get subordinated to foreign affairs and defence interests.' Referring to the huge US trade deficit, he declared that 'there was a time when we could afford that, but that day is gone.'

123 The pressure on the US to delink military issues from economic issues has been stronger due to the world economic recession and persistent US trade deficits.
end of the Cold War may have upset the balance between the free-trade and protectionist forces within the US. With domestic problems now assuming more importance and with international economic issues overshadowing questions of global military security, the argument that free trade is essential if the spread of communism and Soviet influence is to be circumscribed is no longer a convincing one.

On the other hand, it could be argued that the US is now able, perhaps for the first time since the beginning of the Cold War, to make access to its enormous market conditional on reciprocal market access rather than on allegiance to the Western Alliance. Although - or perhaps even because - the political environment in the US in the post war years is no longer as favourable to liberal trading policies and these are highly contested both in Congress and the Administration, successive US administrations in the 1980s and 1990s have sought to extend the basic liberal principles of the multilateral trading system rather than abandon the system altogether.

In this new environment US policymakers have come to see regionalism as a viable strategy to ensure that others can no longer free ride on the GATT. The US maintains that in pursuing liberalisation at a bilateral and regional level, it is putting pressure on those countries outside to adopt similar liberalising measures if they do not wish to suffer the effects of trade and investment diversion. Moreover, the end of the Cold War has enabled the US to redefine its economic and strategic interests to the extent that relations with neighbouring countries, particularly Mexico, have taken on increased importance. These interests are particularly amenable to a regional approach now that the divisions in the Western Alliance that such an approach may provoke are no longer seen to pose as

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124 See Chapter Six, pp.210-14, and Chapter Seven, pp.248-51.
125 Destler (1992, p.173) listed four domestic conditions that underpinned US support for liberal trade policies in the 1950s and 1960s: bipartisan support, an elite consensus in favour of free trade, the reluctance of firms to seek relief due to the prevailing belief that protectionism and government intervention were wrong; and the tendency of firms to seek relief individually rather than as a part of a broader coalition. According to Destler, all four conditions no longer hold or are under serious challenge. Thus the US administration responded in the 1980s to demands from American firms for greater protection and to moves by Congress to punish those countries whose unfair trading practices are said to restrict the access of US exporters to their domestic markets in ways no different from those used to counter similar pressures in the past. It granted contingent protection to certain industries and called for a new round of multilateral trade - the Uruguay Round. (See Schott 1990, p.4). The request for a new GATT round was also the result of the conviction that the GATT as it was presently constituted no longer served US trade interests. GATT had been established when the US comparative advantage lay in manufactures. However, that comparative advantage had now shifted to areas not covered by the GATT such as services, agriculture, investment, intellectual property and high technology manufactures. (See Schott 1990, p.4; Morici 1990, pp.2-3). By having such areas included in a new GATT agreement the US hoped it would be able to boost its export performance, reduce its trade deficit and check the growing protectionist mood in Congress. Nevertheless, other members of the GATT did not share the same enthusiasm for a new round and once started progress was painstakingly slow. The negotiations were often heated and the round looked as if it would have to be abandoned on several occasions. Faced with the uncertain future of the round and still needing to contain the growing protectionist forces at home US opted for a more aggressive, confrontationist approach to prise open overseas markets. (See Destler 1992, pp.196, 238).
126 Morici 1991a, p.65.
127 See in particular Young 1993.
great a threat to US global interests as they did in the past. Yet these strategies, together with other unilateral measures employed by the US such as Super 301 and the Structural Impediments Initiative (SII), though ostensibly for the purpose of extending trade liberalisation, have been misconstrued by other states as attempts to manage trade rather than liberalise it. They have only increased the fears of other countries that the US might have abandoned its commitment to free trade. Thus US attempts to extend free trade have given rise to further disagreement among the major economic powers and have increased the uncertainty about the future of the multilateral trading system.

Thus the conditions that Gilpin advanced as being necessary for a liberal economic order to exist no longer seem to obtain. The major economies no longer seem to share sufficiently common economic, political, and security interests. Their common ideological commitment to liberal economic values also seems to be waning and their interpretations of what those values mean in practice are diverging. The erosion of the liberal economic order has been accompanied by an intensification of mercantilistic competition as governments are increasingly tempted to manipulate their economic policies to further their economic, political and related interests and increase their attractiveness to international capital. At the same time the erosion of the liberal economic order has seen an emergence of economic regionalism or what Giersch has termed 'policy cartels'. Thus we are witnessing the rise of mercantilism and regionalism simultaneously, a phenomenon similar to that which occurred in the 1930s.

This discussion concerning the reasons for the erosion of the liberal international economic order would appear to lend support to the proposition already outlined in this chapter that the re-emergence of regionalism in the 1980s and early 1990s was indeed a response to the decline in the liberal international economic order. It is now clear that the erosion of that order in the 1960s, 1970s and 1980s, and hence the subsequent resurgence of regionalism does not require a decline in the power of the hegemon but can be

128 This is particularly true of the US and Japan over the issue of quantitative targeting of import penetration.

129 Gilpin 1987, p.396. Gilpin distinguished the current form of mercantilism from previous forms. Whereas eighteenth century mercantilism sought to accumulate bullion from foreign trade for military purposes and nineteenth century mercantilism used protectionism to foster industrialisation, the objective of the new mercantilism is at least survival in world markets and at most world economic supremacy.

130 Gilpin 1987, p.396; Giersch 1984, p.106.

131 Gilpin 1987, p.400. Gilpin identifies three foci for regionalisation of the world economy: one centred around the EC, another centred on the USA and including North America and possibly all or parts of South America; and a third less clearly defined focus centred on Japan and perhaps the US and including Pacific Asia, Oceania and perhaps the whole Pacific Rim. Gilpin, however, is quick to point out the limits of regionalisation. He argues that in accordance with the Marxist 'laws of motion of capitalism' a closed regional economy just like a closed national economy will eventually lead to economic and technological stagnation. Only in a global economy will there be sufficient demand to cover the cost of the development of the high technological industries of the future.
explained by a lessening of the commitment of key economies to liberal economic norms and by the growing divergence of interests within the Western Alliance.

More importantly, the discussion has enabled us to establish that this declining commitment to liberal economic values as well as being an indirect cause of the resurgence of regionalism, is also a direct cause of that resurgence. The declining commitment to liberal economic norms and the increased acceptance by governments of economic strategies with strong neo-mercantilist overtones such as industrial policy have made regionalism a much more acceptable policy option for governments in the pursuit of increased growth, efficiency and competitiveness. The adoption of such an option by the erstwhile champion of economic liberal values, the United States, has further eroded confidence in the GATT regime and encouraged other states to take up the regional option.

The role of liberal ideology in the resurgence of regionalism would appear to confirm the proposition outlined at the end of Chapter Two concerning the importance of ideas in shaping the attitudes of policymakers towards regionalism and in determining whether the policy environment at a particular time and place is favourable or unfavourable to regionalism.

In the remainder of this chapter I will examine the more recent theoretical literature that has been more particularly concerned with the re-emergence of regionalism in the 1980s and early 1990s. My purpose as it has been throughout this chapter is twofold: to see if this literature confirms, refutes or further refines the hypotheses that have already been identified and to identify any new hypotheses that may be of relevance to this thesis.

Regionalism, changes in the mode of production and multinational enterprises

Scholars such as Oman, Wells, and Eden and Molot have focused on the relationship between changes in the capitalist mode of production and the re-emergence of regionalism in the 1980s and early 1990s. They have also analysed how that resurgence has been affected by the increased competition among MNEs (or multinational enterprises) for global markets.\(^\text{132}\)

The trend towards regionalism was contrary to the orthodox view that declining transport costs and greatly improved communication technology would give rise to a truly global economy based on the exploitation of global economies of scale and on an international division of labour as MNEs spread their activities throughout the globe in order to take advantage of low labour costs.\(^\text{133}\) Many scholars had argued that MNEs as agents of globalisation would oppose any attempt to regionalise the world economy and that consequently the trend to globalisation would eventually win out against any counter trend towards regionalisation.

\(^\text{132}\) Multinational enterprise or MNE is a term used by these scholars to designate what is more commonly called the multinational corporations. For an account of the different terms used to describe multinational enterprises, see Eden 1991, pp.197-98.

\(^\text{133}\) Wells 1992, p.22.
Oman, Wells and Eden and Molot all ascribed a role to firms, and MNEs in particular, in the re-emergence of regionalism in the 1980s and early 1990s. Their argument that the action of firms, particularly MNEs, has contributed to this resurgence of regionalism is similar to that of Mandel concerning the role of national capitals. Both groups of scholars agreed that in an international economic environment where the competition for markets is becoming increasingly intense firms are attracted by the economies of scale in production, research and development and marketing that a larger market in the form of regionalisation can provide.

According to Wells (1992), MNEs are largely indifferent to the growing move towards a world of trading blocs. Wells (1992, pp.22-27) has argued that there are three main reasons for this. First, the gains from the rationalisation of manufacturing at a global level are said to be less than was previously thought. Most of the economies in manufacturing either from scale or from differing factor costs can be exhausted at a regional level. According to Wells, new manufacturing technologies have reduced the advantages of larger scale production while automation has made low-cost labour an insignificant factor in location decisions. Moreover, in most regions the distribution of factor endowments is sufficiently diverse to enable most of the gains from comparative advantage to be realised within them. Second, the management tools that are available may be inadequate for the transfer of information and the coordination of widely dispersed manufacturing activities and the management costs in involved such coordination may exceed the benefits. Third, because many MNEs are in oligopolistic industries, they are more likely to prefer strategies that minimise risks to strategies aimed at reducing costs to a minimum. Moreover, US MNEs that specialise in manufacturing tend to produce for their immediate local or regional market, not the global market. According to Wells, this is in contrast to Japanese MNEs, which still tend to produce in Japan for the global market. Wells argued that the behaviour pattern of the US MNEs in this respect is not the result of natural preference but is a response to the increasingly competitive environment in which they have to operate. Thus what others have seen as globalisation has in fact been regionalisation. MNEs are seen to be relocating their production sites in countries closer to their main centres of activity, thereby fostering greater regional economic interdependence. According to Wells (1992, pp.24-26), three-quarters of the exports of US affiliates are sold within the two regional markets of the Western Hemisphere and Western Europe and would be unaffected by any increased protectionism between these regions. They would, however, be advantaged by any reduction in trade barriers within these regions. It is only in the Eastern Pacific that a significant proportion of the production of US affiliates is destined for extra-regional markets, principally that of the US. But as Wells has pointed out, these affiliates account for only 10% of total exports of US affiliates. The greater part of US manufactured imports are produced by non-American owned firms. Regionalisation would therefore affect these firms more than US firms as US firms shifted its sourcing of low-cost labour intensive components from Asia to Latin America. The burden of adjustment would fall heavily on the Asian countries as Asian producers relocate their activities within the Western Hemisphere in order to continue to supply the US market.

Eden and Molot (1991; 1993) argued that far from being indifferent to regionalism, US MNEs had played an active role in promoting economic integration in North America. They saw MNEs as driven by increasing global competition to reduce their production costs. Like Wells they argued that as a result of the information and technological revolution there was less pressure on MNEs to locate production in low wage countries. A combination of a reduction in the relative share of labour costs in overall production costs and the advent of new more efficient production techniques such as just-in-time had made it more important for firms to be located closer to their major markets. (See Eden and Molot 1991; 1992; Eden 1991, p.116). According to Eden and Molot, American multinationals have been silently integrating the three North American economies since the early 1990s. They saw this process as intensifying, as US MNEs are forced by increased competition from their Japanese and European counterparts to pursue the gains that economies of scale and a more efficient division of labour in a regional market can provide. Similar arguments concerning the role of European MNEs in the push to complete the European internal market have led to a renewal of interest in neofunctionalist theories. However, it would appear that the actions of MNEs are not due to the spillover process but are a response to increasing international competition. See Chapter Two, pp.52-53; Chapter Five, pp.178-81.
Yet as with states, the question arises as to why firms should support regionalisation when clearly the gains from economies of scale would be greater from globalisation. For Mandel the answer lies in the desire by the larger companies of Western Europe to form strategic alliances with their counterparts from other Western European countries to enable them to compete with Japanese and American firms. Such alliances will enable them to maintain their market shares, develop new products and prevent the wholesale take-over of Western European industry by American firms. For Oman, Wells, and Eden and Molot part of the explanation would seem to be that changes in the mode of production, that is, the shift from mass production to flexible specialisation, brought about by a combination of factors - higher consumer incomes, increased consumer demand for more specialised goods, and the impact of new information technology on the organisation of production - have reduced the importance of low wages and increased that of geographical proximity to major consumer markets in the overall strategy employed by firms to increase their competitiveness.\footnote{According to Oman (1991), the trend towards regionalism has been reinforced by changes in the nature of the capitalist mode of production. To support this claim Oman draws on certain arguments of regulation theorists and post fordists that new production methods such as just-in-time require that components for a product be produced in close geographical proximity so producers can reduce the need for large stockpiles of components. Changes in manufacturing technology are said to have reduced manufacturing costs, thereby reversing the trend towards larger economies of scale and enabling manufacturers to produce for specialised market segments. Such scholars also maintained that many large companies preferred to base their activities in or close to each of the three principal consumer markets - the so-called triad - so that they could adapt their products more rapidly to changes in consumer taste. (See Wells 1992, pp.19-22).}

However, these scholars also highlight other reasons for this preference for regionalism, reasons which have to do with both the nature of the firms and the preference of states for regionalism. Wells claims that firms in oligopolistic industries are likely to prefer a regionalist strategy that minimises risks by removing the uncertainty of market access to a globalist strategy that minimises costs.\footnote{Wells 1992, pp.22-26.} Developing this argument further, Eden and Molot maintain that at a time of intense struggle for market shares regionalism can be of benefit to firms in their attempts to protect their market shares from outside competitors.\footnote{Eden and Molot 1993. According to Eden and Molot, this is particularly evident in the both the CUSTA and NAFTA negotiations concerning the rules of origin and the duration of transitional periods in industries such as the auto industry and textiles and apparel. Nevertheless, they claimed that in the longer term this strategy by firms to use their status as insiders to gain special privileges from governments over outsiders may only prove to be successful in the short term. Should the outsider MNEs decide to shift more of their production to North America then the distinction between outsiders and insiders will no longer carry as much weight with governments. Yet it would seem that in doing so outsiders would be consolidating the process of regionalism.} They argue that firms can use their national credentials to obtain special privileges in the regional market that are not available to non-resident firms.

Nevertheless, Oman and Eden and Molot acknowledge that the regional strategies of firms are not the only driving force behind the re-emergence of regionalism. For Oman, the regionalist strategies of firms have reinforced a pre-existing trend towards regionalism,
while Eden and Molot see investment-led and policy-led economic integration as mutually reinforcing.139

The role of ideas and epistemic communities

The importance ascribed by Gilpin to ideology in explaining the rise and decline of a liberal international economic order reflects a revival of interest in the role of ideas and social learning more generally in the shaping of government policy and in facilitating cooperation between states.140 More recently scholars such as Ernst and Peter Haas have drawn attention to the role played by epistemic communities in facilitating the emergence of a common way of looking at certain problems that require cooperative solutions among the states involved.141 Such scholars have argued that the transmission of new ideas across borders by transnational scientific and intellectual communities can be an important factor in bringing about the convergence of government policies concerning common

139 Despite their focus on the role of MNEs Eden and Molot (1993, p.178) also acknowledged the importance of governments in push towards regionalism. Indeed, they made no attempt to give either governments or MNEs the primary role in promoting economic regionalism, citing the argument of the United Nations Centre for Transnational Corporations that the two paths to regional integration - investment-led and policy-led - are mutually reinforcing. The silent integration undertaken by MNEs was, they argued (1993, p.189, fn.1), only one factor in the push towards regional integration. Moreover, Eden and Molot conceded (1991, pp.1, 31; 1992) that this silent integration was itself a response to state policies on tariffs and the movement of capital as well as to technological changes, in the same way that state policies favouring regional integration were in part a response to market forces and the desire to increase the competitiveness of their firms. The relationship between investment-led and policy-led regional integration is a variant of that between functional and institutionalised integration and part of the larger argument within international political economy concerning the primacy of economic and political forces. Thus while it has been argued by Aitkin (1961, cited in Eden and Molot 1991, p.10) that the mobility of capital is second in importance only to geographical proximity among the forces for Canada-US economic integration, it is clear that that mobility is a result of government policy. Similarly, decisions by governments to reduce tariffs both multilaterally within the framework of GATT and preferentially under special arrangements, such as the Canada-US Auto Pact of 1965 and the Mexican maquiladora programme of 1966, have also encouraged regional economic integration in North America. Moreover, it seems that given the importance of geographical proximity in terms of lower transport and communication costs as a determinant of trade intensity between countries, a world-wide reduction of tariffs would still see intra-regional trade grow faster than extra-regional trade. (See Drysdale and Garnaut 1992).

140 Social learning played an important role in the integration process outlined in the early work of Haas (1958a; 1964, p.48) and Deutsch (1968, pp.3, 57). For the role of ideas in shaping policy, see Odell 1982, Hall 1989; and Goldstein 1988.

141 Ernst Haas 1980; and Peter Haas 1990; 1992. Peter Haas (1990, p.349) defined epistemic communities as 'transnational networks of knowledge based communities that are both politically empowered through their claims to exercise authoritative knowledge and motivated by shared causal and principled beliefs.' According to Peter Haas (1992, p.27), 'epistemic communities are channels through which new ideas circulate from societies to governments as well as from country to country.'
international or regional problems, thereby facilitating cooperation and the coordination of these policies at an international or regional level. 142

Peter Haas was careful, however, to circumscribe both the general applicability and the amount of influence exercised by epistemic communities on policy outcomes. 143 According to Haas, the extent to which epistemic or epistemic-like communities are able to influence the specific policy choices of government and hence facilitate cooperation internationally remains strongly conditioned by the distribution of power internationally. 144 Yet under conditions of increasing uncertainty and complexity and particularly in the wake of a shock or crisis the influence of power and structure on policymakers may be diminished and that of epistemic communities enhanced. 145

From an epistemic community perspective then it could be argued that the re-emergence of regionalism in the 1980s and early 1990s was due in part to the increased receptiveness of governments to the solutions put forward by epistemic communities of economists of neo-liberal and neo-mercantilist persuasions to common domestic and international problems. 146 That increased receptiveness was the result of a double crisis situation.

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142 Peter Haas 1992. This argument is a variant of arguments by scholars such as Odell (1982) and Hall (1989) that the spread of new ideas is an important factor in bringing about changes in government policy and in national interest. It also combines the argument of traditional theories of politics and the new institutionalism that institutions are relatively autonomous political actors that shape policy outcomes, with an earlier argument by Ernst Haas concerning institutional learning. (See March and Olsen 1984; Ikenberry 1988; and Peter Haas 1990, p.349).

There are some obvious links between the arguments of the new institutionalists and those of regime theorists such as Keohane. It is interesting to note, however, that Keohane and Nye saw institutions as both agents of change and agents for the preservation of the status quo. Thus they argued that while international institutions and/or regimes could modify the behaviour of states by providing an environment that was more conducive to cooperation, they could also serve to ensure that these new habits of cooperation were maintained even when the conditions that had been necessary for their establishment were no longer present.

143 Peter Haas 1990, p.354. Initially Peter Haas had argued that this phenomenon was likely to remain issue-specific and was particularly relevant to environmental issues where the bodies of knowledge were considered to be more technical and hence politically neutral and less determined or conditioned by socio-economic structures. He had specifically ruled out the application of these processes to cases of political or other forms of integration. He had also been careful to dissociate himself from neofunctionalist theories by insisting that epistemic consensus did not always lead to cooperation and even where it did that cooperation could collapse as a result of the erosion of epistemic community's authority. Later Peter Haas (1992) was to admit that all policy choices are basically political and that the growing influence of epistemic communities on policy was due to the willingness of politicians and bureaucrats to accept policy advice from new sources in times of crisis when more orthodox advice has proved ineffectual. In doing so he placed epistemic communities within the broader cognitive and institutional approaches of scholars such as Hall (1989), Odell (1982) and Ikenberry (1988).

144 Peter Haas 1992, pp.5-6.

145 Peter Haas 1992, p.14. The growing influence of epistemic communities, he maintained, was due to the increased reliance by policymakers on their advice in an effort to reduce the uncertainty they faced in making decisions on matters of international significance. Peter Haas attributed this uncertainty to the growing diversity and complexity of issues on the international agenda; the increase in both the number of international actors and the extent of their interactions; and the expansion of the global economy and the modern administrative state.

146 According to Peter Haas (1992, p.19), while economists as a whole were not an epistemic community but a profession, 'members of a particular subgroup of economists - for example, Keynesians or followers of one of the schools of development economics - may constitute an
Established policies - a mixture of Keynesian inspired demand management policies and trade policies based on import substitution and economic nationalism - no longer seemed to work and economic growth was stagnating in many developed and developing countries. At the same time the multilateral trading system that was believed to have underpinned the significant growth in world trade and to have provided a valuable external support for domestic economic growth, was being undermined. The fact that the solutions advocated by these different epistemic communities were directly or indirectly supportive of regionalism, albeit for totally different reasons, often encouraged governments of totally different political persuasions to push for institutionalised regional economic integration.\footnote{147}

Yet questions still remain concerning the extent to which epistemic communities and institutions were a significant factor in the resurgence of regionalism in the 1980s and early 1990s.\footnote{148} The argument concerning the role of epistemic communities and institutions of their own and systematically contribute to a concrete set of projects informed by their preferred views, beliefs, and ideas.'

The neo-liberals generally favour reduced government intervention in the market and increased reliance on market forces, while the neo-mercantilists believe that increased government intervention in certain key sectors can boost national competitiveness, economic growth and employment. Both agree on the contribution that larger markets can make through economies of scale and increased competitiveness and hence are favourable to regional economic integration. There has also been a split in liberal free trade economists over the best way to achieve global free trade. See the discussion of closed and open regionalism below. Yet even these economists are supportive of regionalism in one form or another and only disagree about what that form should be.

\footnote{147} In the Asia Pacific it can be argued that such a role has been played by regional non-governmental organisations such as PBEC, PECC and OPTAD. (See Soesastro 1983; Higgott 1992). Higgott (1992; 1993), however, was careful to stress that the success of this epistemic community in Australia in having its ideas concerning regional cooperation adopted by Australian policymakers was due to a more general shift in the 1980s to a more liberal domestic economic policy outlook in Australia. The fact that this new economic policy outlook largely coincided with that of the epistemic community and that the epistemic community was able to link the success of the government's new domestic economic policies to the increased integration of the Australian economy into the dynamic Asia Pacific region, he argued, significantly increased the receptiveness of both government and the bureaucracy to the ideas of the epistemic community. (In fact, Garnaut, as economic policy advisor to the then Australian Prime Minister Hawke from 1983-1985, was both a policymaker and a committed Asia Pacific regionalist). Nevertheless, Higgott contended that the other countries may not be replicating the learning process of Australia and that by disarming itself unilaterally of trade protection Australia may find itself at a serious disadvantage in bargaining with other countries of the region who are pursuing a more instrumentalist or realist approach to trade relations.

In the EC, however, the part played by epistemic communities in the re-emergence of institutionalised regional economic integration is less clear. It could be argued that the supranational institutions of the Community - the Commission, whose task it is to convince member states of the need for greater policy coordination and for common policies, the European Parliament, and the European Court of Justice - provide examples of how the influence of an epistemic community can be reinforced through institutionalisation. (See Peter Haas 1990, pp.352-53). In a subsequent article, however, Peter Haas (1992, pp.18-20) was careful to make the distinction between epistemic communities and bureaucracies. Yet even if these institutions are not epistemic communities, their role in the push for the single market could still be explained by the more general theory of new institutionalism outlined above.

\footnote{148} Thus as we will see in Chapters Four and Five there is considerable debate about the role played by the Commission in the push towards the Single Market. Higgott overlooked disagreement between epistemic community and governments about advisability of establishing APEC. Thus Drysdale (1988 p.257; 1991, pp.4-5), a member of the epistemic
institutions in the re-emergence of regionalism does, however, confirm the proposition that was advanced in Chapter Two and further in this chapter that changes in the reigning ideas - or what Odell has called cognitive change or policy learning - have been important factors in determining whether policies adopted by governments are favourable to regionalism or not.149

The debates of the 1950s and 1960s revisited: open regionalism

The growing incidence of bilateral and regional arrangements has stimulated a lively debate not only amongst scholars of international relations and international political economy but also amongst international trade economists. But again as in the 1950s and 1960s this debate has focussed on the merits of regionalism as a means of promoting global trade liberalisation rather than on the causes of this resurgence. At the same time the success of EC 92 and the subsequent rapid progress towards political and monetary union under the Maastricht Treaty have reopened the debate on neofunctionalism.150 The debate on regionalism would appeared to have turned full circle.

Nevertheless, there are some significant differences between the debates in the 1950s and 1960s and today. First, the environment in which these debates are now being conducted is quite different from that of the immediate post-war period. As we have seen earlier in this chapter US economic power is commonly believed to have declined relative to that of Japan and the EC. The liberal economic doctrine of free trade is now much more widely contested among both practitioners and scholars. It is now accepted that comparative advantage is dynamic not static and that state action may accelerate shifts in comparative advantage or even create comparative advantage in new industries. The GATT has been seriously weakened by the resort to unilateral and bilateral trade restrictions and no longer seems to hold out the promise of universal free trade as it did in the past. The US has become a practitioner of regionalism.151 These differences make it much less easy to dismiss the arguments of those in favour of regionalism, particularly those that present regional trade liberalisation as a stepping stone to global liberalisation.152

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150 See Chapters Four and Five below, and Moravcsik 1991; and Sandholtz and Zysman 1989.
151 Bhagwati 1991, pp.71. This new attitude by the US vis-à-vis bilateral and regional trade agreements is in stark contrast to the almost Manichean way in which the US regarded the bilateralism versus multilateralism debate in the 1950s and 1960s. See Diebold 1988, pp.1-3. See also Chapter Two, fn.50.
152 Thus the argument by Diebold (1988, pp.1-3), that the issue is much more nuanced and that bilateral agreements have played and still do play a positive role in underpinning the multilateral trading system, as well as being an attempt to give a more accurate picture of the positive role played by bilateralism and regionalism in trade liberalisation in the past, is also a reflection of the shift in thinking that has taken place in the 1980s in the US on bilateralism and regionalism. North American scholars such as Schott and Hufbauer (1993) and Morici
Second, the evaluation of the merits of regionalism have become more sophisticated through the incorporation of dynamic as well as static effects of economic integration and the extension of the diversion effects to investment. This evaluation of regionalism has been based on the two criteria that had been employed earlier by liberal economists. The first assesses the worth of regionalism on a case by case basis depending on whether the incidence of regionalism in question is trade creating or trade diverting and is based on the work of Viner. The second evaluates regionalism in terms of whether it impedes or fosters the further liberalisation of trade at global level or as one scholar has put it, whether it is a 'stumbling bloc' or a 'building bloc'.

There has been a particularly vigorous debate on this question between scholars who favour the open regionalism of APEC and those that support NAFTA. The growing (1990; 1993) maintained that regional trade liberalisation can complement efforts towards global trade liberalisation. This, they argued, is definitely the case with NAFTA. See Chapter Two, pp.34-36. Thus some scholars have argued in the case of NAFTA that the increased economic growth and subsequent increase in demand for exports from non-member countries - the so-called dynamic effects of regional integration - will not only offset any short term reduction in imports from these countries as a result of trade diversion, they will also make US industry more competitive internationally and hence less in need of protection against exports from non-members and more willing to pursue global trade liberalisation. Other scholars, however, have rejected this optimistic scenario. See Morici 1993; and Robertson 1993. Still other scholars such as Anderson (1993) have argued that the effects of a customs union on particular non-member countries cannot be evaluated on the basis of existing trade flows as such unions will bring about a shift in the comparative advantage of the members of the union, thereby altering both their export and import profiles. On the question of investment diversion there has been an attempt to incorporate the effects of a customs union, not only on existing trade with non-members as a result of trade diversion, but also on the future economic development of non-members due to the diversion to members of the customs union of investment that might have gone to non-members if that union had not been established. Of course the question of whether this diversion has resulted in a more or less efficient use of global resources is one thing, the effect of this diversion on the economic welfare of non-members is quite another. Customs unions thus can be used for neo-mercantilistic purposes and therefore increase competition among states for scarce economic resources. This increased competition among states for foreign direct investment is a consequence of the increased mobility of international capital and the growing awareness that governments can use various policy instruments at their disposal to shift capital endowments from other countries to their own. We have already seen in Chapter Two (fn.69) that concern on the part of the UK about the diversion of US investment away from the UK towards the newly formed EC may have been a factor in the decision by the UK to seek EC membership. We will see in Chapter Seven that one reason given for Mexico seeking a FTA with the US was the desire to attract investment from Japan and the fear that investment could be diverted away from Mexico to Canada as a result of the CUSTA. See, for example, Weintraub 1990, p.116; Rubio 1993. We will also see in Chapter Eight that countries in East Asia have voiced concerns about the possible diversion of investment away from Southeast Asia to Mexico as a result of the formation of NAFTA and that this was given as a reason for the formation of AFTA. See, for example, McKinney 1993, pp.128-33; Young 1993, pp.140-41. Similar fears were expressed that NAFTA would see investment diverted away from Australia and New Zealand. See, for example, Lloyd 1993, p.238.

For arguments by scholars on both sides of this debate, see Cushing 1993. The basis for the division between these scholars appears to be the issue of who is to blame for the US-Japan trade imbalance. Those that are more inclined to pin the blame on bad macro-economic management by the US, such as Drysdale and McKinney (1993), have seen NAFTA as a negative development and as an attempt by US to escape adjustment and changes to domestic policy, while those that believe the blame lies with Japan's hidden barriers to trade
interest in regionalism in the Pacific area in the late 1980s led to the classification by Drysdale of two distinct types of regionalism - open and closed.\textsuperscript{157} For Drysdale open regionalism pursued liberalisation on a non-preferential or non-discriminatory basis; that is, unlike in the usual customs union and free trade arrangements, the trade liberalisation agreed to by countries in a region would be also available to those outside the region.\textsuperscript{158} This type of regional liberalisation would therefore serve to reinforce and hasten efforts towards greater liberalisation on a most favoured nation (MFN) basis at the global level and hence be in keeping with broader liberal economic values.\textsuperscript{159}

The distinction made by Drysdale between open and closed regionalism serves two purposes. First it serves to legitimate regionalism within the liberal economic discourse by redefining the criteria on which regional arrangements are to be evaluated. In insisting that a regional arrangement be judged according to whether it discriminates against outsiders or not rather than whether it is trade diverting or trade creating, Drysdale narrowed the criteria in an effort to make them consistent with liberal economic principles. He also sharpened the divide between trade liberalising and protectionist arrangements, a divide which as we have seen in Chapter Two had become increasingly blurred because of the failure of evaluations based on existing criteria of trade diversion and creation to produce clear cut results.

Thus Drysdale embraces Triffin's argument that regionalism because it requires agreement among fewer like-minded countries can reach agreement on liberalisation more


\textsuperscript{158} Drysdale 1988, p.239.

\textsuperscript{159} Whereas other scholars such as Gilpin considered regionalism to be both a cause and a consequence of the collapse of the multilateral system, Drysdale saw open regionalism instead as a means of sustaining and extending the multilateral trading system. Drysdale agreed with Gilpin about the need for a consensus among key countries on liberal economic values for the establishment and maintenance of a liberal international economic order and about the decline of support for such values for such an order in North America and Europe. But Drysdale believed that a new group of countries in the Western Pacific could provide the support needed to sustain the multilateral trading system and to counter tendencies towards closed regionalism both in the Pacific and elsewhere. (See Drysdale and Garnaut 1993, p.111). These countries, he argued, had developed a common interest in the maintenance of an open trading system. Moreover, their increased weight in the world economy and the shift in the world's economic centre of gravity from the Atlantic to the Pacific rim had given them the capacity to do this if they succeed in organising themselves collectively at a regional level. Yet, according to Drysdale, they had to be careful to eschew EC style discriminatory or closed regionalism in favour of open regionalism that would promote liberalisation on a MFN basis.
easily than the world body of nations and hence act as incentive to further liberalisation at
global level. But whereas Triffin considered discrimination against third countries as a
necessary and worthwhile cost of such liberalisation, Drysdale believed that it was possible
to have liberalisation at a regional level that was non-discriminatory.160 Drysdale's
argument concerning the need for some sort of institutionalised regionalism in the Asia
Pacific region to maintain and extend economic interdependence would seem to confirm
the proposition derived from Triffin that regionalism can serve as a second line of defence
against the rise of economic nationalism should the first line - the GATT - fail. But it is
also an extension of the argument by Keohane that institutions, by providing information
about the policy choices of other states and thus reducing the uncertainty surrounding
those choices and enabling states to choose policies that are less harmful for their trading
partners, can remove the need for protectionist policies. By making governments more
aware of the possible repercussions of protectionist policies on their trading partners, these
arguments provide valuable external support for those domestic forces in favour of free
trade and may help governments resist demands for increased protection from those
domestic interests adversely affected by the shifts in comparative advantage that are in part
the result of trade induced economic development in other countries.161 Thus for Drysdale
regionalism in the Pacific is needed to strengthen the forces in favour of trade
liberalisation both domestically and globally. In certain ways then this argument has
distinct realist overtones since it aims to form a strategic alliance so as to tilt the balance of
forces in favour of free trade and against protectionism. But it also takes up the argument
of certain liberal economic scholars such as Hayek and Olson that regionalism can be
used to reduce government interference in the economy and to undermine distributional
coalitions that favour protectionist policies.162

A second, related but more immediate, purpose of this argument is to deflect the US
and other states from the temptations of bilateralism and discriminatory regionalism that
appeared so strong in mid 1980s. Drysdale wants to redirect the powerful pressures
promoting regionalism to the cause of multilateral liberalisation.163

**Conclusion and the propositions derived from the theoretical literature**

Our examination of the theoretical literature of the 1970s, 1980s and 1990s has both
confirmed and added to the arguments and propositions that were advanced at the end of

160 Triffin 1954, p.535-36; 1957, p.x. Triffin argues that the elimination or prevention of
bilateralism should take priority over the elimination of discrimination.

161 Drysdale 1988, p.245. Drysdale and Garnaut (1993, p.120) see APEC as a way of galvanising
and strengthening the position of those within the US political and administrative leadership
who are in favour of non-discriminatory trade liberalisation and of helping to 'sustain outward-
looking US interests at a time when the Enterprise for the Americas initiative was diverting
US eyes away from the Western Pacific'.

162 See above, Chapter Two, pp.39-41.

163 Drysdale and Garnaut 1993, p.115.
Chapter Two regarding the reasons for the emergence or re-emergence of regionalism. Before proceeding to the case studies it is useful to provide a list of the arguments and propositions that have been identified in the preceding two chapters. There would appear to be five main arguments or propositions, each with several variants. From the discussion in Chapters Two and Three it is already clear that several of these propositions may be required in combination to give a robust account of the re-emergence of institutionalised regional economic integration. The purpose of the case studies then will be to establish the relative importance of each of these propositions in accounting for the re-emergence of institutionalised regional economic integration in each of the regions under study. Nevertheless, it is clear at the outset that some of these propositions, since they derive from contemporary debate, may be region specific and time bound and hence not relevant across the three case studies.

The first main argument, characterised here as 'retreat and defend', derives from liberal institutionalist thought. It argues that the re-emergence of institutionalised regional economic integration is a response to the undermining of the liberal international trading regime and the associated rise in protectionism, particularly in the US. It is thus a retreat from multilateralism to regionalism and a defence of national interests in that context. More specifically, institutionalised regional economic integration is the consequence of efforts by states to find alternative arrangements that will guarantee access to the markets of their most important trading partners. Institutionalised regional economic integration is also seen by some supporters of free trade as way of checking the rise of protectionist forces domestically - either by acting as an external discipline or as an incentive to bring out those forces in favour of free trade - at a time when this can no longer be done by global liberalisation. Conversely, for others in the free trade current the more orthodox view prevails that regionalism is the result of the desire by states and vested interests within those states to escape the discipline of the liberal international trading order and increase their protection against outsiders.

This first main argument is of course a contemporary form of the classical free trade versus protection argument, in a circumstance where the established liberal-trading regime is under threat. On this, contention centres on the role of the US as hegemon, shifts in the ideological values and interests of states (particularly the US), and the problems of managing GATT constructively.166

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164 The argument here is that the undermining of the liberal trading regime (and hence the rise of institutionalised regional economic integration in the 1980s) is the result of declining US hegemony. See above, pp.76-79.

165 The argument here is that the undermining of the liberal trading regime (and hence the rise of institutionalised regional economic integration in the 1980s) is the result of a decline in common ideological commitment by key economies to liberal economic values, and of diverging interests. See in particular the arguments of Gilpin and Keohane as outlined above pp.83-97.

The specific argument relating to the US is that the erosion of the liberal trading regime is due to a decline in US willingness to uphold GATT either because a shift in US comparative
The second main argument, characterised here as 'advance and compete', derives from neo-realist or neo-marxist thought. It argues that institutionalised regional economic integration is a type of economic alliance that states enter into to enhance their economic and political security, and more particularly to boost their competitive position in the global economy. This somewhat nationalist and neo-mercantilist argument is a heightened response to the growing competitive nature of the international environment in the 1970s and 1980s due to the decline in US hegemony, the decline in economic growth, increasing international economic interdependence, changes in the mode of production, a decrease in common values and interests, and a shift in ideas on the nature of comparative advantage.

The connection between the first argument 'retreat and defend' (that is, a retreat to a regional trading system as the global trading system falters) and the second 'advance and compete' (the displacement of national ambitions to the regional sphere) is clear. This kind of regionalism is both defensive and competitive.167

The related arguments to the advance and compete proposition include those well-known ones about market size,168 competitive regionalism,169 nationalist aspirations as to power and influence,170 and the fear of dominance.171
The third main argument or proposition, characterised as 'rivals all', argues that institutionalised regional economic integration comes about as a defensive interaction first among rival capitalists, but also among rival states. In the first place a move to regionalism occurs because increasing competition drives firms into regional arrangements. In the second case, states, seeing the prospect of their rivals advantaged, move to construct their own economic spheres of influence. Inherent in this proposition is the idea that inter-regional rivalry and competition are more powerful motives for regionalism than either the undermining of the global trading system of the first proposition or the advancement of national interests of the second. It will be seen already that this third powerful argument of state interaction producing regionalism does not contend with propositions one and two - it may simply reinforce these arguments at the strategic level among scholars and policymakers.

The fourth main proposition, characterised by 'domestic and the region', is that the re-emergence of institutionalised regional economic integration is a reaction to the costs of increasing economic interdependence. Thus states act to offset the decline in their ability to regulate the economy and ensure domestic political control and social stability. Because of the closer geographical, historical, strategic and cultural links between contiguous states it is argued that there is a greater likelihood that agreement can be reached on common principles of economic management at a regional level than at a global level.

So far these four kinds of arguments can be seen as mutually reinforcing tendencies to regionalism. The fifth argument in the literature, characterised as 'ideas and learning', is analytically different, being one of process. It explains how shifts in ideas (such as those in these arguments) change the social and political context for policymaking on regionalism. These propositions about ideas and learning argue that the re-emergence of institutionalised regional economic integration is the result of cognitive change, that is, changes in the ideas and beliefs of policymakers and elites that have made them more favourably disposed towards regionalism. Of particular importance are changes in elite attitudes to the following overlapping issues: the role of government in the economy and in the shaping of comparative advantage; whether institutionalised regional economic

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172 There are two main arguments here. The first is that recent changes in the mode of production that favour production at a regional level over production at a global level are driving firms into regional arrangements. The second is that for firms in oligopolistic industries institutionalised regional economic integration is a way of protecting their market shares from outside competitors.

173 This is also clearly linked to 'ideas and learning' proposition, and particularly the argument that institutionalised regional economic integration can increase a state's economic security and can enhance the comparative advantage of its firms. See below.

174 There are two seemingly contradictory shifts here, one resulting in less government intervention and the other in increased government intervention. In reality they are
integration fosters or constrains protectionist forces; whether it diminishes or augments the risk of war; whether it enhances or reduces a state's economic security and/or sovereignty; and finally whether it will by necessity lead to eventual political union. What appears to have happened is the emergence of a dominant discourse of regionalism founded on the four main propositions and taken up through elite learning, leadership on ideas, and consequent institutionalisation of these ideas in regionalism.

complementary since both stress the importance of market forces. The first is a shift in the dominant paradigm of domestic economic policy from Keynesian regulation to the deregulation of neo-liberal economics. This shift has made policymakers more inclined to embrace institutionalised regional economic integration for two reasons. First, they believe that institutionalised regional economic integration will enhance the role of market forces in the economy by boosting competition and efficiency, by reducing structural rigidities, and by hastening industrial restructuring. Second, as a result of this reduced emphasis on state intervention in the market, states are more inclined to accept the loss of certain instruments of economic sovereignty in order to realise the goals of economic ideology and hence less resistant to institutionalised regional economic integration than in the past.

The second shift concerns the role of government in the shaping of a country’s comparative advantage. It is a shift in international trade theory from a conception of comparative advantage, where natural endowments and market forces are the determining factors and state intervention is seen as counter-productive, to a conception of comparative advantage where government intervention can be used to create competitive advantage in certain industries, particularly high technology industries. Given that the high costs of research and development in these industries are often beyond the means of an individual state and that market size is a crucial factor in the decision of firms to invest in the development of high technology, states have come to see institutionalised regional economic integration as a means of enhancing their comparative advantage.

As we have seen at the end of the preceding chapter there are several contending arguments here. The shift away from Keynesian inspired economic policies to neo-liberal economic policies in the 1980s made policymakers more receptive to the argument that institutionalised regional economic integration is a means of reducing the power of distributional coalitions and hence of promoting free trade and of increasing economic growth. Some governments of a neo-liberal persuasion saw institutionalised regional economic integration as a way of ensuring that successive governments would be prevented by international obligations from increasing state intervention in the market.

This debate between the neofunctionalists and the realists has already been explored in Chapter Two.

The argument here is that institutionalised regional economic integration, though it necessarily implies a some loss of formal sovereignty over economic policymaking, actually enhances economic security by constraining the ability of any member state to make decisions of economic policy that are detrimental to the interests of the exporting firms of other member states. Thus institutionalised regional economic integration could be seen as the result of a realisation on the part of some states that their national interests could in some cases be better assured by the surrender of some of their national sovereignty in order that certain policy decisions are made together with other states within the same region. There is also the realisation on the part of policymakers and elites - already mentioned above - that the state is too small an area in which to pursue certain policies such as industrial policy and Keynesian reflation. Thus institutionalised regional economic integration can be seen as the result of changing perceptions of elites and policymakers concerning the possibility of implementing certain policies at the level of the individual state.

The argument that under certain circumstances institutionalised regional economic integration would inevitably lead to political union was made by Haas and other neofunctionalists in the 1950s and early 1960s. The slow down in the integration process in the EC in the 1960s, however, led many scholars and policymakers to conclude that this was not the case. The recent renewal of the integration momentum in Europe has brought many scholars to reconsider the link between economic integration and political union.

There is also the argument that institutionalised regional economic integration is the result of the adoption by policymakers of certain ideas favourable to regionalism due to the lobbying and influence of epistemic communities and/or existing regional institutions.
These arguments in the literature raise very interesting questions about the nature of political and intellectual change across three widely different regions. It is in assessing the significance of these arguments in each of the case studies that we are not only able to say something about the causes of regionalism, but also about the more general nature of political and intellectual change.
CHAPTER FOUR
THE SINGLE EUROPEAN ACT
PART ONE: THE STRUGGLE TO REINVIGORATE REGIONAL INTEGRATION IN EUROPE

Introduction

Chapters Four and Five together constitute a case study of the developments in European integration in the early and mid 1980s. These two chapters focus on the question of why EC member countries decided to re-invigorate existing regional arrangements during this period, culminating with the signing in February 1986 of the Single European Act (SEA) which amended and enlarged on the Treaty of Rome.

The SEA committed the members of the Community to the adoption of measures which would establish an internal market by 31 December 1992. It also defined that market as 'an area without internal frontiers in which the free movement of goods, persons, services and capital is ensured'.

Yet the amendments to the Treaty of Rome relating to the completion of the internal market only occupy a small part of the Act itself. The major part of the SEA is devoted to other concerns. Thus the Act amends the existing Treaties to extend the competence of the EC to new areas: the promotion of research and development in advanced technologies, social policy, and the environment. It gives formal legal status to the European Council and to existing practices in monetary and foreign policy cooperation: the European Monetary System (EMS) and the European Political Cooperation (EPC). In the Act the member states commit themselves to the development and pursuit of actions that will strengthen the economic and social cohesion of the Community and reduce disparities between the various regions and the backwardness of the least-favoured regions. The Act also contains several institutional provisions relating to the decision-making procedures,

1 The proposal to establish an internal market is known in the literature and in official documents under different names. Among the most commonly used are: the completion of the internal market; the single (integrated) market or SIM; and EC 1992. These three are used interchangeably throughout this thesis.
2 Bulletin of the European Communities (hereafter Bull. EC), Supplement 2/86, Single European Act, Section II, Subsection I, Article 8A.
3 As we shall see later in this chapter, the SEA was the result of the decision taken by the European Council in June 1985 in Milan to hold an intergovernmental conference to amend the EEC treaty. That decision arose out of a discussion of the recommendations concerning institutional change that were contained in the final reports of the Dooge and Adonnino Committees and to a lesser extent in the White Paper on Completing the Internal Market.
4 See also Volle 1988, pp.207-08.
5 In the Act the member states confirm the objective of progressive realisation of economic and monetary union. They reaffirm their commitment to inform and consult one another on matters of foreign policy and to endeavour jointly to formulate and implement a European foreign policy. The member states also declare their readiness to coordinate more closely their positions on the political and economic aspects of security.
6 They specifically commit themselves to the adoption of a proposal to be submitted by the EC Commission to reform the existing structural funds within one year.
the powers of the European Parliament (EP), and the jurisdiction of the Court of Justice. The powers of the EP are increased slightly and the measures necessary for implementation of single market are to be approved by the Council acting on a qualified majority and not unanimously as in the past.\(^7\) This new decision-making procedure is also to apply to certain decisions concerning the adoption of research and technology development frameworks, environment policy, and social policy.

The resurgence of regionalism in the EC did not end with the signing of the SEA. The SEA was followed by two further steps in European integration, the Social Charter of 1989 and the Maastricht Treaty of 1990. Although many of the factors that brought about the SEA have also played a significant role in these further developments, this chapter will focus exclusively on the SEA. There are two main reasons for this. First, the SEA is the step that most resembles the agreements to establish the Canada US Free Trade Area and the North American Free Trade Area. All three are attempts to liberalise the movement of goods, services, capital and to a lesser extent people at a regional level. Since this thesis aims to explore the links between developments across areas of regional economic integration it is necessary to compare like with like. Both the Social Charter and the Maastricht Treaty involve degrees of integration, both economic and political, which have, as yet, no counterpart in North America or in the Asia Pacific. Second, while the SEA has been ratified and implemented, both the Social Charter and the Maastricht Treaty have encountered some obstacles and at the time of writing it is not certain whether they will be implemented in the near future.

Yet despite the similarities between the EC single market initiative and these other instances of institutionalised regional economic integration, there are also some important differences. Principal among these is the presence of a strong desire for political unity among some of the actors in the EC, a desire that is largely, if not totally, absent from the two other case studies.\(^8\) This fact together with the long and rich history of institutionalised regional economic integration in Europe make the EC case study a rather complex one. Any attempt to explain the resurgence of regionalism in the EC in the 1980s must consider the role of this desire for political unity.\(^9\) It must also seek to understand

\(^7\) Out of a total of 76 votes, 54 were required to approve a Commission proposal and thus constitute a qualified majority. Germany, France, Italy and the UK each have 10, Spain has 8, Belgium, Greece, the Netherlands and Portugal each have 5, Denmark and Ireland each have 3, and Luxembourg has 2. After the entry of Austria, Finland, Sweden and Norway, the total of votes will increase to 90 and the blocking majority will be increased from 23 to 27 votes. As a result of objections from both Spain and the UK to this increase in the blocking minority a political compromise was reached providing for a 'reasonable' delay where a minority of 23 to 26 votes opposes legislation to allow the Council to do 'all in its power' to reach a satisfactory solution.

\(^8\) Thus in the Preamble to the Treaty of Rome the signatories declare their determination 'to lay the foundations of an ever closer union among the peoples of Europe'. At the Paris Summits of 1972 and 1974 the heads of government of the member states called for the attainment of a European Union by 1980.

\(^9\) In the Preamble to the Single European Act the member states reaffirm their commitment to their creation of a European Union.
why a process begun in the 1950s had stalled in the late 1960s and 1970s to be revived only in the 1980s. This will require the identification of two sets of factors. First, there are those longer term factors - principally politico-strategic in nature - that had been behind the moves towards integration in the past and, as we shall see, which also played a part in the success of the single market initiative. Then, there are the more contemporary, mainly economic factors that have been of particular significance to overcoming resistance to further integration.10

Given the complexity of the EC case study it will therefore be necessary to divide that study into two parts. Part One or Chapter Four will look briefly first at the long term factors that encouraged initial European integration and which remained (and still remain) influential in the struggle to re-invigorate European integration in the 1970s and 1980s. Then the chapter looks at why the integration process in the EC had stagnated from the mid 1960s and into the 1970s and why previous efforts both at the turn of the decade and in the late 1970s to revive that process had failed. It will then examine the various options for relaunching the integration process that were being considered in the early 1980s and how these impacted both on the push toward the single market and on the contents of the SEA. Part Two or Chapter Five will look at the more contemporary factors which were in the end decisive in the renewed moves to further European integration. It will also examine briefly some of the more recent theoretical attempts to explain the revival of the integration process in the EC.

Each of the factors identified as having contributed to the decision to complete the EC internal market will be examined at the end of Chapter Five to see whether it confirms one or more of the five main propositions that were derived from our review of the theoretical literature in Chapters Two and Three. At the end of Chapter Five an attempt will be made to establish the weight of each of these propositions in accounting for the re-emergence of institutionalised regional economic integration in the EC in the early 1980s.

The long term factors in European integration and its resurgence in the 1980s

There were long term factors of a principally politico-strategic nature which had been present at the creation of the EC and which also influenced the new agenda for European reform of the 1980s. Not only had these played a role in keeping the issue of a single market on the agenda in the past but new circumstances often reinforced these factors so that states were able to overcome their previous misgivings on further economic and political integration.

10 Other scholars have not adopted a comparative approach to explaining the causes of the SEA and push to complete the internal market and thus have not made this distinction between longer term and more recent factors. The debate among scholars such as Sandholtz and Zysman (1989), Moravcsik(1991), Keohane and Hoffmann (1991), Cameron (1992), Storey (1990), and Garrett (1992) is generally concerned with the weight that should be given to the various economic, institutional and political factors. See the conclusion to Chapter Five for a brief overview of this debate and in particular the question of whether the SEA was the consequence of neofunctional spillover.
Those long term factors played a role in the establishment of the ECSC and the Common Market and they also helped bring about the single market. These factors were the desire to end age old inter-state rivalry in Europe, particularly that between France and Germany; the desire to reverse the serious decline in the influence of European states in international affairs, and the desire of smaller states to ensure that their interests were also taken into account by their more powerful regional neighbours when making important economic and political decisions. Although these factors are discussed separately for the purpose of analytical convenience, it is obvious from the discussion below that they interact and are often mutually reinforcing.

The desire to end inter-state rivalry in Europe

One long term factor was the continuing desire to find a European political order which would bring an end to the European inter-state rivalry that had proved so destructive in the past. This desire has been a particularly significant motive for integration for the Benelux countries, France and Germany and indeed it is hard to separate the desire for Franco-German reconciliation from that of European union. Without the conviction shared on both sides of the Rhine that only increased political and economic integration of France and Germany can assure peace and economic prosperity in Europe, there could have been no European Coal and Steel Community and no Common Market. For both France and Germany economic integration has been an economic means to a political end.\(^1\)

The Cold War had added a new dimension to the problem of finding a stable political order in Europe. Although some, particularly in France, saw the division of Germany into East and West as a way of reducing German economic hegemony in Europe, it was apparent that this division itself had the potential to undermine the power balance between the communist and non-communist forces not only in Europe but also in the rest of the world. Both within West Germany and in the rest of Western Europe there was concern that the desire of the West German people for reunification might become so strong that they would be prepared to accept neutrality and perhaps even Soviet-style socialism to attain it.\(^2\) Integration would increase West Germany's bargaining position with the Soviet Union and help ensure that the price of reunification was not a neutral socialist Germany. It would also reduce the opposition of West Germany's neighbours to German

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\(^1\) The importance of Franco-German reconciliation in the development of the EC and of the radical departure that the formation of the EC represented both in terms of past European inter-state relations and international relations in general was made evident in a speech made by West German Foreign Minister Genscher before the European Parliament in January 1983. According to Genscher, the success of efforts to revitalise the Community is vital not just for the survival of the European Community but for the victory of the model of non-hegemonic fusion of equal states that it represents over other less desirable forms of organising international cooperation. See *Bull. EC* 1-1983, p.85. The view expressed here by Genscher is similar to that of the 'Father of Europe', Monnet, and of realist theorist Morgenthau. See Chapter Two, pp.44-47, and fn.146.

\(^2\) Thus integration into Western Europe was seen by the conservative political forces that ruled West Germany in the immediate post-war period as a way of weakening the appeal of those political forces that wanted immediate reunification.
reunification by reassuring them that a reunited Germany would not revive the aggressive nationalism of the past.\(^{13}\)

The single market must be seen then within the context of Franco-German reconciliation. It was part of the ongoing effort by France and West Germany both to ensure that external and internal pressures do not weaken the sense of common interest that the two countries share and to further enmesh the vital forces of the two countries so that war between them would be unthinkable.\(^ {14}\) The strength of this commitment on the part of France and West Germany to European union has been such that French and German leaders of different political persuasions, such as Schmidt and Giscard and Mitterrand and Kohl, have been able work together to promote it.\(^ {15}\)

In the 1980s the French fear that West Germany would detach itself from the Western Alliance in order to achieve reunification with East Germany once more came to the fore.\(^ {16}\) This preoccupation led to considerable efforts on the part of French President

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\(^{13}\) Although no-one suspected in the early 1980s that reunification would come quite so soon, there was still a widely held conviction particularly in West Germany that a Community that was dynamic economically and more united politically could act as a powerful magnet to the countries of Eastern Europe and thus bring about an end to the division of Europe and with it the division of Germany. These arguments were made by German Chancellor Kohl (1984, pp.358-360) in a speech in March 1984. According to Kohl, the policy of European integration and that of German reunification are two sides of the same coin. This concern to achieve new advances in EC integration may have been in part a reaction to the growing pacifist mood of the West German people in the early 1980s.

\(^{14}\) Thus, in a speech to the German Bundestag in June 1983, Kohl (1984, pp.216, 219) declared that there was no alternative to continuing on the path to a common Europe other than a return to the nineteenth century. He insisted that Europe must never again get sucked into the whirlpool of national interests and jealousies that led to the catastrophe of WWII. Kohl also quoted Mitterrand as having said in one of their regular summits that if Europe did not obtain a stronger political basis then the weight of interests would soon tear the European fabric to shreds. See Kohl 1984, p.101.

\(^{15}\) Mitterrand 1986, p.104. In the 1970s French President Giscard d’Estaing gave greater priority to Franco-German cooperation. According to Ludlow (1982, pp.32-33), this had been motivated largely by France’s desire to maintain its political leadership of the Community. The economic decline of Britain together with its negative attitude to the Community had laid to rest Pompidou’s hopes of a Franco-British axis to counterbalance West Germany's growing economic power. However, Giscard believed that, given West Germany’s continued reluctance to assume leadership on its own, a consolidation of the Paris-Bonn axis could allow France to exercise joint leadership.

Some commentators in the early 1980s had believed that the ideological gulf that separated socialist French President François Mitterrand and Christian Democrat West German Chancellor, Helmut Kohl would lead to an end to the Franco-German axis as the engine of European integration and even to its replacement by an Anglo-German axis. See The Economist 21 May 1983, p.66. However, it soon became apparent that the desire of the two leaders to preserve and enhance European political stability and cohesion was greater than their ideological differences. Thus Mitterrand (1986, p.104) agreed with Kohl that over recent years a community of destiny had developed between France and West Germany such that the two countries could only master their future together.

\(^{16}\) France was particularly preoccupied by the growing wave of pacifism and neutralism in West Germany. (See The Economist 3 Dec. 1983, pp.46-47). Reagan's more aggressive posture in relation to the Soviet Union brought an abrupt end to the atmosphere of detente that had developed in the 1970s. The so-called second Cold War was not well received by Western European governments and public opinion. In West Germany there was particular concern about the effect that the renewal of East-West tension would have on the economic and political ties that West Germany had built up with its communist neighbours under Ostpolitik. At the same time the Western European members of NATO were having great difficulties in convincing their citizens of the need to install US Pershing missiles on their soil in response to the installation by the Soviet Union of SS-20 missiles.
Mitterrand to anchor West Germany to Western Europe.17 Mitterrand believed that one way of tying West Germany more closely to France and Western Europe was through enhanced cooperation in the fields of economics and foreign policy.18 As we shall see in Chapter Five France’s desire to anchor West Germany to Western Europe also contributed to the more favourable attitude adopted by France in the early 1980s towards institutional reform and towards the single market project.

the desire to increase the combined influence of Europe in international negotiations and world affairs

Another long term factor in the push towards greater European integration was the desire to increase the combined influence of Europe in international negotiations and world affairs. Many EC member states saw in European unity a way of regaining the influence that each one had enjoyed in the past as a world power in its own right. The establishment of European Political Cooperation in 1970 was the result of this realisation that by adopting common positions on international issues the EC members could increase their influence over the conduct of international politics and in particular over the evolution of the relationship between the superpowers.19

Among the EC members France had been the country for whom the desire for a strong independent Europe had been the strongest. This desire had been particularly evident under General de Gaulle and was to remain a preoccupation of successive French presidents.20

17 Story 1990, pp.51, 53.
18 Another way of doing this, Mitterrand believed, was through greater European integration in the military field. Thus Mitterrand made a concerted effort to consolidate Franco-German military cooperation. See Mitterrand 1986, pp.95-96. A long dormant clause in the 1963 Franco-German Elysée Treaty of Friendship that provided for military consultation between the general staffs of the two countries was reactivated. Agreements were signed for the joint production of military hardware. The French President maintained that widespread German opposition to the installation of the Pershing missiles was a refusal by Germans to be a ‘people-object’, that is, a rejection of a situation where their security was in the hands of others. He also saw the need to envelop West Germany in a European defence community. (This had been one of the options considered and rejected by Delors in 1986 for relaunching the Community. See below this chapter, p.134). For Mitterrand the answer was the construction of a European alliance within the Atlantic Alliance. France saw the Western European Union (WEU) as providing the basis for a European alliance and took steps to revive it. Set up by France, Italy, the UK, Belgium, the Netherlands and Luxembourg in 1948 to limit West German rearmament, the WEU had remained dormant until 1984.
19 Many European leaders and politicians argued that the European states should strive towards a common European foreign policy in the interests of the developing countries. A united Europe, they maintained, would be a benign superpower and, unlike the USA and the USSR, it could use its influence to help the less developed countries. See Delors 1988, p.46; Mitterrand 1986, p.205; Kohl 1984, p.325; Genscher 1982, p.115; and Servan Schreiber 1969, p.196.
20 Mitterrand was no exception. For him European political unity was a must if Europe was not to be subject to the laws of others. See Mitterrand 1986, p.27. A Western Europe that was dependent militarily, divided politically and behind the times economically would be forced to accept either total submission to the US or neutralisation and eventual Soviet domination. For a Europe that could not find the will to unite politically, Mitterrand foresaw two possible scenarios, both of which would be disastrous not only for Europe but for the rest of the world. On the one hand, the Soviet Union could play off contradictory and complex European national interests and thus exploit various weak links to annihilate the resistances of the
West Germany had also come to share this preoccupation for a strong independent Europe. In the late 1970s resentment and anxiety about US pressure on West Germany to reflate its economy and disagreements on important foreign policy issues such as the attitude to the Soviet Union and the export of nuclear technology had considerably weakened the Bonn-Washington axis and led Chancellor Schmidt to seek to strengthen the European framework through the establishment of the European Monetary System.\footnote{Ludlow 1982, pp.63-67.} In the early 1980s both Kohl and Genscher emphasised the importance of increased European integration in reducing Europe's dependence on the US.\footnote{Thus Genscher's proposal in 1981 for increased European political and economic integration was in part a reaction to the growing divergence between the US and its European Atlantic Alliance partners over the best way to deal with the Soviet Union in relation to events in Afghanistan and Poland and the Soviet arms build-up of the 1970s. For Genscher (1982, pp.108-09), Europe's dependence on the US was due to insufficient progress towards unification. Europe, he believed, could only have equal weight in the Alliance if it was united. In a speech to the German Bundestag in June 1983, West German Chancellor Kohl (1984, p.218) declared that 'belonging to a community and cooperation among its members are permanent guarantees that we remain active participants in international relations, that we can take our destiny into our own hands and not be used as the object of the policy of others'.}

The United Kingdom had also come to see the European Economic Community, particularly in the form of European political cooperation as an opportunity for the UK to offset its declining influence in international affairs.\footnote{Wallace 1986, p.595; Peterson 1992, p.164.} Thatcher shared the concern of the other EC members with the Reagan Administration's unilateralist foreign and economic policies. With the much touted special relationship with the US of increasingly questionable value the UK devoted considerable energy to increasing the effectiveness of European Political Cooperation.\footnote{Peterson 1992, pp.154-55. According to Peterson (1992, p.164), the UK had played a key role both in the establishment in 1980 of the 'troika' system, that ensured continuity of initiatives from one European Presidency to the next, and in the drawing up of the London Report, which had called on member states to intensify the exchange of information and positions within the EPC and agreed to the provision of support staff. The UK had also proposed unsuccessfully that the competence of the EPC should be extended to security matters. See The Economist 12 Sept. 1981, pp.61-62. The utility of the EPC to the UK was demonstrated by the EC-wide trade and arms embargo 1982 against Argentina in response to the Argentinian invasion of the Falklands. The UK attachment to the EPC can be clearly seen in its contribution to the discussion at the June 1984 European Council in Fontainebleau on the future direction of the Community, 'Europe - the Future' (see Thatcher 1984, pp.76-78), which listed the development of a common external policy as one the main priorities for future EC cooperation. This, it argued, was necessary to ensure that Europe played as central a role in international affairs as the US did, to make the US pay greater attention to the international consequences of its domestic policies, and to put pressure on Japan to liberalise its economy and raise the level of its manufactured imports.} The UK had not only come to share the French and West German preoccupation with strengthening the voice of Europe in international affairs European states one by one. On the other hand, because of the psychological and geographical distance between the US and Europe, if the US were to continue to make decisions on behalf of its European allies without proper consultation, then the decisions that it made could fail to respond to the needs and aspirations of its European allies and the US could eventually lose the support of its European allies altogether.
but also saw this a means of increasing its leverage in negotiations over international economic matters with the US and Japan.\textsuperscript{25}

By the beginning of the 1980s the EC member states were becoming increasingly aware of the link between economic strength and political power. It was feared that, as a result of economic stagnation and the decline in the competitiveness of its leading industries in relation to their US and Japanese counterparts, Europe was in danger of losing its economic basis for the pursuit of a strong foreign policy.\textsuperscript{26} Economic prosperity and industrial competitiveness were seen as vital to the maintenance and expansion of Europe's influence in international politics.\textsuperscript{27}

\textit{the desire of smaller states to increase their influence in the political and economic decisions of larger, more powerful neighbours}

There is one other long term factor that was to play a role in the push for the single market. That factor was the desire of certain smaller states to have some say over decisions of larger, more powerful neighbours, decisions which often had profound and negative repercussions on their own welfare. This had been the case for the Benelux countries from the very beginning of the EC and of Ireland since it became a member in 1973.\textsuperscript{28} These

\textsuperscript{25} As we shall see in the next chapter, other EC members were able to exploit the UK's attachment to the EPC and its desire to see its effectiveness strengthened to force the UK to accept the institutional reforms contained in the SEA by linking them to both the single market and improvements in the EPC. See Peterson 1992, p.164. The UK feared that its exclusion from a new smaller hard core community would lessen its influence in the EPC.

\textsuperscript{26} Genscher 1982, pp.115-16. As well as calling for significant progress towards a joint foreign policy, Genscher's 1981 proposal for a European Act (see below, this chapter, fn. 72) also called for the completion of the single market. According to Genscher, it was necessary to complete the single market as only the European market was large enough to provide the basis for a European high technological industry that was competitive in world markets.

\textsuperscript{27} For France too, maintaining Europe's economic independence and competitiveness had become inseparable from preserving and enhancing its political influence in the world. According to the French Government's 1981 memorandum on the revitalisation of the Community (\textit{Bull. EC} 11-1981, p.92), there is no political power without economic power. Should the EC fail to increase its cohesion and regain its dynamism the difficult economic battle in which its members are engaged would be lost and Europe's prosperity and ultimately its freedom put at risk. For Mitterrand (1986, pp.14-16) the modern battlefields were now in the fields of high technology. He saw the possession by a France of a strong industrial base in key sectors as being at the heart of power relations. Mitterrand's argument in favour of European economic integration is similar to that made by Monnet in the 1950s in support of the creation of the EC. According to Monnet, without the resources of a larger market individual European states would not be able to modernise their economies nor could they hope to compete either economically or politically with countries the size of the US. See Chapter Two, pp.45-48. It was not until the 1980s, however, that the leaders of the larger EC member states were to find this argument compelling. Thus, for France the single market was a means of creating a European personality that would have its own foreign and security policy and army and hence rival the US as an international actor. This growing awareness on the part of the French political elite of the importance of economic competitiveness as a determinant of politico-strategic influence no doubt helped overcome their traditional resistance to the loss of national sovereignty that the creation of a truly single market would entail.

\textsuperscript{28} Voorhoeve (1979, pp.187-91) listed the desire to balance the big countries, and in particular those in Western Europe, so as to avoid domination as one of the four priorities of Dutch foreign policy since the end of World War II. According to Voorhoeve, this desire to avoid the domination of Dutch interests by those of the larger EC member states also partly explains
countries were firmly committed to increasing the powers of the supranational institutions of the Community and strong supporters of any institutional reform that went in that direction.29

As can be seen these three contextual and politico-strategic factors were very influential in the initial moves to form the EC and remained important in subsequent attempts to further integration. Of course, their relative importance changed over time. Nonetheless, their persistence over forty years of ups and down, stallings and breakthroughs in the integration process gives them the status of bedrock factors in the forging of the new Europe.

The stalling of the integration momentum in the 1960s and 1970s

In the context of the whole European integration experience, the 1970s and the early 1980s stood in stark contrast to the 1950s and early 1960s. The enthusiasm for European integration and the rapid progress seen in its construction had given way to indifference, despondency, paralysis and even regression. The problems were at first political in nature. Profound differences had emerged about the future direction of the community and in particular about the nature of the decision-making process. At the 1969 Summit at The Hague the heads of government of the six member states of the EC seemed to discover a new enthusiasm for European integration and a number of initiatives aimed at deepening the integration process were agreed to.30

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29 Another Dutch foreign policy priority, the construction of a supranational Community. Voorhoeve argued that Dutch support for supranationalism is based on the conviction that institutions with supranational powers increase the role of smaller powers by augmenting the influence of rational arguments in decision-making and diminishing the diplomatic utility of national might. Both the Netherlands and Belgium were particularly concerned about the tendency of bigger member states to do deals without consulting the smaller members. Thus Tindemans (1976, p.13) in his proposal for European Union required the member states to declare that ‘(t)he principle of the equality of all Our States continues to be respected within the Union by each State's right to participate in political decision-making.’ Nevertheless, in the 1960s the Benelux countries, and particularly the Netherlands, had been torn between their desire to preserve and strengthen the supranational powers of the EC institutions and their wish to see the UK become a member of the Community. While British membership was seen as a way of reducing the risk of Franco-German domination of the Community, it would also increase those forces within the Community that opposed giving more powers to EC institutions. According to Keatinge (1978, pp.79-80), Irish government ministers have also justified their support for a supranational Community on the grounds that increasing the powers of Community institutions, and particularly the Commission, is in the interests of smaller member states since it reduces the predominance of the larger states. Thus Garret FitzGerald, who was then Irish Foreign Minister, declared in 1977 that Ireland had consistently supported stronger Community institutions because such structures better protected small states and their interests. See Paul Sharp 1990, p.116.

30 Thus the report by Belgian Prime Minister Tindemans, commissioned by the European heads of government at their meeting in 1974 to examine ways for the Community to achieve its goal of European union by 1980, bore a strong resemblance in both its tone and its content to the SEA. (See Davignon 1990, p.128; Tindemans 1976).

Agreement was reached on the issue that had sparked de Gaulle's boycott of the Council of Ministers in 1965 - the establishment of the Community's own financial resources to pay for the Common Agricultural Policy (CAP). France finally acceded to the demand of the other
Yet despite all these promising new initiatives of the late 1960s and early 1970s, the revival of the integration momentum stalled in the 1970s. This section will look briefly at the factors that were behind this loss of momentum. It will also examine the renewed attempts of the later 1970s to revive the integration process. The purpose here is to provide an understanding of the obstacles that the single market proposal had to overcome before it was finally agreed in 1986. This might also help illuminate the factors that were important in the success of the single market initiative.

There were three principal reasons for this stalling of the integration process. These were the inability of the member states to agree on whether the Community should be federal or intergovernmental in nature, the marked deterioration in the economic circumstances of the member states in the 1970s, and the divergent foreign policy outlooks of the different member states during that period. A brief discussion of each of these three reasons follows.

The strongly different attitudes of member states to federalism and sovereignty made further progress on integration extremely difficult. Until 1986, decision-making continued to be based on the Luxembourg compromise principle of unanimous decision-making. Although the other five members of the Community had opposed France's insistence on the principle of a national veto on issues deemed by any member to affect its vital interests, the principle soon became the rule rather than the exception in EC decision-making and it became almost impossible to get unanimous approval for the new initiatives necessary to revitalise the Community. The problem was further compounded by the entry into the community of the UK and some other EFTA members. The UK, along with some other EFTA members, was to be admitted. EC leaders agreed to economic and monetary union (EMU) and commissioned a report on how best to achieve that union. The report, known as the Werner Report, recommended a three stage transition to full economic and monetary union to be achieved by 1980. In March 1971 the Council of Ministers agreed to proceed with the first stage on an experimental basis.

Acting on a French proposal, leaders at the Hague Summit also asked their foreign ministers to report on how to bring about foreign policy cooperation. The Council of Ministers decided in October 1970 to establish a procedure known as European Political Cooperation (EPC) in which EC foreign ministers and senior foreign affairs officials would meet regularly to discuss foreign policy issues. The report, known as the Werner Report, recommended a three stage transition to full economic and monetary union to be achieved by 1980. In March 1971 the Council of Ministers agreed to proceed with the first stage on an experimental basis. (See Pinder 1991, p.11-13. The heads of government also resolved both to enlarge and deepen the Community. The UK, along with some other EFTA members, was to be admitted. EC leaders agreed to economic and monetary union (EMU) and commissioned a report on how best to achieve that union. See Commission of the EC 1990, p.52. (For a detailed account of the convergence of interests that led to this attempt, see Tsoukalas 1977). The report, known as the Werner Report, recommended a three stage transition to full economic and monetary union to be achieved by 1980. In March 1971 the Council of Ministers agreed to proceed with the first stage on an experimental basis. (See Pinder 1991, p.122). Acting on a French proposal, leaders at the Hague Summit also asked their foreign ministers to report on how to bring about foreign policy cooperation. The Council of Ministers decided in October 1970 to establish a procedure known as European Political Cooperation (EPC) in which EC foreign ministers and senior foreign affairs officials would meet regularly to discuss foreign policy issues. See Pinder 1991, p.193. For a detailed account of the evolution of European political cooperation, its structures and procedures, see David Allen et al. 1982; and Ifestos 1987.

See Nicoll 1984.

Couve de Murville 1989, p.120. The other five EC members continued to insist that the name 'compromise' was a misnomer, that in fact there had been agreement to disagree, and that they still remained committed to the principle of majority decision-making outlined in the treaty.
Community of Great Britain and Denmark, two countries intent on maintaining the sovereignty of their national parliaments.\textsuperscript{33} Given the differences in political culture and tradition between the members of the Community attempts to achieve greater political union in the 1970s had been unsuccessful. The smaller member states were, with the exception of Denmark and Greece, in favour of increased economic and political integration.\textsuperscript{34} Because of their small size the Benelux countries were already aware of the limitations of sovereignty in practice and were more ready to accept a move to a more federal community, in the hope that this would give them a greater say in decisions affecting their welfare.\textsuperscript{35} Nevertheless, it was apparent from the failure of the 1976 Tindemans proposals for European Union that without the support of one of the larger member states any initiative from the smaller member states to relaunch the Community would not be successful.\textsuperscript{36}

West Germany was a federal state and so had less qualms about a more federal Europe. West German economic predominance had increased in the 1970s but West Germany was reluctant to assume the leadership role that had been exercised by France in the 1950s and

\textsuperscript{33} According Holbraad (1991, p.152), Denmark has consistently opposed the push for a more federalist EC.
\textsuperscript{34} Ireland has also consistently supported the strengthening of the Community's institutions and a return to majority voting in the EC Council of Ministers. See Keatinge 1978, p.79; Paul Sharp 1990, 116-22. Nevertheless, because of its policy of neutrality, Ireland was opposed to moves towards a common defence policy. See Keatinge 1978, p.96.
\textsuperscript{35} On the Belgian and Dutch awareness of the limitations of national sovereignty, see Davignon, Paemen and Noterdaeme 1990, p.122; and Jonas 1978, p.249. Davignon, Paemen and Noterdaeme (1990, p.124) list the political union of the EC member states as one of the three priorities of Belgian foreign policy. Van Elslande (1976, p.184), speaking in his capacity as Belgian Minister of Foreign Affairs to the Belgian Senate, noted that 'since the end of World War II, Belgium's external policy has revolved around one constant factor, which is: the search for new structures that could take the place of the 19th century nation-states which are completely outmoded in the political, military and economic world of today. From the outset, we resolutely pronounced ourselves in favour of the most radical solution in so far as European unification was concerned. . . The choice made by successive Belgian governments, almost always with the unanimous approval of both Houses (of Parliament), gave preference to working for an integrated Europe rather than supporting some kind of intergovernmental cooperation.' The attachment of successive Belgian governments to the goal of European Union is also evident in the role played by Belgian political leaders and diplomats, such as Paul-Henri Spaak, Leo Tindemans and Etienne Davignon, in the promotion of this goal since the early beginnings of the EC. In his report to the European Council Belgian Prime Minister Tindemans (1976, p.45) rejected a return to intergovernmental cooperation which he said would only underline the differences of power and interests between the EC members and would not meet their collective needs. Instead he called for the reinforcement of the common institutional machinery. According to Voorhoeve (1979, p.186), the construction of a supranational and democratic EC has been one of the recurrent themes of Dutch foreign policy. Thus Dutch Foreign Minister Luns justified his government's rejection of de Gaulle's proposal for intergovernmental union in the early 1960s on the grounds that it would dilute the existing Communities and weaken their supranational powers, that it would undermine the Atlantic Alliance and Europe's security relationship with the US, and that it did not contain a revision clause that would enable the union to develop in a more supranational direction. See Voorhoeve 1979, pp.167-68.
\textsuperscript{36} Ludlow 1982, p.34. The Tindemans proposals are discussed briefly in the next section.
1960s. It feared that any attempt on its part to play such a role would revive bitter memories of German domination and hence would prove counter-productive.

Because of its strong regionalist tradition, Italy was also in favour of strengthening the supranational character of the EC. But, despite the pro-European sentiments of its population, Italy was too preoccupied with domestic political and economic problems to be able to devote much energy to reviving the integration process.

Yet, France and the UK, as large centralised states, were opposed to reforms that could in any way lead to a more federal Europe. Denmark was also unenthusiastic.

The concerns about supranationality on the part of some members strengthened the tendency towards intergovernmentalism in the EC. Those members opposed to supranationality made sure that the new advances in regional cooperation that did occur in the 1970s, such as economic and monetary union (EMU) and European political

38 There is an interesting parallel here with Japan, which for similar reasons was reluctant to make proposals for enhanced institutionalised regional economic integration in the Asia Pacific. See below Chapter Eight.
39 Ludlow 1982, pp.31-33.
40 Internal political instability had made it even more difficult for France and the UK to take the initiative at the Community level. In France, the departure of de Gaulle notwithstanding, subsequent conservative governments still had to placate staunchly nationalist Gaullist members and despite the favourable disposition of French President Giscard towards the consolidation of European integration, they were unable to pursue policies favourable to European integration. Caught between West German insistence that the coordination of economic policies must accompany monetary integration and Gaullist opposition to any cession of French sovereignty over economic decision-making to European institutions, the French government found itself unable to embrace the Werner Plan for economic and monetary union in its entirety. The desire to enhance Europe's weight in international decision-making and to tie West Germany more firmly to France were still not strong enough to overcome France's unwillingness to give up parts of its sovereignty. It was only at the end of the 1970s when the more pro-European Giscardians increased their influence in the March 1978 National Assembly elections that Giscard was able, together with German Chancellor Schmidt and Commission President Jenkins, to launch the EMS. See Pinder 1991, pp.121-22.
41 Great Britain, whose membership had originally been seen as a counter to growing German hegemony and to obfuscate French nationalism, seemed more intent on contesting the *acquis communitaire* than on extending it. The return of the Labour Party to government in 1974 seemed to rule out any British support for the revival of the integration process. With large parts of the Labour Party opposed to British membership of the Community and with only a slim majority in Parliament, the Labour government needed to demonstrate to the electorate that Britain could get better terms of membership. This situation did not change even after the renegotiation of these terms and the vote in favour of membership in the 1975 referendum. See Ludlow 1982, pp.29-30.
42 As we have already mentioned (see above), Denmark was opposed to any moves that would undermine the sovereignty of its national parliament. (See Holbraad 1991, p.152).
43 As we shall see later in this chapter, this trend towards intergovernmentalism, which was held by the EP, the Commission, and some member states to be partly to blame for the stagnation of the Community in the 1970s, gave rise to numerous proposals for institutional reform aimed at strengthening the supranational nature of the Community. The desire to reverse the trend to intergovernmentalism was a significant factor in the decision by the Milan European Council in 1985 to hold an intergovernmental conference to amend the existing treaties. The tendency towards intergovernmentalism at the empirical level was also mirrored at the theoretical level. See above Chapter Two, p.58.
cooperation (EPC), were kept outside the framework of the Treaties and separate from the institutions of the EC itself.\textsuperscript{43}

Alongside these strongly differing state expectations on sovereignty and federalism, a second reason for the failure of efforts in the seventies to revive the integration momentum was provided by the adverse economic circumstances within which these efforts took place.\textsuperscript{44} The end of the post-war boom and the subsequent collapse of the Bretton Woods monetary system had dampened enthusiasm among all states for the structural adjustments occasioned by economic integration and this had encouraged a return to protectionism as countries sought national solutions to the problems of unemployment and inflation. The end of Bretton Woods had also meant a wider divergence of views among EC member governments concerning the conduct of monetary and fiscal policy than that had already been in evidence in the 1960s.\textsuperscript{45} Like other governments, they saw the abandonment of fixed exchange rates (a consequence of the effects of the end of the long boom in the US) as lifting the external restraints on the conduct of domestic economic policies.\textsuperscript{46} Thus there was a tendency by governments including those in the EC to pursue economic policies based on their own domestic interests with little regard to the need to coordinate

\textsuperscript{43} This trend towards intergovernmentalism is particularly evident in the creation of a new overarching level of authority, the European Council, which although it had no formal status in the Treaties, became the de facto decision-making body of the EC. Somewhat paradoxically it was a majority decision by the European Council in Milan in 1985 that led to the calling of the intergovernmental conference that drew up the SEA.

\textsuperscript{44} Tindemans 1976, pp.9-10; Donges 1981, p.9. According to Belgian Prime Minister Tindemans, 'the Community is crumbling beneath the resurgence, which is felt everywhere, of purely national preoccupations.'

\textsuperscript{45} According to Christopher Allen (1989, pp.263-280), while the other members of the Community had pursued Keynesian economic policies in the 1950s and 1960s that were concerned with maintaining aggregate demand and high levels of employment, West Germany had consistently adhered to monetarist and supply-side policies that stressed low inflation, low wages, and high savings. This difference in policy outlook was largely a reaction to the economic policies of the 1930s and 1940s. The hyperinflation and political instability of the 1930s had convinced post 1945 German policymakers that inflation was the principal threat to political stability. This abhorrence of inflation had led to the establishment of a relatively independent central bank, the Bundesbank, to ensure that governments did not sacrifice the goal of low inflation for short term political advantage. Because of the strong associations of the interventionist policies and the economists that advocated them with the Nazi regime, the liberal economic views of the Freiburg School predominated in both government and academic circles and policymakers tended to shy away from the more interventionist Keynesian inspired policies that were adopted by other Western European countries.

These divergences in economic policy outlooks among the EC member states were particularly evident in the discussions in the late 1960s and early 1970s about how to achieve EMU. While France, Luxembourg and Belgium maintained that exchange rates should be fixed permanently before the harmonisation of economic policies took place, West Germany insisted that the convergence of economic policies come first. West Germany feared that the premature fixing of exchange rates would shift the burden of adjustment onto the surplus countries, leaving them to choose between higher inflation and financing the payment imbalances of the deficit countries. France feared that the convergence first approach of West Germany would see the burden of adjustment fall only on the deficit countries. See Pinder 1991, p.120; Tsoukalis 1991, p.161.

\textsuperscript{46} Albert and Ball 1983, p.33. Some governments believed that they could pursue policies that increased government deficits in the short term since balance of payment problems would be solved by adjustments in the exchange rate. The Bretton Woods system of fixed exchange rates had been an element of stability in EC integration in the 1950s and 1960s.
these with other governments.\textsuperscript{47} These views diverged even further as governments attempted to come to terms with the effects of the increase in the price of oil. While the other EC member states tried to offset the effects of higher oil prices with Keynesian inspired economic policies that stimulated demand but did little to control soaring inflation, West Germany continued to pursue its monetarist policies that were aimed at keeping inflation under control.\textsuperscript{48} It was these divergences together with the increased currency instability brought about by the collapse of Bretton Woods that led to the failure of the first attempt at EC economic and monetary union.\textsuperscript{49}

A third reason for the failure of the attempt to revive the integrative momentum was a continuation of the divergent foreign policy outlooks of the different EC members. This was particularly the case with attitudes to the US and NATO but also occurred on issues such as the Middle East. While growing awareness among even the larger member states of the need for common positions on international issues had led in 1970 to the EPC process, member countries were careful to keep that process outside the existing institutions of the EC.\textsuperscript{50} There was no question of abandoning sovereignty to a supranational body or of decisions being taken by a majority vote.\textsuperscript{51}

\textbf{The initiatives of the late 1970s}

Given these divergences among member states over foreign policy and macro-economic policy, the unstable internal political situation of the more influential member states and the strongly differing state expectations on sovereignty and federalism, it is not surprising that the proposals made in the 1976 Tindemans Report for relaunching the Community were largely ignored and that other initiatives such as the creation of the European Council and the establishment of the European Monetary System were only a partial success. This section will look briefly at the three principal proposals to get the Community moving again that were made in the second half of 1970s, which also largely failed. Its purpose is

\textsuperscript{47} Albert and Ball 1983, p.20.
\textsuperscript{48} OECD 1988, pp.9, 45, 56-57, 75, 90, 96. Thus between 1974 and 1982 the annual inflation rate in France was 2.5 times that in West Germany.
\textsuperscript{49} For a detailed account of the reasons for its failure, see Tsoukalis 1977. Tsoukalis (1982, pp.119-21) identifies four main reasons for the failure of the Werner strategy for EMU: the collapse of the Bretton Woods system which it had been designed to complement, not replace; the unwillingness of the West German and Dutch governments to upset the US; the divergent economic policies of the member states; and the unwillingness of some members, particularly France, to accept the supranational aspects of EMU.
\textsuperscript{50} For a more detailed account of the evolution of European Political Cooperation in the 1970s, see Wallace 1983; and Ifestos 1987.
\textsuperscript{51} Furthermore, the divergences among EC members over issues of foreign policy were strengthened by the admission of the more pro-US UK and neutral Ireland in 1974. This made it even more difficult for the Community to adopt common foreign policy positions as envisaged under EPC. According to Voorhoeve (1979, p.178-79), the Netherlands finally agreed to France's long-standing proposal for foreign policy coordination because it felt that, with the UK now a member, the risk of it being used by France to split NATO had diminished. Yet by the same token British membership reduced the likelihood that the EC would be able to speak with one voice on important questions of foreign policy.
to give some indication of the resistance that any attempt to revive the Community in the 1980s would have to overcome.

With the failure of the first attempt at economic and monetary union now apparent, the newly elected heads of government of France and West Germany, Giscard and Schmidt, decided in 1974 to make another effort to relaunch the Community. The French president proposed the creation of a European Council to be composed of the heads of government of the EC member states.\textsuperscript{52} The Council would meet three times a year to conduct informal discussions on issues covered by the original treaties and others relating to European political cooperation. It was felt that such meetings would help overcome the institutional paralysis of the EC and at the same time lead to the development of a common European foreign policy outlook, thereby increasing the influence of Europe over US policymaking.\textsuperscript{53}

The French proposal met with some resistance from the more federalist-minded states and France was forced to make some concessions in other areas inorder to allay fears that the Community had abandoned its goal of political integration and was becoming simply another form of intergovernmental cooperation.\textsuperscript{54} At the Paris Summit of December 1974 EC leaders not only reaffirmed the commitments of previous summits to the progressive development of the Community towards a European Union but also agreed to commission a report by the Belgian Prime Minister, Leo Tindemans, on how this could be achieved.\textsuperscript{55}

Yet despite the intentions of Schmidt and Giscard that the European Council should limit itself to providing general leadership and should not become involve in the technical details of EC decision-making, the Council soon developed into a court of appeal, with the EC Council of Ministers, the official decision-making body of the EC, preferring to leave difficult decisions to the European Council. The European Council also avoided taking

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\textsuperscript{52} For a more detailed discussion of the origins and evolution of the European Council, see Bulmer and Wessel 1987. The formation of such a council had long been opposed by the Benelux countries and Italy who saw it as an attempt to constitute a formal Franco-German directorate and reduce the influence of supranational elements of the EC. That opposition stemmed largely from de Gaulle's attempt in the early 1960s to transform the EC into an intergovernmental political union. (For an account of Dutch opposition to de Gaulle's plan and an analysis of the motives for that opposition, see Jonas 1978, pp.235-59). Their fears of Franco-German dominance of such a body had already been allayed somewhat by the entry of the UK into the EC. (See Voorhoeve 1979, pp.177-78). There was also a reluctant acceptance that, with France now joined by the UK, another opponent of a supranational community, there was less likelihood of political unification in the short or medium term and that to continue to argue as the Netherlands had done in the past that foreign policy coordination would undermine the development of a federation made little sense. See also Jonas 1978, pp.240-41 who argues that the Dutch were opposed to de Gaulle's proposals more because they excluded the UK from participation and less because they would weaken the supranational nature of the Community's institutions.

\textsuperscript{53} Bulmer and Wessel 1987, p.33.

\textsuperscript{54} France finally agreed to set a date for the first elections by universal suffrage to the European Parliament. France had previously rejected this on the grounds that a directly elected parliament would acquire greater legitimacy and would no longer be content with its lack of legislative powers. These misgivings were not totally unfounded as the European Parliament was to play a key role in the push for greater integration. See Bulmer and Wessel 1987, p.45.

difficult decisions by referring matters back to the EC Council of Ministers. Thus, instead of making the decision-making procedures more efficient and faster, the establishment of the European Council only made the institutional paralysis worse. Regular meetings of the EC heads of government became bogged down with the problems of the present functioning of the Community: the need to increase the limited finances of the Community, the British demand for a reduction in its contribution to the Community's budget and the need to reform the CAP. Little time was spent on ensuring new progress on the path to European unity.

The second initiative to get the Community moving again was the 1976 Tindemans Report.\textsuperscript{56} In his report to the European Council, Tindemans raised the spectre of a Community threatened by internal disintegration and growing marginalisation in the international arena.\textsuperscript{57} Yet his proposals for reinforcing the supranational nature of the Community were effectively shelved by the December 1976 meeting of the European Council in the Hague.\textsuperscript{58} The French government was particularly hostile to the proposals but some of the other states also shared its concern over the loss of national sovereignty.

The third initiative was the proposal in 1977 by the newly appointed President of the EC Commission, Roy Jenkins, for a second attempt at economic and monetary union was more successful. Adopted by Schmidt and Giscard as a joint initiative, the European Monetary System as it was called came into existence in March 1979.\textsuperscript{59}

According to Ludlow, the establishment of the EMS was the result of a unique convergence of circumstances and interests.\textsuperscript{60} But it was also possible because the

\textsuperscript{56} The Tindemans Report proposed the incorporation in legal text of new innovations such as the EPC and the European Council, the possibility of majority decision-making in the area of foreign and security policy cooperation, a two-tier approach to economic and monetary union to enable faster progress, common industrial, energy and research policies, a return to majority decision making in the Council of Ministers, increased powers of the Commission and European Parliament, and measures to promote a Citizens' Europe. See Tindemans 1976. As we shall see later in this chapter and in Chapter 5, many of these proposals re-emerged in the 1980s in other initiatives to relaunch the Community.

\textsuperscript{57} Tindemans (1976, p.9) identified three reasons for the European concept having lost much of its force and initial impetus: its initial success in achieving reconciliation, economic prosperity and detente had fostered the belief that no further effort was required; its persistent failures to advance any further; and the economic crisis.

\textsuperscript{58} Ludlow 1982, pp.21-22; \textit{The Economist} 4 Dec. 1976, p.64. According to \textit{The Economist}, the proposals were subject to the usual delaying tactics. They were sent by the European Council to the Council of Ministers which sent them to a group of top civil servants. They were then sent back to the Council of Ministers which then passed them onto the European Council. In the end the only real achievement of the Tindemans Report was the decision by the European Council that the Commission be required to make an annual report to the European Council on progress towards European union.

\textsuperscript{59} For a more detailed discussion of the origins and evolution of the EMS up till 1982, see Ludlow 1982. See also van Ypersele 1984.

\textsuperscript{60} Ludlow (1982, pp.64, 77) lists seven main factors in the establishment of the EMS. First, there was a fear that the economic policies of the EC members were diverging further rather than converging, and that the resort to nationalist solutions to the problems of inflation and unemployment was threatening the \textit{acquis communautaire}. It was hoped that the EMS, by promising a common, and hence more effective approach to unemployment and inflation, would encourage greater economic convergence. Second, many federalists still saw economic and monetary union as the best and surest path to political union. Third, Britain, France and Italy were adopting economic management strategies more in tune with those of West Germany and hence were more prepared to accept the discipline of a system that would force
participants had agreed to defer resolving the more difficult questions of economic and monetary policy coordination until Phase II of the proposal. The limited nature of its success became even more apparent in 1980 when changed domestic political circumstances and the political and economic repercussions of the second oil shock had made these questions even more difficult to resolve. At the European Council of December 1980 the member states agreed to postpone indefinitely the transition to the institutional phase (phase II) of the EMS, originally scheduled to commence in March 1981.

The failure of the European Council to take up the proposals outlined in the Tindemans Report and the limited successes of the EMS and the European Council would appear then to confirm the conclusions of the preceding section concerning the obstacles that any initiative to relaunch the Community would have to overcome. Chief among these obstacles were the persistence of divergences in the foreign policy outlooks of the member states, the growing divergences in their economic policies, and the unwillingness of some member states, particularly France and the UK, to countenance any further transfer of their sovereign powers to the institutions of the EC. At the same time the failure of the

them to align their economic priorities more closely with those of the Federal Republic. Fourth, Schmidt was increasingly unhappy with the Carter Administration’s approach to foreign policy and macro-economic policy. German exports were threatened by the rise in the value of the Deutsch-Mark that resulted from a lower dollar. Schmidt was under increasing pressure by the US to reflate its economy. An EMS would insulate West Germany’s major export market, the EC, from the effects of higher Deutsch-Mark and enable West Germany to resist the US demands for reflation, which it feared would increase the risks of high inflation. Fifth, the EMS was the result of the close personal relationship between Schmidt and Giscard, both of whom shared a belief that the EC needed to be strengthened and that the EMS was the best way to do it. Sixth, changes in their respective domestic political scenes had increased the independence of action of both Schmidt and Giscard. Schmidt felt strong enough to defy the opposition of the Bundesbank and the Economic Ministry to the EMS. Giscard’s room to manoeuvre on the EMS was greatly increased in early 1978 when elections for the National Assembly reduced the relative size of the Gaullist component of his government. Finally, the European Council was important in providing a means to give collective support to the Franco-German initiative and in ensuring that the initiative was successfully implemented.

According to Ludlow (1982, pp.293-94), these included such questions as the role of the Ecu as an international currency and particularly its relationship with the dollar, the priorities of economic and monetary policy, the role and nature of the institutions to be established in order to manage the EMS, and the broader implications of EMU for the US-Western European security relationship.

Even in the initial phase the EMS had been only a partial success with one major state, the UK, refusing to join. According to Pinder (1991, p.128-29), the opposition of the UK Labour government to the proposal was due to four factors: the fear of possible deflationary consequences of the EMS on the British economy (this argument was later reversed by the Thatcher government which claimed that with the stronger pound, membership of the EMS could have inflationary consequences); a fear that the EMS could upset the Americans; Treasury scepticism about the ability of France and West Germany to realise the plan (British pragmatism versus continental idealism); and the hostility of a substantial part of the House of Commons to the loss of sovereignty over domestic policy implied by EMS membership.

Ludlow 1982, pp.288-99; Pinder 1991, p.128; van Ypersele 1984, p.97. During the Belgian presidency of the European Council in the first half of 1982 a renewed attempt was made to reform the EMS. Although the technical improvements proposed by the Commission were welcomed by Belgium, France and Italy, they were rejected other member states and the Committee of the Governors of the Central Banks who insisted on convergence as a prerequisite to any future development of the EMS. See van Ypersele 1984, p.108-09.
European Council to overcome the paralysis of the EC institutions only seemed to strengthen the resolve of the Commission, the EP and some member states to institute some form of majority decision-making in the Council of Ministers.

The proposals of the early 1980s

Before taking up his post as president of the EC Commission in 1985 Delors undertook wide consultations with politicians, business groups and trade unions on the best way to get the EC moving again.\textsuperscript{64} He found there was consensus on two things.\textsuperscript{65} First, it was felt that the benefits of previous steps in economic integration had been exhausted. Intra-EC trade had been at the same level for 10 years. Hence there was a need to move to a higher stage of economic integration. Second, it was feared that the EC decision-making process which was already felt to be defective would become even more cumbersome with the entry of Spain and Portugal. Hence there was a need for institutional changes.

Although Delors was to adopt the proposal to establish a single market as his preferred option for relaunching the Community this was by no means the only project being advanced in the early 1980s to relaunch the Community. At the beginning of 1985 Delors himself had identified three other options for relaunching the Community. They were institutional change, EMU, and a Europe of Defence or a European defence community.\textsuperscript{66} Other proposals that had also been suggested but were not retained by Delors were the development of common policies in the areas of research and advanced technology and the proposal for a common European social space. These other options and proposals remained live in discussions on the reinvigoration of the EC in subsequent years and were incorporated to varying degrees in the SEA. They were also important factors in the success of the push for the single integrated market, which was seen by the proponents of these other options as a stepping stone to their eventual adoption.

\textsuperscript{64} There is some disagreement amongst about the contribution of Delors to both the development and the success of the internal market initiative. Sandholtz and Zysman (1989, p.114) have largely credited Delors for having selected an option that would re-ignite the European idea. Moravcsik (1991, pp.65-66), however, argued that the contribution of Delors and Lord Cockfield was a marginal one. While Cameron (1992, p.51) agreed with Moravcsik that internal market initiative was already well under way before Delors became President of the Commission and before Lord Cockfield began working on the White Paper \textit{Completing the Internal Market}, he did credit Delors for increasing the internal market initiative's chances of success by setting the target date of 1992 for its completion and by linking the initiative to proposals for institutional reform. By linking of these two proposals, Cameron argued, Delors may have increased the possibility for trade-offs and alliances and thus augmented support for the internal market initiative. This debate over the role of Delors and Lord Cockfield in the success of the internal market initiative is part of the broader debate over the role of the EC institutions in relaunching the Community and the related debate over whether that revival is to be explained at least in part by neofunctionalism. These debates will be taken up in more detail in the conclusion to Chapter Five.

\textsuperscript{65} Delors 1988, p.50.

\textsuperscript{66} The completion of the common market by the elimination of non-tariff barriers and other distortions to trade was one of the options outlined by the MacDougall Report set up by the EC Commission in 1975. See Ludlow, pp.49-50.
This section will discuss briefly each of these five sets of proposals and identify some of the reasons that led Delors to reject them in favour of the proposal for the single market.

**institutional reform**

Delors had initially considered institutional reform to be a possible option for relaunching the community. There was almost general agreement that the malaise that was affecting the EC was the result of its inability to take decisions due to the practice of unanimity. But Delors soon realised that although institutional reform would have the support of the European Parliament, the member states were clearly divided over the issue. He felt that it would revive old ideological quarrels between federalists and confederalists and hence only stall any progress even further.\(^67\)

During the early 1980s there had been various proposals for institutional reform. These proposals were to differing degrees all concerned with reforming the decision-making procedure within the Council of Ministers, with increasing the involvement of the European Parliament in decision-making, and with enhancing the powers of the European Commission.\(^68\) But they packaged these with some of the other proposals listed above as well as the proposal to complete the single market.

The proponents of institutional reform, however, felt that the adoption of new policies and the completing of the internal market, while desirable goals in themselves, were addressing the symptoms rather than the root cause of the problem, which they identified as the inability of the EC to find the unity of purpose needed to overcome the difficulties with which it was faced.\(^69\) For the proponents of institutional reform there was an obvious

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\(^67\) According to Mitterrand (1986, pp.268-69), since the inception of the EC there has been a persistent controversy between those who favour a federal or 'People's Europe' and those that would prefer a confederal Europe or *l'Europe des patries*. As we have already seen in Chapter Two, the 1960s were marked by a conflict between two visions of the EC - the confederal Europe of de Gaulle and the federal Europe of Monnet. It was the opposition of de Gaulle, a fervent confederalist, to the increasingly federalist nature of the EC that had stalled the integration process in the 1960s. Yet even after the departure of de Gaulle French opposition to a more federal EC remained. The anti-federalist camp within the Community was further strengthened with accession of the UK to the Community in 1973.

\(^68\) According to Volle (1988, pp.201-02), by the beginning of 1985 both West Germany and France were in favour of a return to majority decision-making in the EC Council of Ministers. But whereas West Germany was particularly enthusiastic about increasing the powers of the EP, France was somewhat more reticent.

\(^69\) Speaking before the European Parliament in November 1981 in support of his proposal for a draft European Act, West German Foreign Minister Genscher (*Bull. EC* 11-1981, p.10) maintained that the Community should not focus its efforts solely on economic issues but should set its sights on the grand design of the political unification of Europe. It is only from that design, he argued, that the Community will derive the strength to act as one on economic and other issues. In a speech to the Bundestag, Chancellor Kohl (1984, p.210) stressed the need for the goal of political union to give the day-to-day work of the Community a purpose. According to Kohl (1984, p.323), it was precisely such a goal that had inspired the original Common Market. For Mitterrand (1986, p.289), the lack of a clearly defined political project at the end of the 1960s had left the Community ill-prepared for the adversity of the 1970s and 1980s. Member states, Mitterrand (1986, p.203) asserted, had forgotten that the benefits of Community membership were not to be measured just in terms of budgetary calculations and there was need to transcend family quarrels in the dynamism of European construction.
link between the strengthening of the intergovernmentalism as a result of the so-called Luxembourg compromise of 1966 and the Community's loss of purpose. The inability to agree on anything except by unanimous vote was blamed both for the inability of the Community members to adopt common solutions to their problems and for the prevalence of short-sighted national self-interest over the common view. In order to overcome these problems the proponents of institutional reform called for adherence to the majority decision provisions of the EC treaties.

There was also a growing awareness that political union did not automatically follow from economic integration and that the achievement of political union would require deliberate action on the part of the member states to set up the appropriate Community bodies and institutions. This was the rationale of Genscher's proposal in 1981 for a European Act. Genscher (1982, p.116) blamed the loss of the political elan of the early days of the Community on the readiness of the participants during prosperous times 'to put their faith in the theory that economic impulses would automatically bring political unification.' According to Genscher, in the less prosperous times of the 1970s and early 1980s, economic constraints, though stronger than before, instead of uniting the Community, were pulling it further apart.

In a speech given on the occasion of 25th anniversary of the signing of the Treaties of Rome (Bull. EC 3-1982, p.13), Commission President Gaston Thorn blamed Europe's debility on the establishment of the unanimity rule in 1966. According to Thorn, this has not only eroded the Community's capacity to take decisions, but worst still, 'has perverted the spirit and behaviour of the protagonists, legitimising their refusal to compromise and making a virtue of exercising a veto. There has in fact been an insidious return to intergovernmental negotiations and traditional deadlocks. Instead of the broad view being taken, there is a growing tendency for the balance between the advantages and disadvantages of Community membership to be struck piecemeal.'

A somewhat less radical proposal for a European Act was advanced in 1981 by the Italian Foreign Minister Colombo and his West German counterpart Genscher. The 1981 proposal of Italian Foreign Minister Colombo and his West German counterpart Genscher for a European Act was the first of a set of similar proposals by various heads of government and foreign ministers. Coming not long after that of Spinelli, it called for a refocusing of Community action and strategies on the prime objective of political unification. Thus it advocated increased powers of decision-making and review for the European Parliament and a return to majority decision-making in the Council of Ministers as provided for in the treaties. But it also proposed the according of formal legal status to recent achievements in new areas of cooperation as well as further steps towards closer foreign policy and security cooperation.

In the early 1980s these two proposals were pursued in parallel. When the European Council meeting of November 1981 resolved to refer the European Act proposal to the Council of Ministers and the Commission for further examination and clarification it seemed that it would suffer a similar fate to the Tindemans Report. (Bull. EC 11-1981, p.8). Over a year later, although agreement had been reached on some points, there was still strong opposition, particularly from the UK, to any increase in the powers of the European Parliament and to a return to majority decision-making. (Bull. EC 10-1982, p.56). Given this opposition to even these more modest proposals, it was clear that the more radical proposal of the EP had little chance of being approved by the member states. Yet despite considerable opposition,
The result was the Solemn Declaration in which the heads of government of the EC at the Stuttgart European Council meeting in June 1983 reaffirmed 'their commitment to progress towards an ever closer union among the peoples and member states of the European Community'. Yet again, this was quite a limited decision. This new commitment was not enough to enable them to resolve the financial problems that had virtually paralysed the Community since 1979. The Athens European Council meeting of December 1983 left no doubt to the fact that the EC was facing institutional paralysis and possible disintegration.

Yet France and West Germany were determined to relaunch the Community. The Athens failure led to a concerted effort by French President Mitterrand to break the deadlock and at the Fontainebleau European Council in June 1984 agreement was reached on the budget dispute. The way now seemed open for institutional reform and states such as the UK which had opposed reform in the past now found themselves under increasing pressure to at least discuss the issue. The Fontainebleau European Council established the ad hoc Committee on Institutional Affairs or Dooge Committee to suggest ways of improving the operation of cooperation in both the Community field and that of political, or any other, cooperation.

particularly from the UK, to any increase in the powers of the EP and to a return to majority decision-making, West Germany remained steadfast in its support for the Colombo-Genscher proposal. In a speech to the West German parliament in December 1982, Chancellor Kohl (1984, p.74) declared that one the most important tasks was to get the European Act adopted. In his outline of the programme of the German presidency to the European Parliament in January 1983, German Foreign Minister Genscher (Bull. EC 1-1983) also made quite clear his attention to bring the Colombo-Genscher initiative to a successful completion.

According to Volle (1988, p.199), the watering down of the Colombo-Genscher proposal for a European Act into a Solemn Declaration was largely the result of British pressure.

The declaration took up many of the recommendations of the European Act. It called on the Council of Ministers to reduce the incidence of unanimous decision-making by applying the decision-making procedures of the Treaties of Paris and of Rome and by abstaining wherever possible in those cases where unanimity is required. However, in contrast to the European Act the declaration did not commit itself to any increase in the powers of the European Parliament. More importantly, the declaration did not have the force of a treaty. It was proposed to subject the Declaration to a general review no later than five years after its signature to decide whether the progress that had been achieved towards European unification should be incorporated into a Treaty on European Union. Yet this proposal and some of the other proposals contained in the Declaration, although accepted by France and the UK, met with reservations from the Greek and Danish Prime Ministers. See Bull. EC 6-1983, p.29. These reservations concerned the strengthening of the role of the European Parliament, the commitment to strengthen and develop European Political Cooperation through the adoption of joint positions and joint action and the coordination of the political and economic aspects of security, and the approximation of laws. The Greek Prime Minister also had reservations about the call to limit the use of the veto in decision-making and the commitment to seek common foreign policy positions.

Not only did the heads of government fail to agree on the amount of compensation to be paid to the UK to reduce its contribution to the Community budget, they also were unable to agree on a solution to the dire financial situation of the Community. The UK insisted that there could be no increase in the financial resources of the Community until its demands for compensation had been met and a ceiling had been placed on agriculture expenditure. See also below Chapter Five, pp.167-70.

According to the Belgian Prime Minister, Wilfred Martens (Bull. EC 6-1984, p.12), the settlement of the 'British problem' had removed the main obstacle to European revival.

See Bull. EC 6-1984, pp.10-11. In its interim report to the European Council in December 1984 the ad hoc Committee on Institutional Affairs called on the Community to adopt three priority
People's Europe or Adonnino Committee - was given the task of drawing up a series of proposals on the establishment and promotion of 'a people's Europe', to be submitted by the end of June 1985.\footnote{78}

By 1985, though, these proposals were still highly contested so that Delors was unable to make institutional reform the centrepiece of his push forward. Nonetheless, there was an advance in that institutional reform was now firmly on the broader agenda, even if still highly contested, and, as we will see later it went forward under the umbrella of the internal market reforms.\footnote{79}

\textit{economic and monetary union}

Delors had also identified economic and monetary union as a possible option for relaunching the EC. However, as with the previous option EMU was also an unlikely starter. Although it clearly had the support of France, there was at this stage strong opposition within West Germany to the proposal.\footnote{80} Following the failure of the European leaders to agree to proceed with the second stage of the European Monetary System there had been various proposals to strengthen monetary cooperation and extend the role of the

\footnote{78}{\small It was asked to propose measures to strengthen the Community's identity both internally and externally. The establishment of this committee reflected a concern that Chancellor Kohl (1984, p.30) had expressed as early as 1982 with the need to make the citizens of the EC more conscious of belonging to Europe.}

\footnote{79}{\small The final reports of these two committees were presented at the June 1985 meeting of the European Council in Milan together with the white paper that had been drawn up by Lord Cockfield on completing the internal market. They provided the impetus for the historic decision of the European Council that an intergovernmental conference be convened to amend the EEC treaty. Those amendments were to take the form of the SEA. (See below).}

\footnote{80}{\small See Volle 1988, p.202.}
These had been largely unsuccessful due to the opposition of the West German Bundesbank which insisted on more economic convergence between member countries before it would agree to any substantial expansion of the EMS or endorse the ecu as fully fledged banking or investment currency. Thus economic and monetary union was also a non starter as the spearhead of reform, though it too, like institutional reform, was to go ahead under the SIM advance.

A further option for relaunching the EC identified by Delors was the establishment of a European defence community. Such an option clearly had the support of France and Mitterrand had made repeated calls for a European defence. France had strengthened its defence cooperation with West Germany, which it saw as the nucleus of a future European defence, and had succeeded with West German support in reviving the Western European Union. Yet serious divisions still existed among EC leaders over the issue of greater cooperation in the area of defence and the development of a common security policy. In any case this was not something the Commission could propose.

So institutional reform, EMU and a European defence community were all virtual non-starters at the time Delors was looking for ways to get the Community moving again. One

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81 Delors 1985, p.12.
82 More recently, a panel of members from different European central banks had rejected even minor improvements to the EMS and the member states had opposed the modest proposals to strengthen and extend the EMS that were listed by Delors January in 1985 as objectives to be achieved during his four-year term as EC Commission President. (See Delors 1988, p.50). According to The Economist 13 April 1985, pp.46-48, the main opposition came from the German Bundesbank which refused to agree to any substantial expansion of the EMS or to the transformation of the ecu into a fully-fledged banking or investment currency until there was greater convergence of the exchange rates and inflation rates of the member states. A further problem was the continued refusal of Britain to join the EMS. According to Tsoukalis (1991, p.189), German agreement to proceed with EMU in 1990 occurred when the political imperative of reaffirming German commitment to European integration in the wake of German reunification finally overcame the objections by the Bundesbank. See also fn 45 and 60 earlier in this chapter.
83 Mitterrand 1986 pp.276, 293; The Economist 16 June 1984 p.41. According to The Economist (16 Feb. 1985, pp.41-42), Mitterrand seemed particularly worried about developments in West Germany and changes in the United States defence policy. He feared that the growing influence of the pacifist movement in West Germany could see the Federal Republic drift towards neutrality. He was also concerned that Reagan's Strategic Defence Initiative, by providing the US with a shield against Soviet nuclear attack, could weaken the US resolve to defend Europe against Soviet aggression. Moreover, if the USSR were to respond to the US initiative by developing a similar shield of its own, France's force de frappe, the basis of its defence strategy, would become obsolete.
84 These were particularly evident in the reservation expressed by the Danish, Greek and Irish governments to the proposals of both the draft European Act and the report of the ad hoc Committee on Institutional Affairs for greater cooperation in security matters. It was also revealed in the inability of the EC in early 1985 to agree on a common response to Reagan’s Strategic Defence Initiative proposal. Whereas both West Germany and the UK were inclined to accept Reagan's invitation to participate in the Strategic Defence Initiative, France was opposed and instead proposed that the EC create its own programme, known as EUREKA. See The Economist 19 May 1984, p.43; 11 May 1985, p.43; 18 May 1985, p.54.
possible option not listed by Delors was to relaunch the Community through the adoption of common policies in the areas of research and advanced technology. Both the Commission and France had earlier played an active part in the push for common policies in these areas.\textsuperscript{85} By 1985, however, there was general acceptance among Community members for the need for such collaboration and several projects had already been approved. Delors may have felt that progress in this area was already assured and that the efforts of the Commission could be better utilised in other areas. Another reason why Delors did not make it one of his options might be the close link that had been established very early on between the single market project and the pursuit of common policies in research and technology development. This was because any high technological products that were to result from such collaboration were said to require the economies of scale of a large continental market to be economically viable. Thus to a large extent the push for common policies regarding research and the development of technology had become subsumed under the drive for the single market.

\textit{a European 'social space'}

A further option omitted by Delors was the push for a 'social space'. Since the inception of the EC in 1957 many members have expressed concerns that gains and losses in economic welfare that result from the liberalisation of trade may not be distributed equally among the member states and that the increased competition that would result from trade liberalisation may lead to a lowering of standards in terms of working conditions and environmental and consumer protection.\textsuperscript{86} In the early 1980s there was again considerable concern that the increased liberalisation that would result from the establishment of a single integrated market would seriously undermine the superior working conditions and standards of some member states. At the first European Council meeting following his election in 1981, Mitterrand had questioned the feasibility of Common Market where products can circulate freely if at the same time the producers of those goods have to work under very different conditions.\textsuperscript{87} He called for the creation of a European social space where workers would be guaranteed the same minimum conditions and rights. Although most of the other members had by 1985 become supporters of the idea, the UK remained steadfastly opposed.\textsuperscript{88} It was this British hostility to the idea of a European social space

\textsuperscript{85} These proposals are discussed in more detail in Chapter Five.

\textsuperscript{86} Pinder 1991, pp.108-10. Thus in 1957 Italy was concerned that trade liberalisation under the Common Market could increase the inequalities between the North and the South, while France feared that it would be forced to abandon its more advantageous social legislation and in particular the right of women to equal pay. To allay these concerns a Social Fund and an Investment Bank were set up.

\textsuperscript{87} Mitterrand 1986, p.288.

\textsuperscript{88} Thus the Solemn Declaration on European Union that was signed by the EC heads of government at the 1983 Stuttgart meeting of the European Council had called for the development of a European social policy. See \textit{Bull. EC} 6-1983, p.24. A good exposition of the rationale for Britain's rejection of the proposal is found in Thatcher's famous speech at Brugges in September 1988. In that speech Thatcher (1989, pp.260, 263, 264) declared that '(w)e have not successfully rolled back the frontiers of the State in Britain only to see them re-imposed at a European level, with a European super-state exercising a
that led Delors to finally reject it for the time being at least as a means of relaunching the Community.  

So far we have examined the other proposals that had been made in the early 1980s and have analysed the reasons why Delors did not choose any of them as his preferred option for relaunching the Community. In the remainder of this section we briefly look at the effect that those who supported these other proposals had both on the manner in which the single market was adopted by the Community - by an act amending the original treaties - and on the contents of the SEA itself.

Delors found that while there was no consensus on political or monetary union, a common defence, or on a common social policy there was widespread agreement on the need for the completion of the internal market as a way to increase competitiveness, create jobs and boost economic growth. Both the European Council and the European Parliament had already approved the programme for the consolidation of the internal market that had been presented by the previous Commission. Delors therefore decided to make the completion of the internal market his first objective.

Yet the adoption by the Commission of the single market option did not mean that the other options were abandoned. From the description of the Single European Act given in the introduction to this chapter it is clear that these other options are present in the Act. Indeed both the drafting of the Single European Act itself and the calling of the intergovernmental conference that produced it can only be understood in terms of these broader pressures for change. Much of the debate both prior to and at the June 1985 meeting of the European Council in Milan revolved around two related issues concerning institutional reform. The first was whether the establishment of the Single Integrated Market would be possible without some change to the decision-making rules in the

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new dominance from Brussels. ...we certainly do not need new regulations which raise the cost of employment and make Europe's labour market less flexible and less competitive with overseas suppliers. And certainly we in Britain would fight attempts to introduce collectivism and corporatism at the European level.'

89 At the November session of intergovernmental conference that had been called to draft the SEA in 1985 the other members had even had difficulty in getting the UK to accept the introduction of qualified majority voting in the Council of Ministers for the adoption of minimum standards in the working environment relating to the health and safety of workers. (See Bull. EC 11-1985, p.15; and Bull. EC 12-1985, p.11). Following the signing of the SEA in 1986, the other member states continued to press for a common social policy and in 1989, undeterred by British opposition, they signed the Social Charter without the UK. (See Bull. EC 12-1989, pp.49-50). It is interesting to note in passing the different approaches to managing the social and political context for economic growth and development taken by the EC (excluding the UK) and the United States and the UK. We return to these differences in the conclusion to the thesis.

90 Delors 1988, p.50. According to Delors (1988, p.35), a truly single European market would be large enough to play the role of locomotive in the world economy at a time when the US locomotive seemed to have run out of steam. Without the single market, Europe, he argued, would be only a group of weak economies with growing unemployment and no way of influencing the international economic circumstances that governed their economic development.

91 For a more detailed account of the Milan European Council and the subsequent Luxembourg Intergovernmental Conference, see Volle 1988, pp.203-209.
Council of Ministers. Most member states were fearful that if the requirement for unanimity was not replaced by some form of majority decision-making the target date of 1992 for the completion of the Single Integrated Market would not be met. The second issue was whether an intergovernmental conference should be convened to incorporate this and other institutional changes into the Treaty of Rome, thus giving them the force of law. The UK had proposed that the heads of government simply enter into a gentlemen’s agreement to reduce the incidence of the resort to the veto. However, for seven of the ten heads of government the British proposals were not enough.

In the first ever vote at a European Summit, the European Council, in accordance with the procedure laid down by Article 236 of the Treaty of Rome, decided by a majority of seven to three to hold an intergovernmental conference. That conference would have the task of working out a common security and foreign policy treaty and that of amending the EC Treaty with regards to the Council’s decision-making procedure, the Commission’s executive power, the powers of the Parliament and the extension of the treaty to cover new fields. Thus it was that the mechanism for EC reform had an agenda that included all the proposed options.

Though the UK, Greece and finally Denmark were reluctant they finally agreed to participate. Although the Single European Act did not go as far as the Commission, the European Parliament and some member states would have wished, it did bring some

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92 The White Paper on Completing the Internal Market largely avoids the controversial issue of institutional reform. In the introduction, however, it points out that the approximation of member states’ laws and regulation would clearly be ‘quicker and more effective if the Council were to agree not to allow the unanimity requirement to obstruct progress where it would otherwise be made.’ See Commission of the EC 1985, pp.6-7. See also Cameron 1992, p.23.

93 The member states discussed the recommendations concerning institutional reform that were contained in the final reports of the Dooge and Adonnino Committees and in Lord Cockfield's White Paper on Completing the Internal Market. Those member states opposed to broader changes, the UK, Denmark and Greece, had argued that there was no need to modify the existing treaties to bring about the single market. See Bull. EC 6-1985, p.17. The establishment of a single market, they maintained, was already provided for under the Treaty of Rome and could be achieved simply by the rigorous application of the Treaty. The European Council, they argued, could take the practical decisions itself without the need for an intergovernmental conference. The Council of Ministers had already adopted the new approach to technical standards and harmonisation that the Commission had proposed as an essential part of its strategy to complete the internal market. See Bull. EC 5-1985, p.10.

94 The Economist 15 June 1985, p.50; Volle 1988, p.3.

95 Bull. EC 6-1985, p.105.

96 No doubt they believed that, by participating, they would be able to keep the revisions to a minimum. In that they were largely successful, though not to the degree that they had first believed, as later events were to show. Moravcsik (1991, pp.61-64) saw the SEA as largely a victory for the minimalist position put forward by the UK and hence as an example of lowest common denominator bargaining among member states. Tsoukalis (1991, p.57), however, pointed out that, although the concept of the single market did not appear to threaten the national sovereignty of member states, certain governments might have been far more reticent about committing themselves to the 1992 target, had they considered more carefully the political implications of some of the measures proposed, and even more importantly, had they been able to foresee the momentum that European integration would acquire as a result of the internal market programme.
important changes which served as the springboard for the more radical innovations of the Maastricht Treaty.\textsuperscript{97}

In the first part of this chapter we have seen that the single market project was not the only proposal to revitalise the EC in the first half of the 1980s and that the SEA is as much the result of these aspirations for broader change as of the desire to ensure the rapid completion of the internal market. Indeed, these proposals, particularly those calling for institutional reform, must be considered as an important factor in the success of the internal market initiative.

Moreover, many leaders and politicians saw the single market as only a means to other more important goals.\textsuperscript{98} This had been true of the initial step in European integration, the Common Market, which Monnet and others had seen as a means to the end goal of a European federation. It was still true in the early 1980s. Thus all the various proposals for institutional reform in this period had as one of their objectives the completion of the single market. Indeed one of their justifications for institutional reform was that it was required to overcome obstacles to achieving a genuine single market.

It is clear that Delors and other EC leaders saw the completion of the single market as only an initial step necessary to get the EC going again. They supported the single market because of the spillover effect that they believed it would engender. They expected that the single market would not only revive the momentum and sense of purpose of the European movement but also create economic and social disequilibria that would make the continued existence of the single market unviable without further political and monetary union. Leaders such as Kohl, Mitterrand and Delors were particularly adamant that the EC should not and could not become just a free trade area.\textsuperscript{99}

\textbf{Conclusion}

In this chapter we have explored the reasons for the halt to the integration process in the EC in the 1970s. We found that there were three main reasons for that halt: the inability of

\textsuperscript{97} Bull. EC 1985-11, pp.17-18; Bull. EC 12-1985, pp.13-14; Bull. EC 1-1986, pp.8-10; Bull. EC 2-1986, pp.8-9. Thus at the Intergovernmental Conference, the representatives of the Netherlands, Belgium and Italy spoke of the possibility of a two-tier Community with some member states initially proceeding at a faster pace towards political union than others. See Taylor 1989, p.10. According to Volle (1988, p.209), Kohl and Mitterrand were willing to settle for only minor advances towards political and economic union because they felt that, with elections due in West Germany and France in 1986 and in the UK in 1987, it was highly unlikely that by waiting they would be able to obtain further concessions from the UK.

\textsuperscript{98} For a similar argument, see Cameron 1992, pp.53-56. Thus Cameron (1992, p.50) saw the European Parliament as one of three institutional actors - the other two being the Commission and the European Court of Justice - that played a significant role in the push to complete the internal market. The role of these institutions in the 1992 initiative, Cameron (1192, p.25) asserted, would therefore seem to confirm the neofunctionalist explanation of European integration. Cameron's contention is, however, highly contested. The question of whether the completion of the internal market in fact validates neofunctional explanations is discussed in the conclusion to the following chapter.

the member states to agree on whether the Community should be organised on a supranational or a federal basis; the growing divergence in the economic policies of the member states; and the divergent foreign policy outlooks of the member states. Next we looked at the attempts in the 1970s to relaunch the EC and investigated the reasons for their failure. We found that these reasons were the same as those for the halt to the integration process. We then saw that there were other proposals for relaunching the Community in the early 1980s, apart from the single market, and examined the political reasons why they had not been chosen by Commission President Delors as his preferred option for relaunching the Community. Finally we must mention again the three principal long term factors in the move towards the single market. The first of these was the desire to continue to prevent inter-state rivalry in Europe. The second was the desire to increase the combined influence of Europe in international negotiations and world affairs vis-à-vis the US as well as the USSR. The desire of smaller states to increase their influence in the political and economic decisions of their larger, more powerful neighbours was the third main longer term factor. In all three of the longer term factors there appeared to be a realisation on the part of certain states - France and West Germany, the larger West European states, and the smaller states such as Belgium and the Netherlands - that their national interests could in some cases be better assured by the surrender of some of their national sovereignty.

Nevertheless, it is difficult to conclude that these factors alone constitute a sufficient condition for the establishment of the single market. They had been present from the very beginning of the EC and had not been able to prevent the integration process from stagnating. It is true that in the early 1980s heightened tensions between the Atlantic Alliance and the Soviet Union and between the US and its European allies had increased the significance of these factors in the minds of policymakers and elites in the EC member states. But they still did not have the force that they were to acquire at end of 1980s with the collapse of communism and the reunification of Germany. Any explanation of the decision by EC member states to establish the single market therefore requires the presence of some additional, more recent factors. It is to the examination of these factors that we turn in Chapter Five.

Before doing so it is worth making some brief theoretical observations on the practice of regional integration in Europe described above. First, it is clear that the stalling of the integration process in the 1960s and 1970s contradicted the spillover thesis of Haas and cast doubt on the propositions of both Haas and Deutsch which Haas later acknowledged. That stalled integration also confirmed the arguments of Cooper on the limits to economic integration including those domestic political limits. Just as importantly Hoffmann's powerful arguments about the national interests of great states limiting integration were shown to be well-founded in this experience, though it might be

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100 See Chapter Two, pp.50-51.
101 See Chapter Three, pp.64-66.
remarked that what makes a difference in the end to the renewal of the integration process is those same interests recalculated in different circumstances.

At a different level Keohane and Nye's concentration on the link between economic integration - for them seen as global interdependence - and institutionalisation is shown to be very relevant to Europe since no strategic progress on getting integration in Europe going again could be made without institutional reform. Further, the European practice outlined above casts a somewhat different light on the debate about whether regional economic integration is primarily market or institution driven.

These few observations, almost at random, indicate the richness of having the theory speak to the practice especially when much of that theory was written contemporaneously with the changes in European integration of the 1960s to the 1980s. A much fuller and more coherent look at theory and practice in the European case concludes Chapter Five.