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Are Small and Medium States Superior to Large? The Role a State's Size Plays in Regional Integration

Are Small and Medium States Superior to Large?

THE ROLE A STATE'S SIZE PLAYS IN REGIONAL INTEGRATION

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This study examines the relationship between a state's size and regional integration. Specifically, this study empirically focuses on whether a particular size of state plays a disproportionate role in establishing regional institutions. This paper undertakes research in an attempt to settle a dispute that has arisen within the literature. Expressly, whether it is small, medium, or large states that encourage regional integration and furthermore whether the former two in fact resist the latter's attempts to do so. In an effort to resolve this debate, the paper explores critical time periods in the establishment of the European Union and MERCOSUR. This paper draws two conclusions from the empirical data presented. First, of the independent variables analyzed, medium states are more likely to play a disproportionate role in the initial establishment of regional institutions. Second, small states are more likely to play a disproportionate role in the subsequent advancement of these same institutions.¹

Regional integration merits further study as the anomalous process is often a precursor to peace, prosperity, and citizen liberties. This paper analyzes bounded time periods during the establishment of regional institutions, as well as several failed attempts at the same, in an effort to expose the factors that contribute to the formation of such institutions. Perhaps disentangling these factors will foster integration in other regions. The European Union (EU) and MERCOSUR are two examples of successful regional integration, although they are at different stages of institutionalization. This study explores which size of state most contributed to the establishment of the regional institutions found in Western Europe and the Southern Cone.

Literature Review

According to Russett and Oneal (2001, 160), the number of intergovernmental organizations in the world had risen to 293 by 1990. The widespread emergence of regional

¹ The author would like to thank Professor David A. Deese in the Department of Political Science at Boston College for his helpful feedback. All mistakes are the author's. Contact the author at MARSTOJE@bc.edu.

institutions throughout the world has prompted many scholars to consider the possible impetuses to the phenomenon (Mansfield and Milner 1999). Several scholars have focused on the role of the United States as the global hegemon in regional integration (see Fawn 2009, 25-27), while others place an emphasis on the increased bargaining power small and medium states gain in relation to the global hegemon by organizing regionally (see, for example, Mera 2005, 116, 139).

A specific debate has arisen in the literature over the size of a state and the role it therefore plays in establishing formal regional institutions. Katzenstein (1997, 3, 259-260) posits that small states promote the formation of regional institutions, as they foster stability and constrain larger members from exercising power. Distinct from Katzenstein, Fawcett (2004, 429, 439) suggests that small states establish regional institutions as these institutions allow the small states to multiply their influence and lock in larger states. Spero (2004, 23), on the other hand, asserts that middle powers establish regional institutions as a method of aligning with all of their neighbors in an effort to lessen traditional security dilemmas. Contrary to the previous three views, Grieco maintains that weaker states oppose larger states establishing formal regional institutions, as they fear doing so would reflect the interests of the more powerful states and further increase regional imbalances (1997, 176; Mansfield and Milner 1999, 617). Finally, Mansfield and Milner (1999, 611) propose that large states establish regional institutions as a means to consolidate their influence over their weaker neighbors.

The paper attempts to resolve this debate by contrasting the five competing views against a central question: which size of state most contributed to the establishment of the regional institutions found in Western Europe and South America's Southern Cone?

Research Design

To answer the central research question, this paper draws on five hypotheses:

(H1) This paper first tests the hypothesis that small states play a disproportionate role in establishing formal regional institutions. As suggested by Katzenstein (1997, 3, 259-260), smaller states do so as regional institutions foster stability and constrain larger members from exercising power.

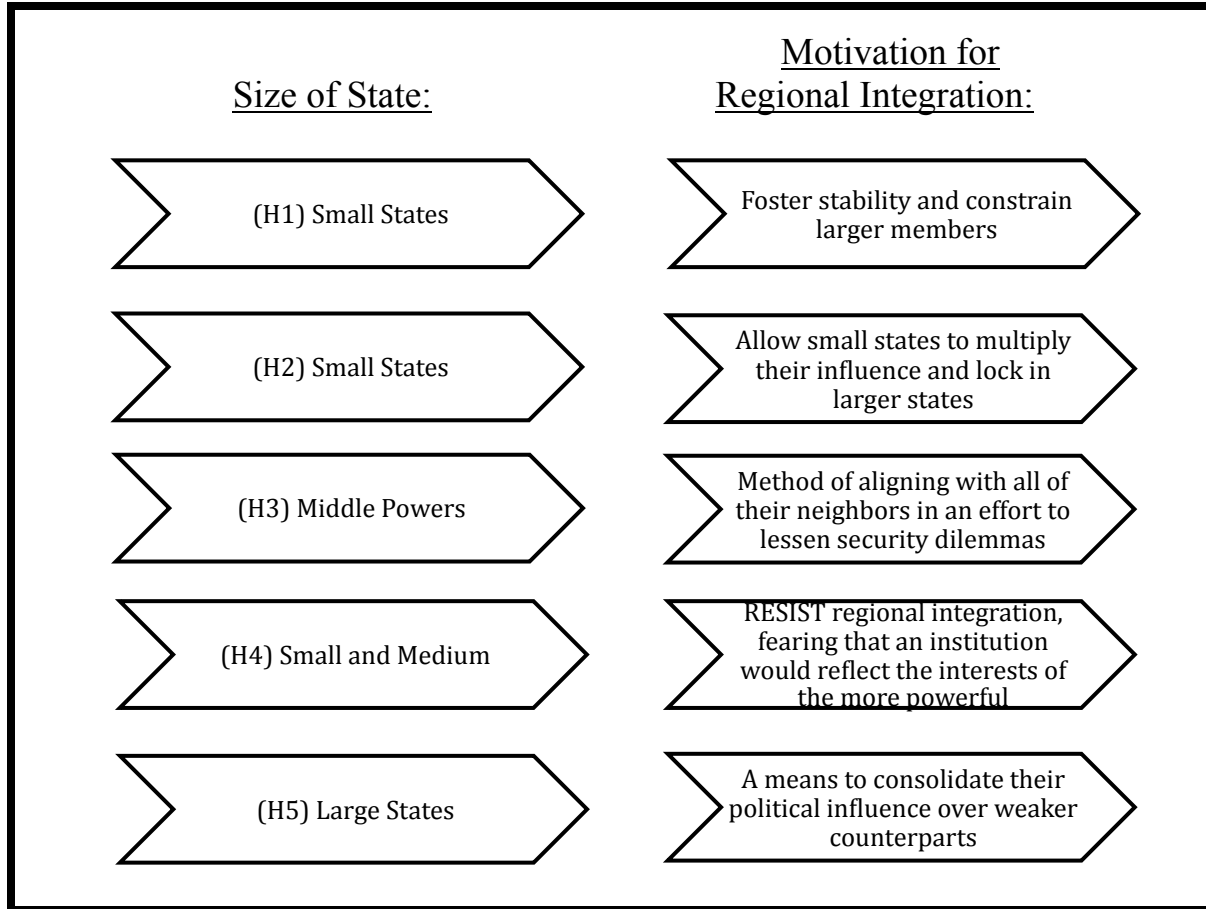
(H2) This paper formulates a subsequent hypothesis to test the central research question. The second hypothesis is that small states play a disproportionate role in the establishment of regional institutions as these institutions allow them to multiply their influence and lock in larger states (Fawcett 2004, 429, 439).

(H3) In contrast to the first two, the research paper proposes a further hypothesis. In the third hypothesis, middle powers establish regional institutions as a method of aligning with all of their neighbors in an effort to lessen traditional security dilemmas (Spero 2004, 23).

(H4) Subsequently, this study considers the hypothesis that small and medium states actually resist the establishment of regional institutions instead of fostering their formation, as the first three hypotheses maintained. As Grieco (1997, 176) proposes, within a region in which the distribution of capabilities has shifted or states expect a shift to occur, those states disadvantaged by the redistribution oppose the establishment of a formal regional institution. This is the case, as weaker states fear that an institution would merely reflect the interests of the more powerful members.

(H5) The final hypothesis tested within this paper is that large states establish regional institutions as a means to consolidate their political influence over weaker counterparts (Mansfield and Milner 1999, 611).

The chart below illustrates the five hypotheses. Each row represents one hypothesis. The column on the left lists the size of state that corresponds to each hypothesis. The right-hand column contains brief summaries of each hypothesis.



The dependent variable in this study is the establishment of a formal regional institution, specifically, the establishment of the European Union in Western Europe and MERCOSUR in the Southern Cone. For the purposes of this study, this paper defines the establishment of a formal regional institution as the year and a half leading up to the formation of the European Coal and Steel Community (founded in April 1951) and the European Economic Community (launched in March 1957). In the case of the Southern Cone, establishment is defined as the year and a half leading up to the formation of MERCOSUR (initiated in March 1991) and the formalization of the customs union by the Treaty of Ouro Preto (signed in December 1994). This paper measures establishment in this manner for several reasons. First, these institutions came into existence as opposed to other attempts. This paper considers the study of successful institutions, as doing so lends external validity. Second, regional institutions are not formed over

night, so the lead up to their establishment must be considered. Third, the interests of this study lie in the role states play at the time institutions are established instead of the durability of these institutions. Thus, the precursor to or the formation of the institution itself is considered, as opposed to a later manifestation of the institution.

In an effort to preclude potential confounding variables this paper also analyzes failed attempts at regional integration. Doing so will more accurately answer the primary research question of the paper. As such, this article considers cases within Western Europe and the Southern Cone in which integration was unsuccessful around or within the same year-and-a-half time frames discussed above.

For the purposes of this study the term large state refers to regional hegemons. Grieco suggests that weaker states may oppose the formation of an institution if they *expect* a shift in capabilities to occur; therefore this study also considers potential regional hegemons (1997, 176). The terms “potential” and “perceived” hegemon are used interchangeably throughout the paper and refer to Brazil and Germany. Small states, on the other hand, include Paraguay, Uruguay, Belgium, Luxembourg, and the Netherlands. The term medium state refers to Argentina and France. Italy is rarely addressed within this research paper, although presumably it would be considered a medium state. This paper makes an effort to avoid any further consideration of the semantics surrounding state size. For a more in-depth discussion of Brazil’s status as a large state within the region refer to Fernandez (1992) pages 67-69. Also, Mansfield and Milner (1999, 612) refer to Germany as a regional hegemon in their article and for further discussion of the subject refer to Pedersen (1998, 3-5, 34-35).

This study explores three independent variables: (1) the role *small* states play in establishing regional institutions, (2) the role *medium* states play in establishing regional institutions, and (3) the role *large* states play in establishing regional institutions. This article measures the role a state plays in establishing a regional institution through case study. The following sections analyze primary sources such as newspaper articles, government documents, and elite speeches and memoirs from the time periods discussed above, as well as the surrounding historical context. The goal of these case studies is to establish whether a certain size of state played a disproportionate role at the critical points in the integration process.

The term “disproportionate role” is defined as a state playing a more robust and determined role than its neighbors to ensure that the process of regional integration is initiated,

maintained, or completed. A state that initiates regional integration undoubtedly plays a more robust and determined role in the process than its neighbors. If this state had not done so, or another state had done so earlier, then presumably the present institution would be slightly different. This research paper considers the initiation of regional integration as sufficient evidence that a state played a disproportionate role in that stage of integration. In addition, a state is considered to play a disproportionate role if it appears to have been crucial to negotiating the establishment of the organization. A state is also regarded as having played a disproportionate role if it was integral in ensuring that integration succeeded, including during a latter stage of integration.

Western Europe

European Coal and Steel Community (April 1951)

The first case of regional integration this research paper considers is the European Coal and Steel Community (ECSC). Most observers consider the ECSC to be the starting point of the EU. The Community brought France, Germany, Italy, as well as the smaller countries Belgium, the Netherlands, and Luxembourg (Benelux) together. The aim of the ECSC was to organize the free movement as well as to provide free access to the sources of their production and an authority to supervise the market. The Schuman Declaration, proposed by French Foreign Minister Robert Schuman, initiated the ECSC in 1950 (Europa 2005).

In May 1950 Jean Monnet, the Commissioner for the first French National Plan, presented a memorandum to Robert Schuman and Georges Bidault, the French Foreign Minister and French Prime Minister respectively, discussing a proposed means of embedding France and Germany in a common interest. The memorandum was the precursor to the meeting in which Monnet and his team came together to draft the declaration, which Schuman would make on May 9, 1950 (Salmon and Nicoll 1997, 40). Monnet writes, “the German situation is rapidly becoming a dangerous cancer for peace in the near future, and for France at once, if the Germans do not point themselves towards hope and collaboration with free peoples” (Salmon and Nicoll 1997, 42). He then continues, “we must abandon the forms of the past and embark on the road of transformation both by the creation of economic conditions on a common base and by the establishment of new authorities accepted by national sovereignties” (Salmon and Nicoll 1997, 43).

The Schuman Declaration of May 1950 “proposes that Franco-German production of coal and steel as a whole be placed under a common High Authority, within the framework of an organization open to the participation of the other countries of Europe.” He subsequently states, “the solidarity in production thus established will make it plain that any war between France and Germany becomes not merely unthinkable, but materially impossible” (Salmon and Nicoll 1997, 44).

There is a general consensus among scholars of political science and history that France initiated the European Coal and Steel Community. A. W. DePorte writes, “the deadlock of the attempt to move toward greater European unity...was broken only—but definitively—by the bold and imaginative proposal made by French Foreign Minister Robert Schuman” (1979, 221). DePorte (1979, 222) goes on to say that the ECSC was a “defensive policy” on the part of the French. Furthermore, he states that “the Benelux countries did not want to be left out of a union including their two most important neighbors” (1979, 223). Thomas Pedersen confirms “the Schuman Declaration of 9 May 1950 is normally seen as the founding document of the European communities. It is customary to describe the ECSC initiative as a French initiative” (1998, 76). John McCormick (1999, 46-48) also attributes a majority of the formation of the ECSC to the efforts of Monnet and France.

Failed Attempts

The first failed attempt at European integration this paper considers is an effort undertaken by Germany. In an interview with a U.S. journalist on March 7, 1950, Konrad Adenauer, the Chancellor of Germany, discusses his proposal for a union between France and Germany. The Chancellor suggests that such a union would forestall nationalism in Germany and mitigate territorial disputes, between the two countries, over the Saar region (Pedersen 1998, 76). According to Salmon and Nicoll (1997, 40), however, the German proposal was “ill-received” in France. On the other hand, it is interesting to note that several months later the French initiative to integrate was well received in Germany. According to Pedersen (1998, 76), “when Schuman launched the Schuman plan in May 1950, Adenauer immediately threw his weight behind it.”

This paper now turns to a second failed attempt at integration, the Organization for European Economic Cooperation (OEEC). Set up in April 1958, the Organization was

established to make joint decisions regarding the distribution and use of Marshall Aid. As the sole contributor of funds to the organization, the United States laid plans for the supranational economic management of Europe by insisting that states make decisions jointly. The OEEC stayed in operation for twelve years; however, it did not lead to integration. England did not want to fully enter into an arrangement with the Continental states and France and the other countries had developed plans for recovery that were restrictive of the free market (George and Bache 2001, 50-51). In sum, “despite its economic leverage, the United States simply did not have sufficient political weight to overcome the combined opposition of Britain, France, and the smaller European states to allowing OEEC to develop as a powerful supranational organization” (George and Bache 2001, 51).

Parting Remarks

The case of the ECSC as well as the two failed attempts at European integration reveal three conclusions. First, these cases demonstrate that France, a middle power, played a larger role in founding the ECSC than the small Benelux states. Critics of this conclusion might suggest that the ECSC evolved from the customs union formed by the Benelux countries in 1948 (McCormick 1999, 32), which would aggrandize the role the smaller states played in integration. However, the ECSC did not arise from an existing customs union between the Benelux countries; in fact, the Community regulated coal and steel between France and Germany. The Benelux countries and Italy were subsequently invited to join, as the Community was left open to other like-minded European countries. Furthermore, the case of the ECSC and the two failed attempts demonstrate that Germany, the regional hegemon, was unable to initiate European integration, as the attempt was not well received in France. Finally, the last failed attempt reveals that the United States, a global superpower, was unable to ensure full regional integration, despite its economic and political clout.

European Economic Community (March 1957)

The literature widely considers the European Economic Community (EEC) to be the next decisive step in the formation of the EU. The EEC aimed to further European integration through the expansion of trade on the continent (Europa 2005). The Treaty of Rome, which

established the Community, states that member-governments are “resolved by thus pooling their resources to preserve and strengthen peace” (Vaughan 1976, 74).

The EEC Council works to “ensure coordination of the general economic policies of Member States” as well as to “have power to take decisions” per article 145 of the Treaty of Rome (Vaughan 1976, 88). Article 146 of the Treaty states that the Council will have one member per member-government. Furthermore, Article 148 states, “save as otherwise provided in this Treaty, the Council shall act by a majority of its members...Where the Council is required to act by a qualified majority, the votes of its members shall be weighted as follows: Belgium 2, Germany 4, France 4, Italy 4, Luxembourg 1, Netherlands 2” (Vaughan 1976, 89).

Prior to the establishment of the EEC, the Spaak committee, headed by the Belgian Minister of Foreign Affairs, Paul-Henri Spaak, met between July 1955 and March 1956 to discuss the Benelux memorandum. The memorandum combined Monnet’s ideas for further sectoral integration with Dutch Foreign Minister Johan Willem Beyen’s idea for a general common market. After numerous compromises, the six member governments agreed to the Report and the committee was subsequently transformed into a conference. The conference was responsible for drafting the Treaties of Rome, which established the EEC (George and Bache 2001, 72-73). The Treaties and the committee “owed a great deal to his [Spaak’s] energetic and skilful chairing” (George and Bache 2001, 73).

At the time of the EEC’s establishment, the Dutch government’s report to the second chamber of the Estates General reads, “it has always been the intention that the

establishment of the ECSC would lead to a more extensive economic integration, and the moment at which this development is to become reality provides the Netherlands’ government, which has always desired and promoted it, an occasion for deep satisfaction...The ever more intimate interweaving and fusion of their economic interests and the continuous consideration of vital facets of their [the member states’] economic, social, and monetary affairs necessary in connection with the Common Market, cannot but strengthen more and more the political ties between the Member States. Inevitably this will with the passage of years strengthen and seal the solidarity and unity of Europe. For various reasons this unity is of essential political importance. These reasons...may here once again be briefly summarized. In the first place it is a matter of West European survival that rivalry between France and Germany be terminated...In the third place this unity will express even more strongly Germany’s ties with the West” (Schmitt 1969, 147-148).

In regard to the report, Schmitt (1969, 146) states, “the Netherlands authorities expressed disappointment that the Treaty [of Rome] did not go further on the road of union than it did...”

There is a general consensus among scholars of political science and history that the Benelux countries viewed the EEC as an opportunity to both constrain German influence and to multiply their own influence counter to German interests. Richard Vaughan (1976, 94) writes, “it remains true that Benelux [the Benelux Economic Union] acted historically as a model, or inspiration, for the European Communities. The Three paved the way for the Six.” Peter J. Katzenstein (1997, 251) adds, “widespread suspicion of a potential revival of German militarism made it imperative to embed a rearmed Germany fully in a Western and European framework. After the defeat of the European Defense Community in the French Assembly, the European Economic Community became a plausible option for anchoring Germany in a European economic network.” He goes on to say that “the effects of German power are softened because of Germany’s participation in European institutions” (1997, 260). Furthermore, in writing about the EEC, A. W. DePorte (1979, 224) states, “it was as if the very strengthening of the FRG [Federal Republic of Germany] lent urgency to a new attempt to channel and circumscribe its freedom of action by erecting new European structures.” Moreover, DePorte (1979, 223) and John McCormick (1999, 31) point out that the German Chancellor, Konrad Adenauer, saw integration as an opportunity to rebuild West German respectability. According to Stephan George and Ian Bache, aside from respectability, Germany was also willing to be constrained by its neighbors as the EEC offered “the considerable prize of the common market in industrial goods” (2001, 75).

Parting Remarks

The year-and-a-half time frame leading up to the EEC provides ample evidence of the strong role played by the small states in engendering regional integration. First, the Dutch government’s report demonstrates that members of this small state’s government took a potential German threat seriously. It also reveals that the Netherlands viewed the EEC as an opportunity to constrain a rearmed Germany. The report also makes it apparent that the Netherlands had actually hoped for further integration than the EEC achieved.

The critical role played by Paul-Henri Spaak further demonstrates the necessity of the Benelux countries to the regional integration of Europe. As does the Benelux initiative, which

laid the groundwork for the Treaty of Rome. As its name implies, the initiative was developed and subsequently circulated by Foreign Ministers from the Benelux countries (George and Bache 2001, 73).

Finally, the voting structure of the EEC Council makes evident the incentive for the smaller states to encourage regional integration. Integration allowed the three small states to multiply their influence vis-à-vis the large state. Specifically, the Benelux countries could wield more votes than Germany (five to four) when the Council was required to act by a qualified majority. It must be noted, however, that this is not the case within the Assembly where the Benelux countries, when combined, wield two votes less than Germany, as specified by Article 138 of the Treaty (Vaughan 1976, 87).

The Southern Cone

MERCOSUR (March 1991)

This research paper now turns to integration in the Southern Cone. The Treaty of Asunción established the common market MERCOSUR, in March 1991, between Argentina, Brazil, Paraguay, and Uruguay. The Act of Buenos Aires, signed the year prior between Argentina and Brazil, led to the Treaty of Asunción (Guerrero 2005, 22; Phillips 2004, 88).

Before these steps were taken, Argentina and Brazil had long suffered a degree of mistrust and rivalry stemming from their mutual ambitions to become regional powers (Guerrero 2005, 22; Cason 2000, 25; Manzetti 1990, 114). According to Kaltenthaler and Mora (2002, 82), these ambitions date back to their independence and culminated during the 1970s when the military regimes leading the countries engaged in an arms race, including the import and production of a nuclear power capability.

In the lead up to the Act of Buenos Aires, Raúl Alfonsín and José Sarney, the presidents of Argentina and Brazil respectively, began economic integration as a political initiative to foster cooperation. Prior to the signing of the Act, under the Argentine Brazilian Economic Integration Program (ABEIP) the two presidents held meetings every six months to sign protocols lowering tariffs in specific industries (Cason 2000, 25). Although outside of the year-and-a-half parameter set up by this research paper, it is important to recognize that “the initiative for the ABEIP came from Alfonsín,” the president of Argentina (Cason 2000, 25). “Both new governments reasoned that if they tied themselves more closely to each other’s economy, a renewal of traditional

conflicts and rivalries would be less likely” (Cason 2000, 25). According to Kaltenthaler and Mora (2002, 81), “in the initial phases of the process [of integration], the primary motivation of Buenos Aires and Brasilia was to end the more than a century long rivalry and conflict between the two.”

Carlos Menem and Fernando Collor de Melo, the subsequent presidents of Argentina and Brazil respectively, continued the process, signing the Act of Buenos Aires in July 1990 (Kaltenthaler and Mora 2002, 75; Guerrero 2005, 21). “The agreements’ significance is the effort of both countries to set aside centuries of rivalry and suspicion to create a basis for long-lasting cooperation” (Kaltenthaler and Mora 2002, 82-83). The process culminated when Menem and Collor, as well as the presidents of Paraguay and Uruguay, signed the Treaty of Asunción, establishing MERCOSUR. At the signing of the Treaty, President Menem of Argentina said, “our concern is no longer armed warfare. Our most important concern must now be peace” (BBC, 1991).

Paraguay and Uruguay did not join the integration process until after Argentina and Brazil had initiated it with ABEIP and the Act of Buenos Aires (Cason 2000, 25; Phillips 2004, 88; Guerrero 2005, 21, 27-28; Taiana 1995, 46). At the time of these initiatives Uruguay had preferred to maintain narrow bilateral trade agreements with its two larger neighbors. However, after the initiatives came into effect, “attempting to avoid the potential economic costs of marginalization from Argentine-Brazilian integration, Montevideo initiated and helped promote the idea of a regional free trade agreement” (Kaltenthaler and Mora 2002, 87). When promoting the regional free trade agreement Uruguayan elites took several of the country’s unique characteristics into consideration. These included Uruguay’s intermediary geographic location between Argentina and Brazil, the existing infrastructure within Uruguay, and the concentrated financial activities of its neighbors in Montevideo. Uruguay hoped that with the aforementioned characteristics as well as the higher levels of education of the populace, relative to those of its neighbors, that the small country could play an important role in the integration process, as well as serve as a hub between its two much larger neighbors (Fernandez 1992, 97-98; Phillips 2004, 104). A *New York Times* article from the month in which the Treaty was signed evidences these considerations in the following: “Uruguay is expected to emerge as a service and financial center for the common market. It has the region’s top literacy rate, a strong university system and a tradition as a banking center for Argentine and Brazilians” (Brooke 1991, 2).

Paraguay, in large part, was brought into the integration process by Uruguay. General Alfredo Stroessner's authoritarian regime controlled Paraguay from 1954 to 1989, and as such the country lacked the institutional capacity to successfully negotiate its role in regional integration without Uruguay (Kaltenthaler and Mora 2002, 88). "The lack of experts on economic integration and negotiation in the [Paraguayan] foreign ministry resulted in Uruguay defining Paraguay's interests in the process" (Kaltenthaler and Mora 2002, 88). In fact, "Paraguay's role in the negotiations leading to the Treaty of Asuncion was minimal at best" (Kaltenthaler and Mora 2002, 88).

For the newly democratic Paraguayan state, membership represented reversals away from the isolation and nationalism pervaded by the former authoritarian government, as well as legitimacy (Kaltenthaler and Mora 2002, 89; Phillips 2004, 104-105). "Paraguayan motivations were in this sense essentially political rather than economic and centered around the promotion of international democratic legitimacy. Indeed, the economic implications of membership were barely discussed at the time that the Paraguayan government signed the Treaty of Asunción" (Phillips 2004, 105).

The initiative for integration was state-led, as opposed to the private sector encouraging the economic union, as critics might suggest. MERCOSUR and its precursors came about primarily as a result of the efforts of the presidents of the four member countries (Cason 2000, 26; Kaltenthaler and Mora 2002, 82). According to Cason (2000, 26), "the private sector generally did not participate in the early negotiations." Many agricultural and industrial groups later saw the benefits to the opening up of markets, but the initiative did not originate with an economic actor (Cason 2000, 26; Kaltenthaler and Mora 2002, 82).

Parting Remarks

As was observed in Europe, a medium state initiated the integration process in the Southern Cone. Throughout the twentieth century Brazil began to establish itself as the regional hegemon over Argentina. Aldo Ferrer, who was that president of a major Argentinean bank during the late 1980s (Banco de la Provincia de Buenos Aires) and former Minister of Economics for the province of Buenos Aires, admits that the economic equilibrium between Argentina and Brazil had broken. Ferrer believes that this became especially pronounced during the high level of growth maintained by the Brazilian economy after 1968 until the debt crisis

(Fernandez 1992, 68). By the onset of ABEIP, it must be noted that, “Argentina had even acknowledged Brazil’s prominent political and economical role in Latin America” (Manzetti 1990, 115).

This paper draws a second parallel between Western Europe and the Southern Cone: security was at the heart of both integration processes. Rivalries and security concerns—though to disparate degrees of intensity on each continent—formed the backdrop to integration. Argentinean elites took security into consideration when they approached their Brazilian counterparts with ABEIP, the precursor to integration in the region.

The two small states joined the integration process relatively shortly after becoming democracies and at the first signs of the significance of the Act of Buenos Aires. However, this paper was unable to find evidence that security played a large role in their decision to do so, as it had in Argentina’s. Integration provided the smaller countries, particularly Paraguay, an opportunity to establish international legitimacy and attract foreign investment. Further economic motivators resulted from the countries’ dependence on regional, specifically Brazilian, markets (Phillips 2004, 104).

Perhaps security was not at the core of the smaller countries’ decision to integrate, but they did, however, constrain their larger neighbors to a degree. According to Phillips (2004, 104), “over the 1990s the smaller countries did use their equal status in decision-making forums both to secure some temporary concessions and to contain the unilateral inclinations of the Brazilian and Argentine governments.”

It might seem as though integration did not begin until MERCOSUR was signed into effect, signifying that evidence presented from anytime before the Treaty of Asunción is irrelevant, as earlier agreements were bilateral. ABEIP and the Act of Buenos Aires were more than mere bilateral trade agreements between Argentina and Brazil, however; these treaties laid the foundation for the subsequent integration of the region. As Manzetti (1990, 110) puts it, “ABEIP was based on an unprecedented formula for gradual unification that allowed new partners to join in the future.”

Treaty of Ouro Preto (December 1994)

This paper now turns to the second case of successful regional integration in the Southern Cone, the Treaty of Ouro Preto. This treaty formalized the customs union between the four

member countries, including the free transit of goods and services, a common external tariff, and a common trade policy with external states.

Once ABEIP and the Treaty of Asunción came into full effect, economic actors began to see the benefits of integration. “Substantial portions of the business community actively supported integration, which made it more difficult for policy makers to turn back” (Cason 2000, 29). A preliminary example of the increasing level of trade within the region is that between 1987 and 1994, in Argentina and Brazil the percentage of exports to their MERCOSUR partners (as a share of total exports) more than quadrupled (Cason 2000, 29). The process became one of substantially increasing economic benefit and as such the role of politics shifted from *if* integration would occur to *how* it would.

As is to be expected each country had its own vision of how further integration was to proceed. “The Brazilian vision of the project emphasized a rather loose economic association in which institutionalization and policy harmonization were fervently resisted, as indeed was the broader notion of ‘deepening’ integration” (Phillips 2004, 101). This falls in line with the theory suggested by Kahler (2000, 665) that larger states avoid more legalized institutions, as they are routinely able to achieve positive outcomes through bargaining. Excessive constraint from neighbors might have hindered “Brazil’s ambition to become a regional power—and, by extension, an important global player” (Weintraub 2000, 12). In an interview given to *El Nuevo Herald* the month before the signing of the Treaty of Ouro Preto, Brazil’s President-elect Fernando Cardoso mentions the role of his country in the world. Cardoso says that Brazil is now liberated from the obstacles of the past as well as the burdensome external debt, having experienced growth for the past two years, due, in part, to MERCOSUR. He goes on to emphasize how the opening up of the Brazilian economy globally and through regional integration allow Brazil to be more comfortable in international forums (Villapadierna 1994).

In contrast to Brazil’s emphasis on resisting deepened integration, Uruguay preferred further institutionalization. MERCOSUR has no formal dispute settlement system; disagreements are simply handled by political negotiation. Deepened integration would provide small states an avenue through which to achieve redress when Brazil limits imports or exports or erects nontariff barriers without consulting the other members (Cason 2000, 29). In addition, as discussed in the previous section, Uruguay’s desire to be a hub and natural point of entry to and from the region is reflected in its negotiation goals. “In Mercosur negotiations the Uruguayan government has

consistently stressed the need to place infrastructural development at the heart of the regionalist project” (Phillips 2004, 104). Furthermore, Uruguay sought to protect domestic industry by negotiating extended timescales and extensive lists of exempted products from lowered tariffs (Phillips 2004, 106; El Nuevo Herald 1994).

“Argentine interest has been largely about trade” (Phillips 2004, 102). A *New York Times* article from 1992—again outside of the year-and-a-half timeframe—agrees, “Mr. Peña, who has been one of the chief architects of MERCOSUR in his role as a senior official in the Argentine Foreign Ministry, has no doubts why such an agreement is good for Argentina. A country of 32 million, Argentina offers a small domestic market for foreign investors. But under Mercosur, building a plant in Argentina would also provide tariff-free access to Brazil and its population of 150 million” (Nash 1992).

A distinct absence of state and institutional capacity as well as corruption has plagued Paraguay’s negotiations with the other MERCOSUR members. The consequence has been that “governments have been unable effectively to represent Paraguayan interests in Mercosur negotiations or to secure concessions or compromise from the larger member states. In other words, the point about the Paraguayan case is that no concrete or sustained vision of the regionalist project emerged over the 1990s, with the result that its participation in the bloc has been largely muted and marginal” (Phillips 2004, 105).

Failed Attempt

In the following section, this paper considers an unsuccessful project to integrate the continent. The Latin American Integration Association (LAIA), also known as ALADI, laid the framework for cooperation throughout the region of Latin America. Established in August 1980, the association is a particularly enlightening example of an unsuccessful attempt at integration. LAIA neither set into motion a noteworthy trend towards integration nor a coherent integrationist political mission. LAIA could not overcome the economic crises, differences in development models (including import substitution), and military regimes found throughout the region (Phillips 2004, 85).

Parting Remarks

Unlike the case discussed above, MERCOSUR is unique in that the recently democratically elected Argentinean and Brazilian Presidents set the project underway. In both countries, the elections were the first time a democratically elected leader had handed the presidency over to another elected civilian leader, since the military regimes were in power (Taiana 1995, 41). Furthermore, the threat to expel Paraguay from the organization precluded the military *golpe de estado* of the country's elected government. MERCOSUR subsequently made a state's accession and membership contingent on democratic governance (Weintraub 2000, xiv, 74). Furthermore, the organization persisted despite the 2001 economic crisis in Argentina as well as several trade disputes, for example over the export of automobiles.

The case of Ouro Preto and the failed attempt at regional integration in the Southern Cone reveal several trends. First, the smaller states in the Cone saw integration as a prudent means of constraining their larger neighbors' proven tendencies to act unilaterally, especially Brazil. MERCOSUR ensured regularized forums, summits, and other channels of institutionalized diplomacy that encouraged a degree of Brazilian restraint. Cason (2000, 38) puts it best by stating, "given Brazil's economic importance and the other MERCOSUR countries' dependence on its market, Brazil can act unilaterally when its interests require it to do so. It does not necessarily have to consult before acting (though it frequently does)."

Second, the case of Ouro Preto demonstrates that the small states in the Southern Cone did not play as robust a role in ensuring regional integration as their counterparts in Western Europe. The second European case analyzed within this paper presented evidence that the small European states played a more robust role than France, Germany, or Italy to ensure further integration on the continent. Such effort was not necessary on the part of the small states of the Southern Cone, however, because the benefits of economic integration had become apparent in the region and as such business and industry encouraged politicians to realize integration by the timeline laid out. The case of Ouro Preto presented some evidence that Uruguay looked to integrate Brazil further than was achieved; although, not as much as the efforts on the part of the Benelux countries regarding Germany. This paper did not find any evidence that Paraguay was working to constrain the regional hegemon. In fact, it is much more likely that Brazil was wielding its influence over an institutionally weaker Paraguay.

Finally, the failed attempt demonstrates two noteworthy conditions, both of which are mirrored in the histories of Western Europe and the Southern Cone. First, regional integration occurred and endured between democratic countries. Second, the initial stages of integration were not region wide, unlike the failed LAIA proposal.

Discussion of Findings

Empirical Analysis

This research paper attempted to mitigate the influence of potential confounding variables by analyzing two separate cases of regional integration at various points in time, as well as failed attempts. Doing so leaves weak the causal association between several potential confounding variables and the dependent variable analyzed here.

The first confounding variable this research paper considers is the erosion of a state's status as a world power. The literature points out that a waning world power may integrate with surrounding states in an effort to preserve a degree of the dominance and prestige it once held. For example, George and Bache view Egypt's nationalization of the Suez Canal in 1956 as having encouraged France to integrate with its European neighbors, as the country lost prestige (2000, 73-74). This is not the case in the Southern Cone, however. Although the Portuguese monarch moved to Brazil as Napoleon invaded, Brazil did not maintain the status that France held as a colonial power in the early twentieth century. The parallel may be strengthened when applied to Argentina, as both medium states initiated integration by approaching the potential regional hegemon. Several historical facts bolster this argument, such as the country's wealth at the turn of the twentieth century and the Falkland Islands/Islas Malvinas War (CIA World Factbook 2010). However, even taking Argentineans' perceptions of their country into consideration, the argument that Argentina was a waning world power remains a difficult one to make. Moreover, if this were the case then this variable would serve as an antecedent variable to the independent variable presented in this research paper.

This paper considers the necessity of a similar culture and language within a region as a subsequent independent variable. Hemmer and Katzenstein (1997, 576) purport that collective identity facilitates formal regional integration. However, the variable proves insufficient at explaining integration when applied to both cases. European elites simply do not share the same degree of cultural and linguistic commonalities as their South American counterparts.

The use of time in the research design weakens a third potential confounding variable, the Cold War. Certainly the Cold War had a large effect on European integration (George 2001, 73); however, it is more difficult to say the same for the integration seen in the Southern Cone. The first MERCOSUR case analyzed in this research paper occurred as the Cold War was winding down and the second occurred after the war had ended. Furthermore, while the Cold War was being waged between the superpowers, an unsuccessful effort at integration was made in Latin America, as discussed in the Southern Cone failed attempt section of the paper.

The last and most convincing potential confounding variable this paper considers is the influence the United States had on the two regions. This may also be the most difficult variable to tease out. Selected articles suggest that France and Brazil actively worked to prevent US influence from entering their spheres of interest throughout the analyzed periods of time. However, French and Brazilian attempts to erode U.S. influence merely serve to acknowledge the role *yanqui* pressures played in integration. Working against U.S. influence proves that it was present. However, DePorte (1979, 220-221) is most enlightening on the subject:

“the United States government has supported the movement for European unity throughout the postwar period...The Organization of European Economic Cooperation, which grouped the European Marshall aid recipients, and the European Payments Union both failed to lead even to first steps toward economic unity, and certainly not to political...It might have remained there, notwithstanding all the support the United States gave it, but for a remarkable initiative of French policy—probably the most original and creative step taken by any European government since the war”

The long-standing role the United States has played as a global leader is a potentially confounding variable that cannot be controlled for by space or time. However, by acknowledging and analyzing failed attempts, this paper concludes that US influence was certainly not the only—and perhaps not even the primary—impetus to regional integration.

This research paper now endeavors to understand why some attempts at institutionalization in Western Europe and the Southern Cone succeeded while others did not. First and foremost, it is important to acknowledge that in these cases regional integration occurred in several stages. This is worth bearing in mind as regional integration may be the result of a state having played a more robust or determined role during a latter stage of integration, as opposed to the initial stage.

Several salient factors appear throughout the cases analyzed in this research paper. First, a security threat and a perceived regional hegemon were present in all cases, although to

different degrees on the two continents. Second, the two initial cases leading to a still-standing regional organization were initiated by a middle power. While the attempts that did not result in the present organizations were instigated by the large states, the United States, or small states. Third, small states played a disproportionate role in the second set of cases analyzed. The Benelux countries arguably played a greater role in the maintenance and advancement of integration than did Uruguay; however, this paper presented evidence that small states encouraged institutionalization on both continents.

Fourth, regional institutions provide small states the opportunity to multiply their influence. Within the EEC the Benelux countries, which had worked together in the past within a customs union, could multiply their influence when voting. Uruguay also brought Paraguay into MERCOSUR, an action that likely resulted in the multiplying of the former's influence in institutional negotiations. Fifth, apparently this scale of integration requires that states be led by democratic governments for states to gain and maintain membership in the organization. Finally, it appears that initiatives cannot begin at the regional level—they must consist of several states, not the majority of the states within a region.

The central research question of this paper is: which size of state most contributed to the establishment of the regional institutions found in Western Europe and the Southern Cone? The answer: of the variables considered, medium states initiated the establishment of regional institutions in Western Europe and the Southern Cone while small states played a disproportionate role in the subsequent advancement of these same institutions.

Theoretical Analysis

Based on the empirical conclusions drawn and the presented evidence, the study now attempts to assess the theories presented at the beginning of this paper.

The first hypothesis (H1) tested in this research paper is that small states play a disproportionate role in establishing formal regional institutions, as these institutions foster stability and constrain larger members from exercising power (Katzenstein). The cases analyzed in this paper partially support this hypothesis.

The EEC case analyzed above reveals that the Benelux countries strongly encouraged further integration in Western Europe. They did so in an effort to foster regional stability by constraining Germany from wielding its power in the future.

In MERCOSUR, although the constraints may be minimal, Paraguay and Uruguay benefit as Brazil negotiates more often than it likely would if integration had not occurred. This paper did not find evidence, however, demonstrating that regional stability was a concern of either Uruguay or Paraguay at the time of integration.

In the second hypothesis (H2) presented in this paper, small states play a disproportionate role in the establishment of regional institutions as these institutions allow them to multiply their influence and lock in larger states (Fawcett). Within the EEC the Benelux countries were able to multiply their influence when majority votes were necessary. Additionally, Uruguay brought Paraguay into MERCOSUR, which likely multiplied the former's influence in negotiations. Moreover, in both cases the small states were able to ensure that the large state wielded much of its influence within the institution, instead of outside of it. Thus the evidence analyzed in this paper partially supports this hypothesis.

The third hypothesis (H3) tested states that middle powers align with all neighbors in an effort to lessen traditional security dilemmas (Spero). In the case of the Southern Cone, this research paper established that a security dilemma existed between Argentina and Brazil prior to MERCOSUR. Moreover, since integration began Argentina has aligned with all of its neighbors: Chile and Bolivia became associate members of MERCOSUR in 1996 and 1997 respectively (Phillips 2004, 6, 106). Though not discussed within this paper, Argentina had a tense relationship with Chile; similar to the relationship it shared with Brazil. Several territorial disputes nearly led to war between the two southern most countries of the cone, but MERCOSUR has mollified the political hostilities that existed between what are now extensive trading partners (Weintraub 2000, xiv). In the case of Western Europe, as demonstrated throughout this research paper, due to a security dilemma France aligned itself with the perceived regional hegemon and subsequently with its other neighbors through integration. Today, the EU includes all of France's neighbors outside of Andorra and Switzerland, neutral countries France would hardly view as threats. Thus, the evidence presented in the research paper supports this hypothesis.

The fourth hypothesis (H4) tested in this research paper suggests that within a region in which the distribution of capabilities has shifted, or states expect a shift to occur, those states disadvantaged by the shift will resist regional integration. This is the case as small and medium states expect the resultant institutions to reflect the interests of the larger states (Grieco).

Intrinsically, this theory appears correct, perhaps more so than the other four. However, this paper finds little evidence to support (H4). In fact, nearly all of the evidence runs contrary to this hypothesis.

This paper presented evidence that in the case of the Southern Cone a shift in the distribution of capabilities occurred in Brazil's favor. As Argentinean elites began to acknowledge this shift, the Argentinean president approached his Brazilian counterpart in order to encourage regional integration. Uruguay—and to a lesser extent Paraguay—eagerly joined the integration project shortly after they became democracies and the Act of Buenos Aires was signed.

In Western Europe, a shift in the distribution of capabilities was underway, and those disadvantaged by the shift approached the rising power, West Germany. As demonstrated, France initiated integration on the continent and the Benelux countries strongly supported the process. Clearly, those states disadvantaged by a shift in capabilities on either continent did not resist regional integration; in fact, the disadvantaged states engendered it. Events in the Southern Cone and Western Europe run contradictory to predictions made by (H4).

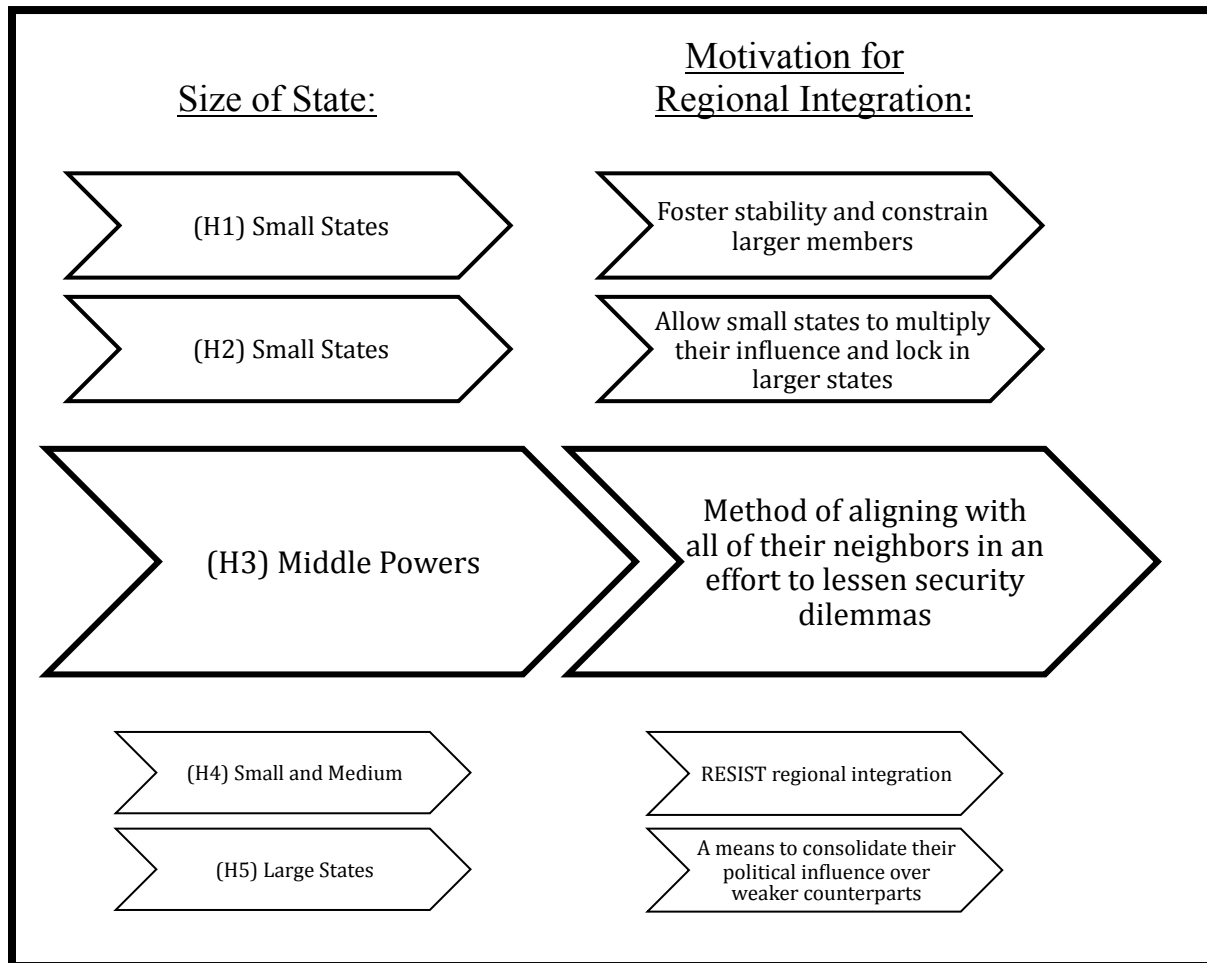
The fifth hypothesis (H5) tested within this paper is that large states establish regional institutions as a means to consolidate their political influence over their weaker counterparts (Mansfield and Milner). This hypothesis appears well argued, as large states began to express *realpolitik* through institutions more frequently than the traditional methods of history. For example, this paper illustrated in the MERCOSUR case how Brazil acts unilaterally within the institution at times.

In light of the central research question of this paper, however, large states are not the states that *most* contributed to the initial establishment or the advancement of these two regional institutions. In fact, in the case of Western Europe, Germany's suggestion to integrate was not well received in France. Moreover, Brazil did not initiate ABEIP, the protocols that led to MERCOSUR. In the Southern Cone and Western Europe, large states may have acquiesced to the establishment of regional institutions in order to consolidate their political influence, however they did not initiate the process.

In sum, (H4) appears to be the most theoretically convincing, however this hypothesis was weakened by empirical evidence. On the other hand, (H5) appears very convincing empirically. However, through careful process tracing it comes to light that large states did not

initiate the process that led to integration, weakening this persuasive hypothesis. All in all, it appears that (H3) as well as a combination of (H1) and (H2) are the most adept at answering the central research question. This paper concludes that, of the independent variables analyzed, medium states are the most likely to play a disproportionate role in the initial establishment of regional institutions. Furthermore, small states are the most likely to play a disproportionate role in the advancement of these institutions.

As the chart below illustrates (H3) possesses the most explanatory power followed by (H1) and (H2). In the chart below each row represents one hypothesis, those emphasized possess greater explanatory power. The column on the left lists the size of state that corresponds to each hypothesis. The right-hand column contains brief summaries of each hypothesis.



Conclusion

This paper does not definitively show that Uruguay brought Paraguay into MERCOSUR negotiations in order to multiply the former's influence. Though this appears to be a probable conclusion, no conclusive evidence was found. Furthermore, this paper was unable to find evidence that a security dilemma played a role in Uruguay and Paraguay's decisions to enter into the integration process. Such evidence would strengthen the conclusions presented within this paper, however further research is needed. Last, this study hinges on the terms small, medium, and large states. Evidence and references were presented to demonstrate that, within their respective regions, Argentina and France were in the process of becoming medium states. This occurred while another state—Brazil or Germany—was rising, or was perceived to be rising to the position of large state.

The conclusions presented by this paper have strong external validity that may be generalized to other regions of the world. Further research would reveal if Canada, arguably a

medium state, initiated integration with the United States and subsequently Mexico in the North America Free Trade Agreement (NAFTA). These results may also span time. Should current momentum continue, Japan may initiate regional integration with China, if the perceived shift in power continues in the latter's favor. Other states, such as South Korea or Vietnam, may then encourage further integration in an effort to lock in their larger neighbor and multiply their own influence. As mentioned above (MERCOSUR failed attempts section), it would be interesting to see if regional integration is able to include a non-democracy, if the governments remain as they are at present. This issue remains pertinent, as North Korea reminded its neighbors of the security dilemma by shelling a populated South Korean island in November 2010 (Kim and Jaewon 2010).

Further research is necessary to determine whether a security dilemma is required for regional integration to occur. As demonstrated by this paper, a security dilemma was present in the Southern Cone and Western Europe at the time of integration. A cursory glance suggests that the African Union may have had a form of a security dilemma at its inception; however, this form of dilemma does not immediately come to mind when looking at NAFTA.

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