

Can Economic Integration Facilitate Regional Conflict Resolution?

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Background

Co-operation among states, despite its collective pay-offs, is seldom easy to achieve. Given the smaller number of states at the regional level, geographical proximity, common historical experiences and, possibly, even shared political cultures and identities, it may not be unreasonable to assume that regional agreements – be they economic or political – are easier to negotiate than multilateral ones. The 1990s certainly saw a spurt in a variety of regional arrangements. For instance, the World Trade Organisation (WTO) received notification of over 130 Regional Trade Agreements (RTAs) since its creation in 1995; contrast this against the 124 notifications that were made to the General Agreement on Tariffs and Trade (GATT) between 1948 and 1994 and the newfound faith in regionalism becomes evident (www.wto.org). The number would be considerably larger if one were to include regional agreements with a focus other than trade in this count).

The post-Cold War era brought about a resurgence in regional agreements. Negotiators and analysts alike invested considerable faith in these arrangements as a source of viable co-operation, conflict resolution and promotion of peace. With the end of the Cold War, it was hoped that regions would finally have the space and opportunity to resolve their security dilemmas (see Robert Jervis, *Cooperation under the Security Dilemma*, *World Politics*, Vol. 30, No. 2, January 1978) and develop their own co-operative dynamics and security communities.

In addition to these favourable political conditions, economic imperatives of the late 1980s and early 1990s contributed to a positive domino effect on regionalism. Developed countries had begun to enter into new regional agreements, in part based on the idea of a Best Alternative to Negotiated Agreement (BATNA): that the developed world would have a viable alternative to multilateralism through these regional arrangements should the then ongoing trade negotiations of the Uruguay Round (1986-1994) run into further difficulties. Encountering this logic, developing countries recognised that RTAs would be vital for sustaining their bargaining positions in the GATT and might even provide a critical alternative to the multilateral trade negotiations – a logic which persists to the present day.

The promise of regional institutions has, however, not always been matched by their record in the developing world. Across Africa, Latin America, and South and East

Asia, states have attempted different regional experiments, pre- and post-Cold War, in the hope of promoting economic integration as well as resolving regional conflict, but with varying degrees of success and failure.

This paper addresses the question: what are the various pathways to regionalism in the developing world, and what accounts for their varying degrees of success? It argues that there are three routes to regional integration, presents empirical examples for each type, and offers some generalizations regarding the conditions that are necessary for the success of each method.

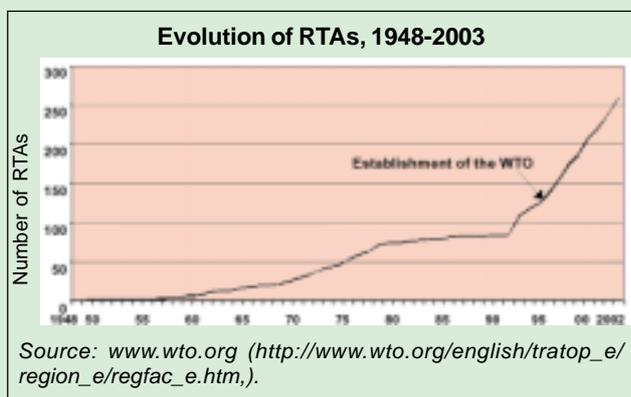
Two caveats are in order. First, this paper does not address the question of regional economic integration *per se*, but regionalism along different lines (including economic) to promote conflict resolution and facilitate broader levels of co-operation among states. Second, while it has been attempted to present some generalisations, regional specificities mean that the conditions outlined for success and failure may turn out to be only necessary rather than sufficient conditions for regional co-operation. To identify these other conditions, theoretical and empirical work specific to each region and the domestic politics of its member states would be required, presenting an agenda for future research.

Route 1: Economic Integration

The idea that economic integration can promote regional (or global) co-operation among states finds its sources in several theories of International Relations. Neo-functionalism, for instance, which was particularly influential in its time as a theory of European integration, predicted that two kinds of “spillover” would occur to sustain and deepen integration. The first kind of spillover was functional, “whereby partial small initial steps down the integration road would create new problems that could only be solved by further cooperation.” The second kind of spillover was political: “the existence of supranational institutions would set in motion a self-reinforcing process of institution building.” (Andrew Hurrell, *Regionalism in Theoretical Perspective*, in Louise Fawcett and Andrew Hurrell eds., *Regionalism in World Politics: Regional Organization and International Order*, Oxford: Oxford University Press, 1995).

Theories of neo-liberal institutionalism and complex interdependence also predicted that economic integration would create new collective action problems, which would require higher levels of co-operation in areas that included

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security and defence. (Hurrell, 1995; also see Robert Keohane and Joseph Nye, *Power and Interdependence*, 3rd edition, New York: Longman, 2001). Indeed, the very deep and well-institutionalised integration patterns in the European Union (EU) today had humble beginnings in the European Coal and Steel Community.

The success with which European economic integration had managed to overcome the age-old rivalry between France and Germany led many countries, particularly from the developing world, to emulate this model. Efforts at regional economic integration boomed, for instance, in Latin and Central America. To name a few, the Latin American Free Trade Area (LAFTA) was formed in 1960, Central American Common Market (CACM) also in 1960, the Andean Pact in 1969, the Sistema Económico de Latinamericano (SELA) in 1975; similar agreements were being attempted in other regions.

But these agreements generated varying degrees of success, and certainly did not lead to the eventual creation of anything comparable to the EU. Levels of trade within the regions remained low, while the expected spillovers to produce deeper levels of co-operation over a wider range of areas seldom occurred. This was because of two reasons: the exceptional conditions that were present in post-war Europe could not be easily replicated elsewhere and the nature of trade in the developed world proved more conducive to integration than trade patterns in developing country regions.

Unique political conditions in Europe included the experience of World War II, geopolitical concerns about a resurgent Germany based on the post-World War I experience, the development of the Cold War and the Soviet threat next door. These conditions had two important results: the willingness of the US to play the role of the hegemon, through the Marshall plan and subsequently through its alliance system, and the collective desire among European states to prevent a recurrence of war on the scale it had been fought in World War II. (See Hurrell, 1995; and also Amrita Narlikar, *International Trade and Developing Countries: Bargaining Coalitions in the GATT & WTO*, London: Routledge, 2003). Most developing countries did not have the US to shoulder the burden of their economic recovery, nor did they share the same level of urgency and aversion to war, intertwined with regional geopolitics that had torn Europe apart.

The differences in trade patterns between developed and developing countries are, perhaps, even more important in explaining the limited successes that the latter

have had in economic integration. There were two problems here. First, South-South trade was historically limited due to various constraints: the colonial legacy meant transportation networks connecting developing countries within regions were poor, while similarities in resource endowments, skills and comparative advantage meant that the trade patterns could not exploit the complementarities that existed between the developed and developing worlds. Until as late as the early 1990s, Africa and South Asia exported 95 percent of their goods outside their regions. In Africa and Latin America, only five of the many regional groupings passed the test of a share of intra-regional exports in total exports above 4 percent. (J. De Melo and A. Panagariya eds., *New Dimensions in Regional Integration*, Cambridge: Cambridge University Press, 1993). Yet, one might ask, why were developing countries not able to change these intrinsic patterns of trade through RTAs? The reason why this turned out to be so difficult was because of the second reason: the limited trade that did exist within regions of developing countries was usually inter-industry trade, rather than intra-industry trade (see box overleaf).

It is argued that greater inter-industry trade would occur at the expense of certain countries, which would in turn exacerbate mercantilist tendencies and conflict; a hypothesis that is certainly confirmed by the empirical record of regional integration among many developing countries. In 1990, for instance, Cameroon came to account for 90 percent of intra-UDEAC (*Union des Etats d'Afrique Centrale*) exports, but only 4 percent of imports (albeit some attempts were made to facilitate re-distribute gains). The most obvious way of overcoming these discrepancies is through a compensatory mechanism of some sort. But, the existence of such a compensatory mechanism presupposes the existence of considerably high levels of co-operation, in the first place, and results in a circular problem: economic integration might be possible were political conditions conducive to facilitate costly re-distribution schemes and compensatory mechanisms, but the starting point, i.e., economic integration, might turn out to be the solution to the absence of co-operative political conditions. In the absence of pre-existing co-operative mechanisms, regional integration, at best, will stall in its early phases, without resulting in much meaningful liberalisation; at worst, a vicious spiral of conflict, leading from the economic to other political areas, might emerge. Either outcome differs markedly from the happier spillovers that were envisaged by the neo-functionalists. Recall that Sir Norman Angell, observing the very high levels of interdependence in 1910, argued that war had been rendered obsolete in his book "The Great Illusion"; in 1914, war had broken out.

Route 2: Resolve Issues of "High Politics"

If the goal of a regional zone of peace cannot be achieved through economic integration, the second plausible strategy is to deal directly with the problems of "high politics", i.e., security issues, border conflicts, arms races and so forth. Once these difficult issues are resolved, matters of "low politics" would surely take care of themselves.

The Role of Intra/Inter-industry Trade

For regional integration to be successful, there has to be a demand for each country's goods and services by its partner countries. As Diana Tussie pointed out in the late 1980s, in the case of developed countries, such a complementarity of demand tends to be high because they engage in "intra-industry trade," that is, trade where "each country is both an exporter and importer of the same broad range of products." (Diana Tussie, *The Less Developed Countries and the World Trading System: A Challenge to the GATT*, Studies in International Political Economy, London: Francis Pinter, 1987). This trade pattern "is both the cause and consequence of structural convergence" among developed countries and means that exchange between countries does not result in substitution of domestic production by foreign production. Regional integration based on intra-industry trade is, therefore, less prone to acrimonious competition, competitive price undercutting, or held hostage by displaced producer groups.

In contrast to the intra-industry trade within the developed world, trade among developing countries traditionally tended to be based on raw materials, semi-manufactures, agriculture and so forth. At least some of these trends continue. Particularly in the case of primary commodities and standardised products of traditional industries like steel and textiles, lack of product differentiation means that competition is mainly price-based, rather than based on product differentiation. The result is that freer trade within an RTA is inter-industry and the expansion of a particular industry in one country occurs at the cost of contraction elsewhere. Further, in the absence of intra-industry trade in the region, production exceeds trade, resulting in trade diversion, surplus capacities and trade conflicts. (Tussie, 1987; Narlikar, 2003).

The Case of Latin America

The Southern Cone in Latin America presents us with an example of the use of such a strategy. As was mentioned above, elaborate schemes of regional economic integration in Latin America remained largely unsuccessful from the 1960s to the late 1980s. It is also worth bearing in mind that, although a "negative peace" had prevailed in the region from 1883 (Arie Kacowicz, *Zones of Peace in the Third World: South America and West Africa in Comparative Perspective*, Albany, NY: State University of New York Press, 1998), some powerful rivalries continued in the region, with the Argentine-Brazilian rivalry being the "longest and most deeply rooted, and the one most influenced by geopolitical doctrines." (Kacowicz, 1998)

Interestingly, however, signs of a rapprochement between these long-standing rivals emerged in the mid-1970s. Negotiations over the Itaipu and Corpus dams were begun in July 1977. In 1979, Brazil signed an agreement with Argentina and Paraguay, thereby ending their dispute over the use of hydroelectric resources of the Paraná river. In 1980, Argentina and Brazil signed a package of agreements, which included an agreement on joint arms production and nuclear cooperation (Hurrell, 1995). Herein lay the beginnings of the region's nuclear non-proliferation regime. Various nuclear agreements were signed between 1985-87, as both countries improved the transparency of their nuclear programs and engaged in more direct confidence-building measures (Hurrell, 1995). Additionally, several economic agreements were signed between Argentina and Brazil from 1985 onwards, culminating in the emergence of the MERCOSUR in 1991 between Brazil, Argentina, Paraguay, and Uruguay. Latin America's "negative peace" had been transformed into a "stable peace" since the early 1980s (Kacowicz, 1998).

Applying the Argument to Other Regions

The successes of the Latin American route make it a particularly tempting one to emulate. For instance, at least some similarities may be found between the nuclear dyads of Latin America and South Asia, while some analogies might also be drawn between Brazil and India as regional hegemon and their difficult relationships with their neighbours as well as Great Power ambitions. (Andrew Hurrell and Amrita Narlikar, *Pathways to Power: Brazil and India in International Regimes*, work in progress under the auspices of the Nuffield Foundation).

However, when one inspects the many factors that contributed to the process of the Latin American peace, it becomes difficult to draw generalisations that might apply to conflict resolution, even to the South Asian case, let alone to other regions with considerably different power structures and geopolitics. Arie Kacowicz, for instance, identifies several specific factors that have contributed to dispute resolution and the emergence of peace in the region. He highlights the compatibility of common values among Latin America's countries (even before the advent of democracy in the region), mutual responsiveness, South American 'exceptionalism', Brazil's regional hegemony, economic growth, intensifying regional contacts and so forth. Andrew Hurrell engages with realist, neo-liberal and constructivist explanations to explain developments towards a security community in Latin America and points precisely to some conducive factors on both the Argentine and Brazilian sides that led to their rapprochement, including the growing perception on the Brazilian side "that its earlier regional policy had been thoroughly counter-productive". (Hurrell, *ibid*).

These are persuasive arguments, as are others about the emergence of democracy in the region as a facilitating factor, the US threat outside and the leadership provided by Brazil as the regional hegemon. However, it is difficult to imagine a similar set of arguments in the India-Pakistan case. The emergence of alternative threats (e.g., Sri Lanka in the late 1980s for India) did not result in an easing of the Indo-Pakistan relationship; Pakistan's interludes of democracy did not result in the creation of a democratic peace; both countries assign very high priority to other goals such as economic performance and development, but defence and security concerns still trump liberal arguments, as is evident in their high levels of defence spending as well as commitment to their nuclear programmes. Co-operative mechanisms, such as improved transparency over their nuclear programmes, which worked in the Argentine-Brazilian case, are unlikely to solve the Indo-Pakistan security dilemma or found the beginnings of a non-proliferation regime, not least because the sources of their border disputes and arms races go back to the very bases of their statehoods (and national identities). (Benjamin Miller makes an interesting argument that focuses on state-to-nation imbalances in his paper, When and How Regions Become Peaceful: Potential Theoretical Pathways to Peace, *International Studies Review*, 7, 2005). One can

think of warring neighbours in other regions of the developing world, where the roots of the conflict are too deep to be addressed head on.

Route 3: When Less is More

While the previous two sections have highlighted relatively formal, well-institutionalised routes – one economic and the other political – to regional co-operation, there is a third way. This alternative path is epitomised in the regionalism of ASEAN- Association of South East Asian Nations, which was founded in 1967.

Security concerns of states within the region contributed to the formation of the ASEAN. The ASEAN was formed immediately after the end of Indonesia's policy of "confrontation" against newly-independent Malaysia and Singapore, which had proven detrimental to Indonesia as well as the stability of the region. Amitav Acharya argues that "preventing a repetition of such inter-state confrontation and developing a mechanism for the pacific settlement of disputes were major considerations behind ASEAN's formation." (Amitav Acharya, *Collective Identity and Conflict Management in Southeast Asia*, in Adler and Barnett eds., *Security Communities*, 1998).

Equally important was the shared threat perception of ASEAN members against the dangers of communist insurgency. The China threat, Japan within the neighbourhood, and the risk of US intervention, further contributed to the critical ASEAN norm that proscribed against mediation by outside powers. (Yuen Foong Khong, *ASEAN and the Southeast Asian Security Complex*, in David Lake and Patrick Morgan eds., *Regional Orders: Building Security in a New World*, Pennsylvania: Pennsylvania State University Press, 1997).

Interestingly, however, the organisation's approach to security concerns is subtle; the founding charter of the ASEAN – the Bangkok Declaration – "explicitly downplays political-security co-operation and emphasises, instead, economic, cultural and social co-operation." (Ibid). Moreover, "ASEAN's methods and goals were explicitly multifaceted: economic growth, social progress, cultural development, regional peace and stability were to be pursued via joint endeavours." (Ibid). Representing *status quo*, the ASEAN has evolved a tradition of *musjawarah* and *mufakat* – consultation and consensual decision-making – that sit somewhat paradoxically with its elaborate bureaucratic structures and formal agendas. And yet, in the words of Acharya, "... the ASEAN brand of 'soft regionalism,' which relies primarily on consultations and consensus, serves as a useful, if not entirely accurate, symbol of its collective uniqueness, and has been a source of considerable satisfaction and pride for ASEAN members in the international stage." (Acharya, 1998). On the economic front, various analysts have noted that economic

integration was never a goal for the ASEAN. Still, minimal levels of economic integration have not deterred members from pursuing their collective economic goals in their dealings with the outside world. The ASEAN Geneva Committee (AGC) was formed in 1973 to co-ordinate the positions of members in the GATT, and successfully presented a collective stance in the Uruguay Round negotiations. By not taking the path of economic integration, the ASEAN was able to avoid the competition and conflict that afflicted other regional arrangements involving developing countries, and emerged as one of the few region-based bargaining coalitions in the GATT.

On both the security and economic fronts, the ASEAN thus chose a limited, second-best option of sorts, rather than an evolved RTA or alliance. The apparent weakness of its regionalism has also turned out to be its strength. These geo-strategic "allies" did not trade with each other, which conformed to the mutually competitive character of their economies that were still dominated by inter-industry trade. Instead, they utilised their competitive interests to build a joint bargaining platform and their regional institutions for the pursuit of shared security goals. Despite its modest beginnings, the ASEAN has today evolved into a "nascent security community." (Acharya, 1998).

Conclusion

This paper has argued that the first two routes to regional peace – economic integration and resolution of geopolitical or security-related conflicts – work only within a limited set of conditions that are not easy to replicate in many regions of the developing world. However, Route 3, as exemplified by the ASEAN, is likely to be most useful when levels of conflict among neighbours are high and structural conditions for economic integration absent. Members enjoy considerable flexibility in identifying their collective interests, while informal processes of dialogue and engagement facilitate evolution of the collective agenda. One could for instance conceive of several collective interests that are shared even between conflict-prone dyads, such as disaster management, fighting terrorism and improving their bargaining positions in the WTO. In South Asia such strands of co-operation already exist. Despite having fought three full-blown wars and had several near-misses, India and Pakistan have long been allies in the WTO (as members of the Like Minded Group and the G20). The recent earthquake in Kashmir prompted improved co-operation between the two feuding partners. Brought together under an ASEAN-type "soft regionalism", there is a realistic chance that even these clashing neighbours will, through interaction and shared norms and procedures in some areas, develop collective interests and identities that would facilitate co-operation in the harder areas of economic integration and security.

