

# Rethinking Hegemonic Stability Theory: Reflections from the Regional Integration Experience In the Developing World

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## Abstract

*The paper examines the ability of the hegemonic stability theory to interpret the creation and development of regional integration schemes in the developing world. More specifically, this paper aims at testing the theory through a comparative analysis of three important and long-lasting regional integration schemes in the developing world: the Southern Africa Development Community in Sub-Saharan Africa, the ASEAN in Southeastern Asia and the Mercosur in South America. The analysis shows that the hegemonic stability theory can offer useful interpretations for specific decisions and developments, but it also presents some weaknesses in forming a complete and systematic explanation – or even a forecast -for the course and the development of the above regional organizations. Consequently, the structure and the content of regional organizations and their impact in shaping the local, regional and global environment remains to a large extent dependent from other variables that prevent — if they do not exclude – a common interpretation.*

## Introduction

In this paper, it is going to be tested whether the theoretical framework of the Hegemonic Stability Theory can provide useful interpretations of regional cooperation schemes that take place in the developing world. In the first section of this paper, the importance of regionalism in today's world politics is assessed, then the theoretical framework to be used is analyzed while some theoretical conditions to be met by the selected empirical cases are being set. Going further the selected representatives of regionalism in the developing world are being presented. After a brief historical analysis of all three regional cooperation schemes, the following sections analyze the empirical cases through the theoretical framework introduced in the previous sections and the conditions imposed by the theory. The paper closes with some conclusions and a summarizing table concerning the theoretical framework and the selected empirical cases.

## The Importance of Regionalism

The foundation of the European Economic Community in the 1950's created a new trend in international politics, the integration of mainly neighbouring states into a regional organization (regionalism). All previous forms of interstate cooperation were based on the principal of maintaining national sovereignty within each state. They were mainly security pacts

aiming at the creation of a level of balance of power in a certain area in order to promote regional peace. The creation of the European Economic Community by France, West Germany, Holland, Italy, Belgium and Luxembourg in 1957 will alter the usual patterns of interstate cooperation as the cooperation between these European states will start from the economic and trade sector. Moreover, these six states will accept a gradual transfer of national sovereignty to the regional level. This European initiative will be copied all around the world.

This wave of regionalism, which for most researchers is the first one, was based into two fundamental foundations: the XXIV article of the General Agreement on Tariffs and Trade (GATT) and the dynamics of the European Economic Community in the first years of its creation.

The period after World War II was marked by the adoption, by at least the countries of the western world, of the principles of free trade, a trend that was institutionalized by the signing of the GATT. Aiming at the gradual liberalization of world trade, GATT and later on the WTO lead to the decrease of the average level of tariffs all around the world. But despite the fact that the basic aim of GATT was the minimization of trade impediments between states, the creation of regional trade agreements was approved by the article XXIV. More specifically, the sense of article XXIV was that regional integration schemes can be created under the condition that their structure and aims will be for the gradual reduction of tariffs worldwide. It could, 'therefore, operate as a middle step towards a liberalized world trade environment.

Therefore, western states were free to introduce themselves to regional trade agreements (RTAs). This trend was assisted by the successful first steps of the then EEC which acted as an example. The regional effort of the six European states, magnified to some point by the Cold War environment, created an idea / image of how states can enhance economic growth and regional peace. To some extent, most regional efforts around the world started as imitations of the European one. This is not to minimize the significance of the regional and national conditions in each process of creating a regional trade agreement but undoubtedly the creation of the European Economic Community acted as a lighthouse for all other regional efforts.

These new regional schemes cannot be treated as a single category. There can be identified several differences between regional organizations mainly concerning the level of regional integration. Usually, most regional schemes begin with low levels of integration which gradually increases through time. In general, four types or levels of regional schemes can be identified:

1. The simplest form of regional cooperation is the Free Trade Area (ETA) where member states agree to the removal of tariffs in intraregional trade.
2. A second level of regional cooperation is the formation of a Customs Union, in which member states agree not only on the removal of tariffs between themselves but also agree to the imposition of a Common External

Regional Tariff (CERT) for all products coming from outside the region.

3. A more enhanced level of regional cooperation is the Common Market, where, in addition to the above, member states agree to the free movement of production factors.

4. Finally, the most advanced form of regional cooperation is the Economic Union, in which member states agree to their fiscal and monetary harmonization. This final step of regional economic cooperation leads to the adoption of a common currency.

With the end of the Cold War and the bipolarity that it had created, the world experienced a series of changes in world politics. The most significant one was that cooperation between states that previously belonged to different ideological and political groupings was now possible. Moreover, the problems facing the process of promoting world trade liberalization through the Uruguay round of trade negotiations led to the creation of unfriendly (or at least a pessimist) environment for the growth of world trade. The combination of the two above-mentioned factors pushed a lot of states to examining the possibilities of creating regional trade agreements with their neighbours, creating this way a second wave of regionalism.

This second wave of regionalism can be regarded to some extent as more compatible with the principles of world trade liberalization, as most of its representatives aimed at the gradual removal of tariffs not only between their member states but in a second phase to all other countries too (open regionalism). Moreover, while many previous attempts to create regional organizations were based on a import-substitution policy, representatives of the new wave of regionalism embraced a policy of enhancing exports and gradually opening up the regional economy. This new wave placed regionalism to the front scene of world politics. It will gradually become a worldwide phenomenon with a strong presence within the Triad (North America, Europe, East Asia) conditioning this way the world political scene during the end of the 1990s and the new millennium.

A basic parameter of the new wave of regionalism is that the USA partly abandoned its global effort of promoting free trade and decided to form a regional organization with Canada and Mexico, commercially unifying this way North America. In 1994, the North American Free Trade Agreement (NAFTA) will be created having as members two of the wealthiest states worldwide.

Additionally, in different regions of the world where regional bodies existed, such as Latin America and Africa, a revival of the interest for the regional process (further integration and/or expansion) occurred. One example was the creation of a new regional scheme in South America, the Mercado Comun del Sur (Mercosur) initially between Argentina, Brazil, Uruguay and Paraguay. In an area that until that point regional efforts were aiming at creating closed trade communities that enhanced protectionism, Mercosur will become the first representative of new regionalism including two of the most powerful developing countries, Argentina and Brazil. The new wave of regionalism is still evolving with numerous RTAs being announced each year. Nowadays, there are more than 210 regional trade cooperation schemes worldwide (until September 2006 the WTO was notified for 211 projects), most of which are Free Trade Areas (FTAs) or are aiming at establishing one. The most advanced regional project in the world is considered to be the European Union which is the only monetary union worldwide.

Unquestionably, the ascending numbers and the geographical distribution of existing regional efforts especially after 1990 have increased the importance of regionalism in the world economic and political scene.

It is rather evident from the above figures that regionalism has become a worldwide phenomenon. In addition, the fact that the most powerful states of the world belong to at least one regional cooperation scheme and that they try to push their agenda and interests also via the regional level, discloses the significance of regionalism in world politics. The European Union, NAFTA and Mercosur are just a few from the numerous regional groupings around the world, whose importance in the world political scene has picked during the new millennium.

The great significance of regionalism becomes clear not only from its numerous representatives but also from the figures they comprise. Five of the most institutionalized regional cooperation schemes (NAFTA, Andean Pact, Mercosur, ASEAN, EU-25) are responsible for trade flows worth of 6,5 trillion USA dollars (2005 data). They also involve a combined economy of more than 31 trillion USA dollars and a population of nearly two billion people. Therefore, the economic and political gravity of these organizations is enormous.

The immense economic figures can and usually are translated to political power and pressure especially when a regional body's or even a member states interests are being threatened. The most recent example is the still unsuccessful Doha round. One of the main reasons for not yet completing this round of trade negotiations is that a crucial issue of the negotiations is agricultural products and their subsidization. France, for example, with its substantive agricultural sector is resisting the abolishment of the European Common Agricultural Policy (CAP) that will have detrimental effects to its economy. The political power of France is multiplied through the European Union giving European farmers the power to block or to a point resist the abolishment of all their privileges. Whatever the final outcome of the Doha round, it is clear cut that no single country, such as France for example, (except maybe the USA) could block global trade negotiations in order to protect its people's privileges if there was no regional group to enhance its negotiating power.

Unquestionably, since the early 1990's the world is experiencing the evolution of a new level in world politics, the regional one. With the augmentation of the number, geographical distribution and size of the regional cooperation schemes, the phenomenon called regionalism has clearly increased its importance.

### **The Hegemonic Stability Theory in the Developing World**

Searching for the reasons that lead neighbouring, mostly, states to agree on the creation of a regional trade agreement most theories of International Relations have tried to provide the theoretical framework under which these cooperation efforts are set in motion and evolve, not leaving unattended of course the potentiality, the end goal of such efforts.

To some degree, several theories have provided frameworks that explain more or less the evolution and progress of many representatives of regionalism (concentrating mostly of course to

the study of the European Economic Community) especially when analyzing a specific period of their existence. But most of these Eurocentric theories have failed to give convincing answers concerning the future of the European Economic Community. Moreover, even today regional cooperation schemes around the globe and most specifically in the developing world have been understudied from the part of an explanatory theoretical framework. The purpose of this article is 'to take a theoretical framework set for the global level, the Hegemonic Stability Theory, and convey it to the regional one making of course the appropriate adjustments.

The Hegemonic Stability Theory can provide a successful explanatory theoretical framework of the creation and, to a degree, the evolution of regional cooperation schemes in the developing world. Yet, it must be pointed that undoubtedly the development and the end goal of a regional cooperation agreement cannot be fully accessed with the use of just one theory and that a combination of theories would act as a more appropriate explanatory theoretical framework as both the global, the regional and the national level exert their influence to the course of a regional body.

Neorealism and the Hegemonic Stability Theory introduced International Relations the term of hegemony and the need of a hegemonic state in order for the international environment to attain stability and peace.

'A hegemonic state is a state that in the period under study has the necessary power (economic, political, military) and the will to create a stable global environment (in the place of the pre-existing anarchy) through the establishment of a global system of principles and rules that secure world order. This global system is of course reflecting the principles and the interests of the hegemonic state .

This theoretical framework was founded mainly as an explanation by neo-realism to the historical periods (end of 19th century, end of World War II) when Great Britain (1st period) and USA (2nd period) succeeded in turning the anarchical global political environment to a stable and peaceful one while also enhancing global economic growth. The stable political and economic environment of these periods based on the "enforcement" from Great Britain, and later on USA, on the basic principles of free trade which were very beneficial for both

countries, helped the construction of the hegemonic stability theory. Both hegemonic states used their economic and military power to enforce some general economic and political principles that they had earlier espoused<sup>6</sup>.

It must be stated at this point that both hegemonic states did not always enforce their ideas and principles through coercion. A lot of states willingly accepted the proposed principles as it served their interests too. Therefore, it is not always necessary for the hegemon to impose ideas and principles using its power as many times its interests coincide with the ones of other states.

The theory described above can be used to explain why a series of group of states in the developing world have agreed to the creation of a regional cooperation agreement. Developing countries have no capabilities of starring in the international environment by themselves. Both

the structure of the political system and the existence of more powerful and advanced states deprive more advanced developing states to exert their influence to a wide geographical area. A developing state can have the power to influence its neighbours but not the international system; it can be stated that this developing country is a regional hegemon. Such a hegemon has three fundamental differences from a global hegemon:

- a. The aim of a regional hegemon is not to preserve its present state (being a regional hegemon) but the upgrading of its hegemonic position to the maximum possible level; increasing its influence in the international system or even becoming a global hegemon.
- b. The hegemonic position of the regional hegemon is directly related with the interests of the global hegemon or of more powerful advanced states in the region and from the level of internationalization of its neighbouring states.
- c. The capability of enforcing its principles and policies in the regional level is relative to the previous two points.

Obviously, regional hegemonic states aim at constantly increasing their power and their negotiating capabilities vis-a-vis other states or group of states by putting in action policies for their national development and also by creating regional cooperation agreements with their neighbouring states. Consequently, their participation to a regional organization is used as a way to tap more power from its neighbouring states; a member-state of a regional group is more powerful than a non-member state.

The option of entering into a regional cooperation agreement has of course some disadvantages, the most important one being the partial loss of national sovereignty. Even though the transfer of a part of state sovereignty to a regional body is expected to be negative for national governments, yet it tends to be beneficial for all member-states: the regional hegemon in principle maintains the initiative inside the regional organization while the other states strengthen their relationship with the regional hegemonic state and hope that they also constrain it to policies that have not negative effects on them.

On the other hand, national sovereignty is a new benefit for most developing states. Consequently, the regional organizations that developing countries create are not institutionalized to a great degree. This way, national governments have more freedom to proceed to national policies and initiatives. Thus, the newly constructed regional bodies are mainly intergovernmental in nature in favour of the perseverance of state sovereignty.

Unquestionably, developing states are mostly states that have either been created (e.g. the disintegration of British Indies) or acquired their independence (e.g. end of colonialism in East Asia) relatively recently. Within this environment of newly created states, no national government would call for strong regional bodies and mechanisms that would minimize state sovereignty. This parameter is also beneficial for the regional hegemon, as it is disengaged from the possible willingness of neighbouring states for a more institutionalized form of regional cooperation agreement that would decrease its potential to take initiatives outside the regional

organization. Thus, the regional hegemonic state can proceed to the creation of a loose regional organization that it can, to a degree, control and / or ignore in certain situations.

At this point, it should be pointed that the power of a state and therefore its hegemonic capabilities is related to what its neighbours think about it. The presence of an image of a powerful state formed by its neighbours removes the need for that state to be extremely

powerful in relation to its neighbours; it only needs for the other countries in the region to think of the hegemonic state as a hegemon. A history of hostile policies from the side of the hegemonic state enhances its position vis-a-vis other states. In such situations, neighbouring states tend to enter more easily to a regional group which may include the regional hegemon (usually this organization is an initiative of the hegemon) or may exclude it in a sense of pooling power for protecting themselves from its imperialistic behaviour.

To conclude, either with the support of the regional hegemon (more frequently) or fearing it (less frequently), a regional organization is being created because of the hegemonic state's existence and its willingness to empower its position in the global arena.

Within the above analysis and taking the basic elements of the Hegemonic Stability Theory, a new theoretical framework that can be used to explain the birth and evolution of regional cooperation schemes in the developing world can be formed. This theoretical framework, called Regional Hegemonic Stability Theory, can offer some useful interpretations of the progress of several regional integration schemes in the developing world. Taking into consideration all the above analysis, three basic conditions can be codified. Upon the Regional Hegemonic Stability Theory, these conditions must be met in order for a regional cooperation agreement to take place. These conditions are the following:

1. The presence of hegemonic state that has the appropriate power to influence its neighbouring states. This influence can be intentional or not and can act cohesively as an initiative or as an external threat.
2. Neighbouring states and the region in general must not be fully internationalized. Global interest on the area and its states should be relatively minimal.
3. The formation of the regional body must be based on a loose organizational structure of low institutionalization minimizing, therefore, the sense of transferring national sovereignty to the regional level.

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