RICE UNIVERSITY

INTERNATIONAL INTEGRATION: A MODEL FOR REGIONAL INTEGRATION IN DEVELOPING AREAS

by

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ABSTRACT

INTERNATIONAL INTEGRATION: A MODEL FOR REGIONAL
INTEGRATION IN DEVELOPING AREAS

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Despite the attempts of many scholars in the social sciences, no one has yet developed an adequate theoretical model for describing, explaining, or predicting integration efforts in less developed areas.

Jacob Viner, the first economist to attempt to measure the value of customs unions, failed to adequately consider the dynamic effects of integration in reaching a pessimistic conclusion as to the potential benefits of integration for developing countries. It was left to Bela Balassa to develop the theory of economic development by import substitution that has been used by leaders of developing countries to justify economic integration to maximize the potential for import substitution. However, the economic theory of integration fails to consider the crucial social and political processes that are of such importance in the integration process.

Political science theories also have their major faults. Deutsch's sociocausal paradigm contains large theoretical gaps between crucial variables as well as being Western orientated. The neo-functionalist model also fails to be of use in developing areas because of its emphasis on variables found principally in developed areas.

It is to fill this gap in our knowledge of integration that this author develops a model of integration for all areas by using Joseph S. Nye's revised neo-functionalist model as a core and the East African Common Market and the Central American Common Market as case studies. Finally, an empirical test to study the impact of integration on instability in Central America is explicated to show the value of our integration model in bettering our understanding of integration in developing areas.
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CHAPTER I

INTRODUCTION

Between the years 1958 and 1961 the Central American countries of Guatemala, El Salvador, Nicaragua, Honduras and Costa Rica established the Central American Common Market and its regional institutions. Thousands of miles away, and nine years later, leaders from Uganda, Kenya, and Tanzania signed the Treaty for East African Cooperation in an attempt to salvage and maintain the East African integration effort.

One of the most interesting, and as yet not satisfactorily explained phenomena in international politics is the voluntary surrender by nations of some aspects of their economic and political sovereignty. We are accustomed to recently independent or small nations vociferously defending their independence, their right to complete sovereignty, and their desire for total and absolute control over their nation's destiny. Therefore, when any nation voluntarily and peacefully integrates aspects of its economic and/or political functionings without the threat of military coercion, their behavior is unusual, interesting, and worthy of study. Fortunately, many scholars are interested in studying international integration, both as a process and a condition, and have developed several models that have descriptive, explicative, and predictive powers. Three of the most respected and useful models are: the classic equilibrium economic model proposed by Jacob Viner, the sociocausal paradigm, and the neo-functionalist model. It shall be our purpose to analytically examine each of these models of international integration and show that all are inadequate as models in explaining, predicting, or describing integrative efforts between less-developed countries. After enumerating and explicating the faults inherent
in past models, we shall develop, using Joseph S. Nye's revised neo-
functionalist model as a core, a comprehensive, useful model that hope-
fully will have great relevance to integration in less developed areas
as well as developed areas.

The reader might well ask why we are limiting our research to inte-
gration efforts in less developed areas and specifically to the Central
American Common Market and the East African Common Market. One of the
basic purposes of this paper is to clearly demonstrate that no model has
been developed that will fulfill requirements for a model of integration
in less developed countries. Therefore, there is a need for analysis in
this area. We have chosen to concentrate on the C.A.C.M. and the E.A.C.M.
because only these integration efforts have succeeded in integrating aspects
of their political and economic functionings to a degree worth studying.

Central America, since the start of integration efforts, has enacted
a common external tariff that covers the vast majority of imported goods.
In addition, it enjoys almost complete freedom of internal trade, and
regional institutions such as the Central American Bank for Economic Inte-
gration has been set up and are actively working.

East Africa has continued many of the integrative policies set up
during colonial days by Great Britain. There is the large and effective
East African Common Services Organization that regionally handles major
transportation. Until 1967 there was a central bank and a common currency.
And there is almost complete freedom of labor and capital movement as well
as freedom of internal trade and an almost complete common external tariff.

In short, the C.A.C.M. and the E.A.C.M., although far from achieving
complete integration, have achieved the highest degree of integration in
the developing world and thus are the most suitable cases for study. No other integration effort in the developing world has begun to reach the levels of political and economic integration achieved by our case studies. Obviously, any effort to develop a model of integration that successfully deals with less developed areas must be able to explain, describe, and predict all aspects of the only functioning integration efforts in the less developed world.

Having finally developed our new model, we will conclude the paper with an attempt to open the door for future researchers. Many theoretical efforts seem to suffer from a lack of empirical research and the failure to explicate that proverbial adage: where do we go from here. Our answer shall be to begin to operationalize the model to study a crucial question: what is the impact of integration on instability levels in participating nations? By measuring the effect of some of the key factors within our model on stability, we shall accomplish two goals. First, an empirical operationalization will help to further explicate the dynamics of the integration model. Concrete examples and specific cases should help explain and tie together theoretical aspects of the model. Second, and perhaps of more importance, is the beginning that will be made on measuring the impact of integration on participating nations. Models are tools to describe and explain, but they should also predict. Although it is not within the scope of this paper to go beyond a small beginning in measuring the impact of integration, hopefully others will conclude that further operationalization is both possible and useful in furthering theoretical knowledge and producing concrete measures of the costs and benefits of integration.

Any empirical efforts must wait however, until we have investigated earlier integration models.
CHAPTER II

THE ECONOMIC MODEL: FROM CLASSIC EQUILIBRIUM TO IMPORT SUBSTITUTION

As we shall see, each model of integration posits a different definition of integration. In the economic model, integration is measured by the state of economic affairs between nations. Economic integration is a relative measure, mostly based on trade relations, ranging from absolutely no trade between nations to complete economic interdependence. Viner and others have concluded that stages in economic integration can be differentiated. From low to high economic integration the stages are:

1. Free trade area - member nations have free trade with one another but individual tariffs with outside countries.
2. Customs union - free trade area with the addition of a common external tariff on outside nation's products.
3. Common market - customs union plus free movement of capital and labor.
4. Economic union - common market with the addition of regional planning and co-ordination of government policies.

Naturally, there can be, and often is, confusion between stages and it is no easy task to analyze with absolute accuracy the state of integration between any set of nations. As with much of the terminology in political science and economics, we must be content with relatives and estimations. Nevertheless, the scale seen above has been developed, and is used in the economic model of integration.
Jacob Viner, noting that many people were looking towards customs unions "... as at least a partial solution for the major economic and political problems in the international field." felt that a thorough investigation of the theoretical aspects of customs unions was necessary to determine their value, if any, to nations. After declining to pattern his model on the free trade area, Viner felt that because common markets and economic unions were much more difficult to achieve than a customs union, were less uniform in their attributes than customs unions, and would be developed from a customs union between nations, any economic model of integration should center around the customs union.

The perfect customs union must meet the following criteria:

1. A complete elimination of tariffs between the member nations.
2. The establishment of a uniform tariff on imports from outside the union.
3. The apportionment of customs revenue between the members in accordance with an agreed formula.

His analysis of the theoretical attributes of a customs union is of a perfect customs union between pairs of countries with administrative advantages and disadvantages that could occur when customs forces and border patrols are merged or cut-back disregarded. In addition, Viner assumes that the average level of duties imposed on goods from the outside is the same for both countries. Therefore, we can discern two types of duties: Nominal and effective protective duties. Nominal duties have no effect on imports because there would be no imports even if the duties were not there. Effective protective duties, however, reduce imports by making them more
expensive and diverting consumption from imported commodities to domestically manufactured goods. They key question to ask is, does the change of location of production of goods cause diversion of purchases to lower or higher money-cost sources of supply for each country taken separately, taken together, for the outside world, and for the world as a whole? If the customs union diverts purchases to lower-cost sources of supply, it is trade creating. If it diverts purchases from higher-cost sources of supply, it is trade diverting. Viner feels the establishment of a customs union will be followed by two basic trade patterns.

1. Member A will buy new products from member B because cost is lower than before when A produced domestically and had a tariff. This is trade-creating and a movement to low-cost suppliers.

2. Nation A will buy products from nation B that it previously had purchased more cheaply from non-member nation C. Now nation B's product is cheaper than C's plus tariff. This is trade diverting and entails movement toward high-cost suppliers.

Depending on your position, either as a free-trader or protectionist, the customs union benefits nations if it is trade creating or diverting respectively. Viner concludes that the costs and benefits depend on many factors. However

Where the trade-creating force is predominant, one of the members at least must benefit, both may benefit, the two combined must have a net benefit, and the world at large benefits; but the outside world loses, in the short-run at least, and can gain in the long-run only as the result of the general diffusion of the increased prosperity.
of the customs union area. Where the trade-diverting effect is predominant, one at least of the member countries is bound to be injured, both may be injured, the two combined will suffer a net injury, and there will be injury to the outside world and to the world at large.

To Viner, a free-trader, trade diversion is bad because it shifts sources of supply to high cost sources and thus is inefficient in an absolute sense. In fact, only in the case where the addition of a new market permits economics of scale can trade substitution be beneficial. Unfortunately, Viner states that the great uncertainty in factors such as labor, capital, etc., as well as the possibilities of efficient production on a small scale, argue against many substantial gains in efficiency and cost due to economics of scale created by trade substitution.

Therefore, customs unions are most beneficial when they are trade creating. And, the greater the extent and the larger the number of the following characteristics a customs union has, the greater its potential for trade creation.

1. The larger the economic area of the customs union, the greater the potential scope for internal division of labor.

2. The lower the "average" tariff on imports from the outside as compared to what the level would be without a customs union.

3. The more each nation has rival high cost (competing) industries.

4. The greater the differences in unit-costs among the same competing industries.

5. "The higher the tariff levels in potential export markets outside the customs union area with respect
to commodities in whose production the member countries of the customs union would have a comparative advantage under free trade, and therefore the less the injury resulting from reducing the degree of specialization in production as between the customs union area and the outside world." 6

6. The greater range of industries for which an enlargement of the market would result in lower unit-costs than those imported.

7. The smaller the range of industries whose unit cost would not drop below imports from outside but would expand anyway because of the added tariff.

Generally,

Customs unions are not important, and are unlikely to yield more economic benefit than harm, unless they are between sizable countries which practice substantial protection of substantially similar industries. 7

Viner has developed an objective, but pessimistic economic model to measure the benefits of integration. Taken as it stands, and assuming that Viner is correct in his theoretical interpretations, no nation except those who fare well on his optimizing characteristics would ever economically integrate based on a customs union. Any proposed integration can be analyzed as to future costs and benefits by investigating the trade creation or substitution effects and the magnitude of these changes by Viner's seven characteristics. Therefore Viner's model deals with two aspects of integration: measuring the costs and benefits of integration, and also attempting to rationally measure some of the economic aspects of nations that might lead them to consider integration.
Recent economic theory has argued that Viner's approach is much too limited and static to be of use for lesser developed countries. Tayseer A. Jaber argues that to measure the consequences of economic integration we must be able to measure the following effects:

1. Static effects. These refer to welfare gains and losses from marginal reallocation of production and consumption patterns.
   a. The production effect.
      1. Trade creation.
      2. Trade substitution.
   b. The consumption effect. Commodity substitution due to changes in relative prices.
   c. The trade effect. This might result from trade diversion or the increase in bargaining power in the partner country.

2. Dynamic effects. These effects relate to the rate of growth of the economy.
   a. Economics of scale. How the unit-cost is affected by changes in production quantity.
   b. External economics. Those which shift specific or general cost curves downward.
   c. Polarization effect. The backwash or concentration of industry and capital in the more developed countries in the union.
d. The effect on the volume and location of investment.

e. The effect on economic efficiency and smoothness of trade transactions due to changes in the degree of competition and the change in uncertainty and unilaterality of trade policies in individual countries.

Viner by confining his analysis to production effects solely and by assuming demand curves of zero elasticity and supply curves of infinite elasticity has failed to consider the complete picture. Instead of looking at economic integration from the lesser developed countries viewpoint, Viner was concerned with maximizing the total world's welfare as defined by optimum production of goods at the lowest cost. Nevertheless, we should still study those static factors explicated by Viner which are said to determine the trade creating or trade diverting effects of a customs union. Are these of value to lesser developed countries?

1. The complementarity or competitiveness of participating economics. Viner argues that if before union both nations produce the same goods, and if there is a large disparity between the costs in each nation, after union will see one nation producing for both, thus resulting in a large trade creation. In lesser developed countries we can distinguish four basic groups of commodities. First, primary products produced and exported by a large number of the developing nations. Second, primary products produced by a few nations and traded within the less-developed region. Third, manufactured goods and nondurable consumer goods produced in many of the lesser developed countries. Finally, durable goods that are imported.
After integration, the first category will not be effected. These goods compete on the world market and will continue to do so. Because of uncertainties of demand each country will strive for some diversification of exports. Thus, complete reallocation of primary products to countries most suitable for production will not occur. Goods in category number two will be effected, and those protected by tariffs may be substituted for, depending upon the nations in the customs union. Those that are unique, such as oil, will continue the same level of trade. Goods in category number three are usually protected, and will be most influenced by reduction of tariff. Goods in group number four are rarely made in less developed countries, and therefore are not affected. In summary, the competitiveness of complementarity factor only influences goods in the third category significantly. Whereas in some instances these non-durable goods are important, most developing countries depend on goods in the first and second category for their growth. Therefore, this concept of Viner's, by failing to be relevant for the principal goods produced in developing areas, is of limited use in determining the static effects of economic integration in less developed countries.

Indeed, the criterion of competitiveness and complementarity is not relevant at all to lesser developed countries unless it is given a different sense. It presumes a developed economic structure which, when integrated, would readjust through a 'creative destruction' process that ends up by the survival of the most efficient producer.

Developing countries do not have this structure, and even if they did the process of creative destruction would not be given free play.

2. The size of the union. The larger the size of the union the greater the potential scope for division of labor and potential to reduce the possibility of trade diversion. The best measure of size is G.N.P.,
and in almost all of the lesser developed countries, as is the case of East Africa or Central America, the G.N.P.'s of nations are very small. Thus, any trade creation or diversion must be small, as would be any division of labor. In an absolute sense, this argues against the creation of a union, but of more importance is the relative gains possible to each nation. In addition, integration could be a powerful catalyst to economic development that we would have to measure in the dynamic effects.

3. High transportation costs tend to limit gains from economic integration among developing countries. This is true, but it is a very flexible parameter, and could change very quickly.

4. The higher the initial tariff rates and the lower the final common external tariff, the larger will be the welfare gains. Since most integration schemes have a high external tariff, then the gain must be low. This is true in the absolute efficiency sense of lowest cost producer, but false when measured from the advantages of tariff revenues and import substitution.

5. Traditional theory states that a customs union is more likely to increase welfare the greater the proportion of trade with a country's union partner vis-a-vis the outside world. As lesser developed countries have a generally low level of intraregional trade, low benefits will be gained from a customs union. Several factors limit intraregional trade. The low level of economic development, inadequacy of transportation, overvalued currencies, foreign exchange controls and other import restrictions, lack of marketing skills, historical ties of colonial economic interdependence, negative attitudes of nationalism, and absence of standardized goods all
limit intraregional trade. Many of these weaknesses are quickly changeable and could be minimized by the establishment of a customs union. In addition, we must again look at the relative, not absolute gains each nation could reap.

6. Finally, traditional theory suggests that a customs union is more apt to increase welfare the lower the total volume of foreign trade as percentage of G.N.P. of member countries. Lesser developed countries rely heavily on export earnings, thus again economic integration does not appear promising. However, a relatively large volume of foreign trade can represent potential for dynamic production and income effects. And, as we shall see, customs unions must be measured in terms of dynamic effects rather than static ones.

We may now conclude that the factors which are said to determine the trade-creating and the trade-diverting effects of a customs union have only limited relevance for a union of developing countries since they do not allow for the interrelationship of economic integration and development. By considering the reallocation of existing resources and taking universal free trade based on static comparative advantage as its welfare criterion, the traditional theory of customs unions will thus be of little usefulness for evaluating the desirability and the possible consequences of integration in less developed areas.

So far, we have discovered that not only does Viner fail to fully investigate the effects of customs unions, his theoretical concepts concerning static effects of trade creation and diversion have little value to lesser developed countries. The traditional equilibrium theory of customs unions is of little help in explaining cause or effect of integration to the scholar interested in explicating integration schemes in the less developed world. Fortunately, Bela Balassa has developed a revised theory of economic integration that can be of some use. The primary question of interest is --
what are the possibilities of the lesser developed countries to develop based on a small number of primary exports? Three alternatives are open to less developed countries. First, they can grow by an expansion of primary products. This option is severely limited by low price elasticities as well as large changes in supply and demand which lead to sharp fluctuations in export proceeds. To complete the circle, sharp fluctuations in export proceeds -- which are extremely important -- limit the ability of these nations to plan and carry out investment programs. The first option is an unpromising one for developing nations. Second, nations can expand the exportation of manufactured goods. However,

The developed countries usually maintain much higher import duties on imports of semi-manufactured goods than on imports of the corresponding raw products, and this in itself is therefore a constant deterrent against the establishment of new processing facilities in the underdeveloped countries.

Developed countries may have low tariffs on some semi-manufactured or manufactured goods that lesser developed countries could produce. There are reasons for these gaps in the tariff wall. Perhaps the good is labor intensive and thus too expensive to manufacture in developed areas. Or, perhaps the pollution output is very high and expensive to correct in developed countries. In any case, the tariff gaps are few and of little real value to developing countries. Lack of ability to grow by export, either of primary goods or non-durable manufactured goods, leads the lesser developed country to one last solution.

If, then, the underdeveloped countries cannot raise their standards of living significantly through production for export, because markets are denied to them deliberately or otherwise, their development strategy is inescapable--namely, to expand production for the home market.
Import substitution is the most feasible method of increasing domestic production and economic growth. Even this alternative has limiting factors. Most simple goods have already been substituted for, therefore, new substitutions must be made in the intermediate products -- the durable consumer and capital goods. Nations can follow either a broad strategy of parallel development of a number of industries or concentrated growth in a few. Whichever method is chosen will not work well in the narrow confines of a small, national market that is limited by internal poverty and the external tariffs of neighbors faced with similar economic problems. Economic integration among lesser developed countries can be of great aid in import substitution, and thus lead to growth of domestic economies.

Economic integration, perhaps based on a customs union, will allow; economies of scale to increase the efficiencies of regional producers by lower costs per unit, greater specialization of products, and product variety to be reduced, thus lengthening production runs. Import substitution will be increased and will result in two different outcomes, one trade creating and the other trade diverting. As we have seen, the larger regional markets will enable some plants to produce more efficiently, thus increasing production at minimum cost. Everyone, even Viner, would agree that such a result is beneficial. Trade diversion effects, while perhaps not beneficial to the world, have great benefit to the lesser developed countries.

An underdeveloped country's first concern is to find useful employment for those of its citizens who at the present time are adding little or nothing to the national real output and income. If employment can be found for such people, even at relatively low productivity, there will be a net gain insofar as the total real income to be shared out among the population will be higher than it would be under conditions of
free trade. Consequently, whatever output of, say, textiles can be secured in an underdeveloped country without lowering production on the land represents a net gain of output and income to the economy, no matter how high are the costs of the textile production.

Lesser developed countries must grow by import substitution, and must find use for their people. Economic integration can help both problems and at a lower cost than going it alone. Remember, Viner flatly stated that integration for developing nations has little economic value. Balassa develops a different conclusion. By integrating aspects of their economies, developing nations can maximize their ability to produce domestically, therefore gaining as much value as possible from the only feasible development strategy open to them -- import substitution.

The revised theory of economic integration presented by Balassa and others is of great relevance to the lesser developed countries. The theoretical implications briefly investigated here were used with great effect by the members of the Economic Commission to Latin America in influencing the Central American countries. It is a hopeful, somewhat optimistic guideline to growth as well as a theoretical analysis of some possible outcomes of economic integration. As a model, the theory of economic integration simply deals with conditions. It does not deal with the processes of integration, except in a cursory manner (i.e. it describes some things that will take place after nations have agreed on levels of economic integration). Nor is it a complete enough model for our use. Economic integration cannot proceed in a vacuum, but discussion concerning social and political changes has been ignored. In addition, agriculture as an important part of the transformation of the society has been largely forgotten. The sophistication and relative accuracy of this theory in
predicting concrete economic costs and benefits to any economic union would be of greater utility if man were a computer. Irrational perceptions, faulty analysis, or simple lack of information can sabotage any tool of analysis. And, as we are dealing with nations whose perceptions of values may differ considerably from a Western orientated viewpoint, how accurate a tool is this model in predicting social or political behavior? To politicians

... what is important to them is not welfare itself—as analyzed in price economic terms—but future welfare perceived in terms of conception deeply tinged with ideological factors and consistently influenced by the requirements of political expediency. 27

Clearly, one can argue that we have not been discussing one economic model of integration. Viner deals mostly with measuring potential trade gains and losses if integration is achieved. Balassa's work is concerned more with the theoretical aspects of why developing nations should integrate than with measuring static effects of integration. Other scholars have attempted to measure the degree of economic integration achieved, and others the dynamic economic effects of integration. We have shown, however, how each effort has explicated and developed previous concepts to better purpose in developing regions. Taken together, the economic theories explicated form a fairly systematic body of thought concerned with both the causes and economic effects of integration in developing countries.

The economic theory of integration, if we can lump the theories together into one concerned with developing areas, is beneficial in that it is of great motivation to leaders in developing countries and it is valuable in explicating and stressing market and production changes in a
society. Thus, it is a first, and important step in developing a comprehensive model of integration in developing regions. History has shown that all recent peaceful efforts at integration have begun with economic integration, therefore economic realities and perceptions are of crucial importance both in beginning and maintaining integration. We shall also soon see that it is mostly economic problems that lead to political disruption of integrative efforts. At this time however, let us remember that the economic theory of integration, as developed from Viner through Balassa, for all of its insights is not a complete model of international integration. It is an economic model: a rational model that deals mainly with measuring costs and benefits. Political and social aspects are forgotten, and thus we shall perhaps have greater success understanding integration by turning to the realm of political science and investigating the sociocausal paradigm of integration.
FOOTNOTES CHAPTER II


3 Griffin and Ffrench-Davis argue on page three that due to the individual external tariff schedule each country has with outside nations free trade areas are notoriously inefficient. For example, nation A and nation B might need product X from nation C which is valued, with no tariff, at 50. If A places a tariff of 50 on X, and B places a tariff of 25 on X, X would be imported into A at 100 and B at 75. However, because of the free trade area between A and B people in A will buy X from B, thus circumventing A's tariff. Even if taxes are added -- a complicated and inefficient procedure -- prices of X in nation B will often still be lower.

4 Viner, op. cit., p. 5.

5 Ibid., p. 44.

6 Ibid., p. 52.

7 Ibid., p. 135.


10 Ibid., p. 24.

11 Ibid.

12 Ibid., p. 25.

13 Jaber, op. cit., p. 261.

14 Balassa, op. cit., p. 28.

15 Jaber, op. cit., p. 262.

16 Ibid., p. 263

17 Ibid.

19. Ibid., p. 34.


22. Ibid., p. 206.


24. Dell, op. cit., p. 213.


26. Ibid., p. 126.

CHAPTER III
THE SOCIOCAUSAL PARADIGM

As Viner could be called the father of the economic theory of integration, the sociocausal model of integration is attributed mainly to the fertile ideas of Karl Deutsch. Nowhere has Deutsch explicitly developed this paradigm. Rather,

The sociocausal paradigm of political integration is a verbal model implicitly developed by Deutsch in several of his earlier writings in which social variables are used casually to explain political integration. 1

Political integration in this model is both a process and a condition. As an end condition, a politically integrated community must possess three characteristics. First, it must possess some form of supranational institutions which have the authority to make binding allocations of values for the community. National institutions can co-exist with the supranational ones, but the supranational institutions must be more powerful and the center of efforts of interest groups. The regional institutions are recognized by the elite and mass population as the legitimate allocators of resources. Second, the community must contain certain political processes. After recognizing the legitimacy of the regional institutions, national actors must reorganize their interest groups on a regional basis in order to influence the activities of the supranational institutions. Regional interest groups, not national governments and actors, become the key influences of policy. In addition, conflict of interest must be solved peacefully, and without the use of force. 2 The final needed element is the existence of a transnational society.
This transnational society is a population in which there is a high probability of interaction, of exposure to common experience, of common social heritage, of similar preferences, and of similar expectations and aspirations. This society, which possesses a common sense of destiny, thus shares certain psychological feelings and orientations which allow the people of the society to give support to a common set of institutions and to a nonviolent style of political decisionmaking.³

An integrated political community is the end result of the socio-causal integrative process. This process begins with social assimilation, "... a learning process during which peoples, in response to mutually rewarding transactions, adapt habits that they perceive as conducive to further rewarding transactions." As the populations continue to assimilate, old social, economic and psychological commitments are eroded and broken down, and people become available and susceptible to new patterns of socialization and behavior.⁴ Changes in the patterns of relationships between four groups of variables are visible proof of the integration process.

1. System dominance replaces subsystem dominance.
2. The goal of international stability, rather than national stability, becomes the main goal of national action.
3. Friendly cooperative interaction between states supersedes hostile competitive action.
4. Finally, nonviolent methods of conflict reduction between states supersede violent methods.⁵

Once these changes occur, a transnational society exists. This opens the door to political development, or the cooperation among nations to find the solution to common functional problems. Supranational institutions
are conceived and installed. If they are successful and earn legitimacy while being the catalyst to the formation of transnational interest groups, an integrated political community has developed.

To simplify, we can see that social assimilation, which can be measured by relations between governments, transaction flows, and the attitudinal structure of elite and mass opinion, develops a transnational society which in turn breaks down old barriers to international cooperation. Nations are able to jointly attack common functional problems through supranational institutions. As these institutions prove efficient, societal transformation continues with the growth of transnational interest groups and the switching of loyalties from the nation to the region.

Deutsch has used this paradigm to conclude that since assimilation levels in Western Europe remain constant and low, further political development — thus political integration — will not occur in Western Europe. Thus the paradigm has been used to investigate integration in the real world. What value, if any, does the sociocausal paradigm have for integrative efforts in lesser developed countries?

Theoretically, the paradigm has several crucial weaknesses. Central to the development of an integrated political community is the relationship between social assimilation and political development. As Fisher clearly states, the paradigm fails to specify a clear theoretical linkage between the two central variables studied. Inherent in the conception of social assimilation is mass learning, or response to changing conditions. Political development, on the other hand, is the creation of new methods of decision-making by relatively few elites. How mass attitudes influence or are influenced by elites has been the subject of great debate
with conflicting conclusions. The simple relationship posited by the paradigm is not a true reflection of mass-elite interaction in the real world.

The theoretical difficulties lie in two main areas: social assimilation, and its relationship to political development. Much work has been done investigating how people become assimilated within a national setting. Perhaps these efforts can be successfully used to describe assimilation between national cultures. However, more study needs to be done on social assimilation before national findings can be directly inserted into integration models to explain cross-national assimilation. Also, the relationship between mass attitudes and elite actions is a nebulous one. The extensive literature on this relationship has differed as to its conclusions, yet the sociocausal paradigm does not fully discuss the linkage between mass attitudes and elite action. Clearly, how changing mass attitudes are perceived and acted upon by national elites is a crucial aspect of the paradigm, yet we are left with a vague explanation that somehow the elites get together because the masses do not hate each other any more.

Perhaps just as damaging is the failure of the paradigm to incorporate a greater amount of sophistication in the crucial variables and processes. Which elites follow what kinds of behavior patterns in developing the supranational institutions? As history has shown us, de Gaulle, a political elite, was of great importance in Western European integration efforts. Therefore, should we concentrate on political elites, or can we hypothesize that the relevant and crucial elites during different phases of the paradigm change according to differing circumstances? Concerning the process of social assimilation, does there have to be an outside
catalyst? Do people spontaneously begin to work together and develop trust, or does there have to be a threshold of transactions? Which transactions are of most importance, and do they all lead to changing perceptions and greater trust? We could go on much longer, but the point has been clearly made. Theoretically, the sociocausal paradigm has many ambiguities and weaknesses that minimize its usefulness in studying integration in any political setting. These theoretical weaknesses have compounded operational problems, as much of the literature using the sociocausal paradigm concepts will show.

More important however, is its Western, developed-world bias. Obviously, social assimilation possibilities for developing countries with low levels of transactions; newly independent, weak, and/or uncertain governments; and poorly assimilated traditional societies with even little empathy for other members of the nation are practically nil. Without social assimilation we can have no transnational society, no political development, and no integrated community. Yet we have seen that in two instances, the C.A.C.M. and the E.A.C.M., developing nations have partially economically and politically integrated their communities. Supranational institutions such as the E.A.C.S.O. and the Central America regional bank have been developed without a transnational society. Common functional problems have been attacked without national governments losing legitimacy to supranational institutions. Our conclusion must be that the sociocausal paradigm is not an accurate or very useful model for lesser developed countries. Given its basic assumptions, that a political community, in order to be integrated, must contain transnational populations and processes professing loyalty to supranational institutions, we must conclude that
the sociocausal paradigm cannot be used because of its emphasis on social assimilation and mass learning. Lesser developed countries are attempting to integrate, but with different basic processes than changing mass perceptions. Deutsch's paradigm is insightful in investigating modern national societies attempting to integrate across nations, or perhaps it could be used, because of its emphasis on mass learning, to shed light on integrating developing societies within a nation, as is being done with the tribal communities in Africa. Used as developed by Fisher and others, the sociocausal paradigm cannot fulfill our requirements for a model for lesser developed countries.
FOOTNOTES CHAPTER III


2. Ibid., p. 256.

3. Ibid., p. 257.

4. Ibid.


7. Ibid., p. 258.


10. Ibid., op. cit., p. 290.


13. Fisher clearly points out many of the major theoretical and empirical problems with the paradigm. By using simple logical statements Fisher concludes that political development has increased in Western Europe despite Deutsch's claim that it cannot without a rise in social assimilation. This sheds doubt on the basic theoretical linkage proposed by Deutsch and the reliability of measures of social assimilation and political development used by Deutsch and others to test this paradigm.
CHAPTER IV
NEO-FUNCTIONALISM

Two of the major models developed to study integration have yielded insightful concepts but have failed to satisfy our needs for an overall model. This perhaps may be an artifact of the economic model being developed primarily to do other things than explain integration processes, and the lack of concrete explication of the sociocausal paradigm by its principal founders. Neo-functionalism has no such extenuating circumstances, and therefore should be of greater value to this study.

A. The Original Theory.

Neo-functionalism, first expounded coherently by Ernst Haas in *The Uniting of Europe* (1958), remains the principal integration model used today. Unlike many other interesting theories, neo-functionalism has developed a large cadre of supporters who have constantly revised Haas's original theory to better explain integration. In fact there are three basic generations of the neo-functionalist model. The first, Ernst Haas's original effort, still contains the central and important aspects of neo-functionalism.

We can summarize Haas, Lindberg, and others who have developed the early ideas of neo-functionalism by thinking of integration as a three step process. First, supranational institutions are established and given certain specific tasks to perform that participating nations feel can best be solved by regional cooperation. These institutions are given functionally specific economic tasks to carry out, such as coordinating coal and steel policies within nations. As the institutions implement policies related to their task, the complicated second step begins. Interest groups,
political parties, and involved elites at the national level begin to organize their resources to influence policy at the supranational level instead of the national level. These groups, seeing that the supranational institutions are the key and effective policy-makers, organize across national boundaries, develop a common doctrine or ideology which might be termed suprationalism, and attempt to work through the supranational institutions for benefit. The national governments, gaining welfare benefits from economic payoffs resulting from the coordinated policies of the supranational institutions, negotiate in good faith and usually compromise difficulties by upgrading common interests, a solution that adds fuel to the integration process. At the same time -- for all of these activities intermingle chronologically -- the overall institutions are expanding their influence by the process known as spillover. Their original tasks, if they contain the potential for spilling over from one important area of welfare policy into another and another, can be expanded because of several reasons. First, the institutions have developed competence and expertise in important economic areas, and their experts and bureaucrats, in addition to pressing for more responsibility, have shown they are capable of producing beneficial results. Second, interest groups and elites, having organized at the cross-national level, give impetus to the institution by lobbying for increased supranational control. National governments, noting the benefits received from integration and feeling the pressures from interest groups to expand the role of the supranational institutions, compromise difficulties easily and allot functional tasks to the institutions which are important and easily expandable. The third step is the gradual development of a sense of community. To Haas and others,
political community, therefore, is a condition in which specific groups and individuals show more loyalty to their central political institutions than to any other political authority, in a specific period of time and in a definable geographic space. 3

The process of integration is a continuum, starting with small, weak institutions and few tasks and ending with complete political integration -- a new community of Europeans.

Note that neo-functionalism contains many of the same concepts important in the sociocausal paradigm but the process phases are arranged much differently. Before, social assimilation at the mass level led to elite establishment of supranational institutions. Neo-functionalism posits that social assimilation -- a politically integrated community -- will follow, not precede, the supranational institutions.

Haas' pioneering work corrected many of the theoretical weaknesses found in the sociocausal approach. Linkages between the key variables; supranational institutions with functional tasks would develop legitimacy and spillover creating transnational interest groups and ultimately a political community, were theoretically and logically developed and the entire process rested not on an ambiguous concept of mutual trust development but rather on pragmatic politics. Mass attitudes, essential in the sociocausal paradigm (and so difficult to understand) are only a minor element of the neo-functionalist schema. It is the elites who control the process, and these elites, businessmen and institutional bureaucrats, will act in their own self-interest by expanding the integration process.

To the neo-functionalist, the process of integration is of prime interest, and is heavily investigated. Integration as a condition is defined as a relative thing. As the process continues, countries become
more and more integrated. From a few economic functional tasks, the spillover process continues until nations are highly politically integrated. Spotlighting the process enabled the theorists to develop the theoretical links well, but little attention was paid the end condition of integration, and therefore it is not well explicated. However, they do call the terminal condition of integration a political community, and it exists when there is

likelihood of internal peaceful change in a setting of contending groups with mutually antagonistic claims.

B. The Haas-Schmitter Typology.

Once the theoretical groundwork was laid, a second generation model interested in operationalizing the integration process was developed. Crucial questions were asked of the neo-functionalist model that could not be answered until a comprehensive framework of study was developed. Haas and Schmitter led the way by creating a typology that could be used to measure the chances for success (automatic politicization) of any integration effort.

The basic characteristics of the integration process changed very little from the original neo-functionalist theory.

Integration, to us, means the process of transferring exclusive expectations of benefits from the nation-state to some larger entity. It encompasses the process by virtue of which national actors of all sorts (government officials, interest group spokesmen, politicians, as well as ordinary people) cease to identify themselves and their future welfare entirely with their own national government and its policies.

Again, integration is a continuum. From an economic union -- "... some measure of continuing central administrative control..." there is a gradual politicization of each actors' purposes until they reach
political union -- "... any arrangement under which existing nation-states cease to act as autonomous decision-making units with respect to an important range of policies." Politicization is the process whereby actors seek to resolve problems by upgrading common interests and delegating more authority to the center. Actors will develop new loyalties and expectations based on perceptions of past performances of the supranational decision-makers. Noting the successes generated in the economic field, national actors will gradually press for solutions to more complicated problems needing greater supranational authority. Politicization is a gradual, and, depending on the conditions, perhaps an automatic process.

The new refinements given to the neo-functionalist theory lie basically not in any fundamental change in the interpretation of the integration process, but rather in Haas and Schmitter's efforts to develop a truly comparable paradigm. They argue that any integration effort can be judged by looking at three basic conditions of the union: background conditions, conditions at time of economic union, and process conditions. In addition, they develop variables to measure each of these conditions. Background conditions contain: size of units, rates of transaction, degree of pluralism, and elite complementarity. Conditions at time of economic union contain governmental purposes and powers of union. Process conditions include: decision-making style, rate of transactions, and adaptability of governments. By rating unions on each of these variables one could predict the chances of automatic politicization from economic to political integration.
Many telling and important criticisms of the Haas-Schmitter paradigm have been proposed. Two authors, Roger Hansen and Joseph S. Nye do perhaps the best job in pointing out the weaknesses in this neo-functionalist typology.

Hansen argues that the "conditions" schema proposed by the neo-functionalists has many weaknesses that tarnish its utility, particularly in the lesser developed country attempts at integration. Nowhere do we find an explication of the effect of the international environment on integration efforts. Surely the international economic system has some influence on integration efforts and processes, as we shall see later. Also, their automatic politicization continuum makes no allowances for differences between high and low politics. The traditional view argues that there are great differences in actor's perceptions of low welfare politics -- which are of little importance -- and high politics -- such as national defense that require the highest attention and resources.

High politics is symbol laden, emotive, and based on attributes characterized by greater intensity and duration than low politics which is consequently more susceptible to the rational calculation of benefits associated with economic problems.

As we can easily see, in lesser developed countries the problems of balanced development and backwash effects transform many of the simple welfare policies of Western Europe into essential, emotive political confrontations. Thus, there is a smaller amount of low political areas to build an integration base on. In addition, whether a simple continuum exists between low and high politics in lesser developed countries is extremely difficult to assess based on analysis of Western European politics.
lesser developed countries have not been independent governing units long enough to have developed habitually constant policies, makes a mockery out of establishing any one definition of what are high and low political areas.

Hansen feels that the neo-functionalist theory is not very useful in describing, explaining or predicting integration efforts in the underdeveloped world because of its insensitivity in exploring differences in characteristics in these regions as well as its failure to incorporate variables such as the international political environment.

Nye also feels that external variables are of some importance, and should be included in the typology we earlier summarized. In addition, he adds two more complaints of the Haas-Schmitter paradigm. Each of the variables mentioned, from size of units to adaptability of governments, is somewhat ambiguous in definition, particularly when you consider cultural differences and functional substitutions. For example, elite complementarity is defined as "... whether corresponding elite groups think alike or not..." The problem comes when one must decide how to weigh different elites. The important elites in the neo-functionalist scheme in Western Europe are basically the interest groups, whereas in less developed countries, such as the East African Common Market, the crucial elites are the politicians. Haas and Schmitter compound this problem by a failure to explicate the relationships between their variables. Thus, we are left with a typology of somewhat limited value, particularly for the underdeveloped world.
FOOTNOTES CHAPTER IV


3 Ernst B. Haas, *The Uniting of Europe*, p. 5.


6 Ibid.

7 Ibid.


9 Ibid., p. 249.


11 Haas and Schmitter, op. cit., p. 267.

12 Nye, op. cit., p. 881.

13 Ibid., p. 871.
CHAPTER V
THE INTEGRATION MODEL FOR DEVELOPING AREAS

Fortunately for those interested in studying integration efforts in less developed areas Joseph S. Nye has created a third generation neo-functionalist model that incorporates changes that minimize many of the devastating criticisms of the earlier neo-functionalist models. One of the principal aims of this paper is to construct an adequate and useful model of integration that can explain integration in developed and less developed areas. Nye's revised neo-functionalist model offers the best framework around which to build a comprehensive model. Therefore this section will consist of explicating and modifying Nye's model to correct its weaknesses and develop a new and more useful integration model, particularly for developing areas.

Nye, although praising the neo-functionalist theory for its value in investigating integration, states that the model can be modified to suit non-European regions if the following revisions are made:

1) the dependent variable is stated less ambiguously,
2) the idea of a single path from quasi-technical tasks to political union by means of spillover is dropped and other potential process forces and paths are included; 3) more political actors are added; and 4) the list of integration conditions is reformulated in the light of comparative work that has been done on integration processes in less developed areas. ^

We saw from our earlier analysis of integration models that both the process of integration and the end condition differed according to each model. Economic processes of trade liberalization and degree of coordination of economic policies ended in some form of interdependence, usually a customs union or common market. Deustch and others have argued that
processes of social assimilation and political development can result in

... institutions and practices strong enough and widespread enough to assure, for a "long" time, dependable expectations of "peaceful change" among the population.

Haas defines integration as

... The process whereby political actors in several distinct national settings are persuaded to shift their loyalties, expectations, and political activities toward a new center, whose institution possess or demand jurisdiction over the pre-existing national states.

The end condition of Haas's process would be a regional population governed primarily by supranational institutions. Nye also uses the basic neo-functionalist approach to integration, but differs in the process and end condition.

Denying that there is any automatic process whereby integrating functional economic tasks leads to political integration, Nye states in interest in discovering

... the forces that follow from the creation of a new organization and exert pressure on decisionmakers for integrative or disintegrative responses.

All voluntary, recent integration efforts in the underdeveloped areas of the world have begun with some degree of economic integration. Given the initiation of economic interdependence coupled with the establishment of a regional economic organization, what are the process mechanisms that led to changes in the degree and scope of integration? Nye's end condition can constantly change. At time one it is the degree of collective decisionmaking power granted the regional organizations by member national governments. This power will either increase, decrease, or stay the same over time.
NYE'S REVISED REGIONAL INTEGRATION

PROCESS OVER TIME

TABLE I
The model itself is a dynamic one. (See Table I) At the initiation of any integration effort we can measure the integrative potential of the region. Nations, acting in accordance with the structural and perceptual conditions existing at this time, establish a regional economic organization with control over changes in trade policies and an administration to govern and influence new policies. After initiation, process mechanisms occur and result in dynamic outcomes which in turn influence the changing integrative potential of the region. Individual nations, weighing the results of the regional organization's outputs as well as being influenced by changing external and internal conditions, decide to increase, decrease, or retain the original strength of the regional organization. The integration cycle is then continued as long as there is a regional organization.

Naturally, any model is a simplified sketch of the real world. Reality is not boxes and arrows, but perhaps can be portrayed as such for understanding. The integration process is a continuing one, with the internal factors such as the process mechanisms always at work. Nye fails to fully explicate the time element of a cycle, and thus we are left with little understanding of when old cycles end and new ones begin. Our interpretation shall be that an old cycle ends whenever any member government decides to evaluate the integration process and act upon their commitment to the regional organization. Thus a cycle would continue until member governments acted to increase, decrease, or continue their resource allotment and commitment to the regional organization. Such action could take place at a conference, or perhaps could occur automatically if a timetable were established. One example of the end of an old cycle and
the beginning of a new one would be the signing of the Treaty for East African Cooperation in 1967. Each of the member states, acting because of changed structural and perceptual conditions which were influenced by the process mechanisms and dynamic outcomes, decided to change their resource commitment to the regional organizations. To better understand how the overall cycle works, we must delve into the internal processes and factors of the model.

Nye states that a fully revised list of process mechanisms and integrative conditions looks as follows:

I. Process Mechanisms
   A. Functional linkage of tasks.
   B. Rising transactions.
   C. Deliberate linkage and coalition formation.
   D. Elite socialization.
   E. Regional group formation.
   F. Ideological-indentitive appeal.
   G. Involvement of external factors.
   H. Visible economic benefits.
   I. Changes in social structure.

II. Integrative Potential.
   A. Structural Conditions
      1. Symmetry of units.
      2. Capacity of member states to adapt and respond.
      3. Pluralism (modern associational groups).
      4. Elite value complementarity.
      5. Structure of political elites.
      6. Ideology of political elites.
B. Perceptual Conditions.

1. Perceived equity of distribution of benefits.
2. Perceived external cogency.
3. Low (or exportable) visible costs.

Those mechanisms underlined will be substantially modified by this writer whereas those numbers outlined are original mechanisms I feel are needed to completely revise the neo-functionalist model. The stronger the initial treaty commitment to trade liberalization, such as timetables, absence of escape clauses, etc., as well as the stronger the institutions created in resources and jurisdiction, the stronger the process mechanisms that are created. Obviously, many of these mechanisms will interact and overlap with others. For example, regional group formations should help create rising transactions. Each mechanism however, is independent enough from the others to need individual treatment. Therefore, let us further investigate Nye's model in light of evidence from integration efforts in Central America and East Africa.

A. Process Mechanisms.

Functional linkage of tasks might be mistaken to mean increased cooperation through spillover. Earlier theories conceived of an ever-increasing, automatic expansion of powers of institutions because of the pragmatic interdependence of tasks. Thus, functional expansion was regarded as a one way street - spillover. Recent scholarly efforts in undeveloped regions, particularly Philippe C. Schmitter's work on Central America, have theorized that the functionalism of tasks, instead of creating spillover in the scope and level of institutional control, is more likely to create the condition of spill-around.
It is characterized by a proliferation of independent efforts at regional coordination in distinct functional spheres - i.e., an expansion in the scope of regional tasks - without however, a concomitant devolution of authority to a single collective body - i.e., without an increase in the level of regional decision-making. New issue areas become 'collectivized' or 'regionalized' and transaction rates increase impressively, but there is no transcendence, no fundamental redefinition of norms and goals, no development of a supranational political process, no emergence of a new and wider sense of community loyalty.  

Thus, in Central America we have seen uncoordinated regional efforts. In 1961 the war ministers of Nicaragua, Guatemala, El Salvador and Honduras met and formed the Central American Defense Council aimed at training forces, more efficiently organizing the armies, and most importantly, solving the problem of countries sheltering subversives active in neighboring states.  

This effort by the war ministers has not been tied into the other major issue areas: political/symbolic, or economic/technical. Great successes have been achieved in the economic field, while little progress has occurred politically or militarily. The relative independence of integrative efforts, with different actors working for different goals in each area, explains why failure in one issue area rarely influences efforts in another. Ministers of Economy were preoccupied with declining export revenues and the ability to industrialize through import substitution. Foreign ministers were concerned with "... vague historical and cultural objectives and their desire to appear modern by keeping up with the 'regionalist' trend in international law." The war ministers had desire to minimize the danger of communist aggression and maximize the amount of aid from the United States. The tecnico's pragmatic approach to problems in Central America, though successful in the short run and perhaps necessary, limited the creation of comprehensive
regional efforts, and perhaps has terminated any possibility for ex-
tensive and exhaustive regional integration.

A third possibility exists concerning functional linkages of tasks: spill back. After years of working with a common currency, in 1966 Kenya, Uganda and Tanganyka adopted separate currencies and initiated three central state banks to replace the East African currency board. Because concurrent development plans were not formulated, each nation felt that national control over a separate money was needed.

Nye has correctly seen that the process mechanism of the functional linkages between tasks can create spillover, spill-around, self encapsulation or spill-back, and therefore has incorporated the possibility of each of these results into the model. By not concretely assuming that functional linkages will lead to spillover, the model has greater flexibility in explaining some of the processes we have seen occurring in East Africa and Central America.

There has been much debate whether rising transactions lead to in-
tegration or are simply a measurable artifact of greater integration between states. The difference between increases or decreases in institutional resources caused by functional linkage of tasks and using transactions is basically one of scope. Functional linkages lead to possible changes in the scope, and usually level, of tasks assigned, whereas transactions affect one particular task, such as labor flows. Transactions are contacts or dealings, both governmental and nongovern-
mental, between states. Nye perceptively points out that certain trans-
actions, such as trade flows, can lead to disintegrative effects if they are severely unbalanced and heavily favorable to one nation. While trade flow inequalities can perhaps be better placed in perceived equity
of distribution of benefits, two transactions: labor and capital flow, are of ever-increasing importance to developing countries.

Kenya, Tanganyka and Uganda began sharing a common market with a common currency in 1927. Capital and labor mobility is almost completely unhindered, and this condition is causing increasing tension. The inability of nations to control certain financial aspects, such as distribution of resources within the national and amount of currency exported and imported, compounds problems of national development. In addition, net capital outflows from one country, such as was occurring in Uganda (around 5% of domestic income yearly), exaggerate strife between nations.

The free movement of labor in East Africa has also generated discontent. In 1961 around eleven percent of Tanganyka's 440,000 workers came from outside Tanganyka. Uganda, with 221,000 workers, imported over 10% of its labor force from Kenya and Tanganyka. Although labor mobility is economically efficient for the region as a whole, the trade unions, which are one of the strongest interest groups within each nation, have protested against the free movement of labor. As one Ugandan labor leader stated,

> It is the Uganda Government's duty to ensure that its own people are given happiness first. 15

Central America's integration movement, although it has no legal freedom of factors, has already been seriously hampered by movement of labor. In July, 1969 El Salvador and Honduras started the "futbol" war. This war, the first major violent action in the region since integration had begun, started with a land reform movement in Honduras.

> In the face of the growing domestic unrest, the Honduran military opted in favour of land reform to alleviate tension among the landless peasants. 16
The land chosen to be given the Honduran peasants was already occupied by some of the 300,000 Salvadorian squatters illegally living in Honduras. As these squatters were removed, El Salvador armed and moved to protect them. The resulting conflict, still not settled, has greatly weakened the integration movement.

Central America has much demographic inefficiency in that many areas, particularly El Salvador, are crowded while neighboring land is underused. Any movement of labor from overpopulated to underpopulated would seem beneficial. Yet,

the success of such a union will depend upon the willingness of labour unions in the labour-scarce region to permit significant population movements into the area. There is a constant danger, which must be guarded against, that the emigration from the labour-abundant region will consist primarily of young, energetic, and skilled adults. If this occurs the heavily populated region will suffer a decline in its rate of growth and the age distribution of its population will become less favourable.

Even discounting demographic factors, labor movements, especially of homeless, poverty-striken squatters, can only increase burdens on the nation they chose to settle in. The countries of Central America, like India, have no excess resources to use on non-nationals, and therefore will often resort to force to cleanse themselves of their burden.

Capital movements, although restricted and of a mostly potential nature, must be dealt with. None of these developing nations desire to lose investment capital to a more enticing neighbor. Yet traditional methods of financing will not suffice in Central America. If the nations desire dynamic growth -- without this growth being controlled by foreign investors -- then a more sophisticated investment policy must be developed for regional, indigenous entrepreneurs. Many economists feel a regional
capital market would be beneficial to economic growth. No matter how true this statement is, it cannot happen until national development plans and equity of distribution of benefits is accounted for. Sadly, it seems that any regional economic growth will be mainly controlled by foreigners. Each country, by hoarding its factors for indigenous growth, is curtailing overall growth and destroying the potential vitality of indigenous entrepreneurs. As stated before, factor mobility may not appear as a crucial factor now in either East Africa and Central America. However, by the time Central America agrees, if it does, on complete factor freedom, the decision may come too late. East African elites, having tasted some of the effects of factor mobility, are increasingly becoming aware of the nation's political value of sacrificing overall growth for national appeasement.

Deliberate linkages and coalition formation is based on "cultivated spillover". Linkages are not automatically formed by functional spillover, but rather are initiated by interest groups or elites to take advantage of or expand the base of support for the integration process.

In contrast to pure spillover in which the main force comes from a common perception of the degree to which problems are inextricably intertwined in a modern economy, problems are deliberately linked together into package deals not on the basis of technological necessity but on a basis of political and ideological projections and political possibilities.

This process mechanism is somewhat of a game plan based on pragmatic compromise and bargaining. By including different projects that appeal to different interest groups, a broader base of support can be created. This strategy, however, is somewhat incremental and often subject to control by participating elites. All package deals are made by compromising goals,
and often need cooperation of all members to succeed. If one nation, or group, decides to pull out, it can jeopardize the entire package. National differences can inhibit progress also. Costa Rica, due to internal perceptions of potential problems generated by the 1960 General Treaty, signed late, thus stalling integration. Overall, deliberate coalition formation can increase the base of support for integration but it is a tricky, often slow mechanism.

Elite socialization is the development of regional ties and identity by national elites and decision makers. This process mechanism can be favorable to integration if it develops regional identity among national members, as happened with the economic ministers in Central America. Or, it can be inimical to integration if potential socialization opportunities result in dissatisfaction and hard feelings.

Despite the expressed desire by the leaders of Kenya, Tanganyka and Uganda in 1963 to federate within a year, no federation occurred. There were many sizable problems that prevented federation, but one less obvious one dealt with socialization problems.

A less tangible problem, but one which became worse during the summer, was a sense of exclusion and hurt pride among many Uganda politicians. The Ugandans perceived that the other national leaders were ignoring them and treating them as unimportant. This socialization factor maximized other differences and decreased the possibilities for successful compromise and negotiation.

Regional group formation is the establishment of various formal and informal private institutions and associations to protect their common interests at the regional level. As might be expected due to the lack of strong nationalist groups in Central America and East Africa, this process
mechanism is somewhat weak. In Central America, however, regional groups are on the rise, and businessmen have formed two regional private associations to protect their interest. Growth in economic development and increases in transactions should help this process mechanism grow in strength.

Ideological-identitive appeal can perhaps be thought of as the perceived strength of regional organization. The relative durability or weakness of the regional organization can influence member's actions. A sense of permanence can minimize national criticism of integration and even help convince nations to sacrifice short term benefits to long term gains, as perhaps was the case with Tanganyka in 1963. Weak institutions create no confidence, and lead to national actors manipulating regional institutions for national gain. However, strong institutions with large identitive appeal can hurt integration if jealous nationals fear that their support bases are being undermined. The manner in which national elites react to the ideological-identitive appeal of regional organization depends on many internal factors of the nation, and thus no preset hypothesis can be formulated.

Involvement of external actors in the integration process deals not with regional actor perceptions of the external situation, but only the involvement of external actors in the integration scheme as a process mechanism. Nye correctly has added this factor to the integration model, thus alleviating one crucial failure of early neo-functionalist models. However, he fails to stress the potential importance of external actors in integration efforts, both in the initiation and maintenance of integration.
External actors have aided the integration process in Central America more strongly than in East Africa. Of course, East Africa originally emerged out of three separate British colonies. In order to more efficiently govern her prizes, Great Britain established most of the integration of the region, including the common currency, free factor mobility, and the Common Services. However, her efforts, or lack thereof, have also hurt the East African cause. Nyerere, chief minister of Tanganyka -- which was the first of the three countries to achieve independence -- offered to delay his country's independence in order to facilitate federation. Great Britain refused and perhaps a great chance was lost. In addition, lack of extensive aid and technical help from Great Britain has measurably increased the visible costs of integration.

Central America, on the other hand, had the benefit of two very important external actors: the Economic Commission for Latin America and the United States.

E.C.L.A. championed integration from the outset, bred a generation of Central Americans in the integration doctrine, provided a host of technical studies, helped draft several of the integration documents, secured U.N. Special Fund support for the first regional institutions such as the School of Public Administration and the Institute of Industrial Technology, and continues to put valuable technical expertise at the disposal of the C.A.C.M. The original catalyst and rationale for integration was provided by the U.N. economists and their theory of regional integration for import substitution. E.C.L.A. started the ball rolling and at every possible opportunity has added to its momentum.

Africa, on the other hand, had the Economic Commission for Africa, which
... has failed entirely to provide any moral or technical support for East African integration. 29

The E.C.A. had manpower and resource problems and was dedicated to a philosophy of a united total Africa. Any piecemeal integration efforts were castigated. 30

The United States efforts toward integration in Central America can be divided into two classes: attitudes and aid. Official government policy has been surprisingly coherent and positive toward integration. This following statement, issued in 1963, is representative of our official attitude throughout the integration period.

The President of the United States is prepared to offer the greatest cooperation in the preparation and implementation of the regional and national development projects of Central America and Panama and declares that his government will intensify its joint efforts with the governments and appropriate regional organizations in order to extend to them increased technical and financial assistance. 31

The only aspect of Central American integration the United States has disliked, the Integration Industries scheme, has not been violently attacked by the United States. Instead, officials have expressed displeasure so mildly that the Industries scheme is still in effect. The crucial initial stage of integration was substantially eased by American attitudes and actions.

Aid was given at a time when the countries were dubious of the potential benefits and skeptical of the costs. 33 By our substantial bilateral aid, which favored regionally integrating projects such as infrastructure development, and our regional aid, such as money given to C.A.B.E.I. and the fund for economic integration, 34 we substantially and favorably influenced the integration process.
Even the international setting can influence integration attempts.

It is instructive to contrast the experience of Central America with that of the East African Common Market, which was more involved in cold war and anti-colonial politics. This made it virtually impossible for foreign governments to openly support East African integration for fear of jeopardizing it. 35

Nye feels external factors must be added to our model. I feel they are often crucial to developing countries, and therefore must be stressed.

Nye's process mechanisms are the most comprehensive list yet developed for integration in developing areas. However, two additional process mechanisms: visible economic benefits, and changes in social structure, need to be added to complete this aspect of the model.

Visible economic benefits are somewhat related to equity of distribution of benefits, but differ in several key aspects. First, they relate to the overall economic picture of the region. Even if one country, such as Tanganyka, is receiving unequally low benefits, she will often curtail action and criticism if the region is still benefiting. Even if Kenya is receiving the lion's share of economic benefits the other countries could be influenced to remain in the union if their economies were benefiting more than if they were outside the union and/or long term gains appeared very substantial. Second, these benefits need not be directly and discernably related to integration efforts. Growth in the earnings of principal export crops can ease the first stages of integration.

It is my contention that visible economic benefits, no matter whether they can be directly linked to integration, increase the chances for greater integration by establishing a means of easily legitimizing initial integrative efforts as well as showing the efficiency of the new institutions.
Concrete achievements, such as the establishment of the Central America School of Public Administration and the Technological and Industrial Research Institute in 1954 give both psychological and economic benefits.  

Underdeveloped countries are in an advantageous position in this process mechanism. Developing countries usually possess large amounts of unused and easy-to-mobilize production capacity, both in industry and agriculture. Factories that are underproducing will gain from new markets. Underemployed laborers will find new jobs as markets expand. As integration continues, overall growth must also continue. Without sustained growth, economic integration would make it more difficult at this stage for each country to cope with problems of balance of payments, foreign exchange, fiscal revenues and industrial development. This is so because the common market has reduced the scope of national action in the fields of trade, monetary and tax policies, as well as in tax concessions for the promotion of new industries.

Early visible economic benefits are of crucial importance to first stage integration while continued prosperity, even if divided somewhat unequally, can ease some of the problems of continued integration.

Change in social structure is a crucial, complicated process mechanism that cannot be excluded from any model of integration in underdeveloped areas. This mechanism is of little importance to developed regions, for they have already achieved a modern, mobile society based primarily on achievement. These societies are "... marked by both a high degree of structural differentiation and a secularized political culture." Developed societies have been transformed into modern cultures, and political elites have created power bases within these modern societies. In developing countries we are dealing with different types of societies. Only Costa Rica could perhaps be considered a modern mobilized system. Even then,
a lack of subsystem autonomy makes it a marginal case. Our other
countries in Central America and East Africa are either premobilized
authoritarian or premobilized democratic systems based on Almond and
Powell's typology.

In premobilized modern systems the trappings of political
modernity - parties, interest groups, and mass media -
have been imposed upon highly traditional societies.
Mobilization and exposure to modernity have been con-
fined to a small elite. 41

At the same time, the institutions created are quite limited in
ability to meet system demands. This is not to say that Central America
and East Africa are completely, or even closely similar in all aspects.
Aaron Segal calls the East African states

... developing countries with a recent and extensive
colonial experience hoping to achieve rapid economic
growth and, through 'nation-building' policies, to
transform a nation-state into a national society on
the basis of new nationalism. 42

On the other hand, except for Costa Rica the Central American nations
are

... proto-national developing countries whose colonial
experience has been indirect or long-removed, where a
nation-state but not a nationally integrated society has
existed for some time, and whose political and economic
elites tend to be cosmopolitan while taking their national
identity for granted. 43

For our purposes however, we can regard the societies as very similar.
Overall, the nations are run by a small elite with the vast majority of
the population following traditional and parochial life styles. Everything
is fine as long as the society's demands on national institutions are low.
However, by following a course of regional integration to quickly and
dynamically develop, the elites have completely changed the balance. Eco-
nomic development results in modernization, and modernization requires change.
Actually, there are several development alternatives open to those nations entering economic integration schemes in order to help their economic development.

First, as is occurring in the Central American Common Market, nations can decide to take the quick, low cost economic benefits gained from the expansion of the market without following a course of total national modernization. Elites might see low level regional integration as a tool to help solidify their power position. In Central America it is quite plausible then, that economic integration was not ignored because it represented economic change but was actually supported by governing elites who saw it as a visible alternative to such change. 44

Therefore, regional integration offered a perfect opportunity to reduce social pressures without any real sacrifice of power.

Several problems plague this course of action. The prosperity gained is not very significant nor very lasting. The case of Central America is a good example.

Although some surveys of the period tend to give it a bit more credit, especially for its indirect impact upon the attraction of new foreign public and private capital, the contribution of regional trade expansion and economic cooperation to this sustained (but fading) burst of prosperity has been marginal. Growth continued to depend primarily upon the export performance of a few basic commodities, or, to use the E.C.L.A. jargon, Central America development is still hacia afuera not hacia adentio. The structure of production and occupation has remained relatively unaltered despite high rates of capital accumulation. Economic integration in Central America has not accompanied, ni mucho menos produced, substantial reforms in the distribution of income, prestige, or influence. 45

Perhaps of even more long run importance is that regional integration, with its initial economic benefits, can be used to ease the pain of the
national integration of the population. During its initial stage the national elites have somewhat greater leeway in decisions due to increased resources for the nation. However, once the initial period is over, further gains can only be had with high level, more costly decisions that increase demands on national institutions and elites. By failing to use the grace period to ease modernization, elites have perhaps increased the subsequent, and inevitable explosion of modernization.

National decision-makers have a second course of action open to them. They can decide that rapid economic development is crucial to their country's future, and that regional integration is a good tool for such economic development. This commitment to rapid economic development brings with it an additional change, modernization. Central American economic development can hardly forge ahead without recourse to broad socio-political adjustments which might upset the structure of political power in the area. It is difficult to believe that economic integration can proceed in a longer run under conditions which are exemplified by the following data: only one-third of the population of Central America participates significantly in the market economy; the middle classes do not account for more than one-eighth of that population; and the degree of illiteracy (among people over fifteen years of age) varies from 20% in Costa Rica to 70% in Guatemala.

To fully develop, serious changes in the social structure of the nation must occur. Agriculture must be transformed from an inefficient producer of foodstuffs into a supplier of surpluses to be used for industrialization. This cannot be done without affecting many of the large landowners of Central America -- men who control many of the bases of political power. Labor will be greatly affected. New jobs will require many men to change their residence, adopt to the urban way of life, and learn new skills.
The growth of the cities and the changes in traditional life styles will increase demands upon the government.

Samuel Huntington has developed one theory of the modernizing process.

1) **Social mobilization** = Social frustration.
   lack of economic development

2) **Social frustration** = Political participation.
   lack of mobility opportunities

3) **Political participation** = Political instability.
   lack of political institutionalization

We can also see another possible process.

1) Economic development = destruction of traditional society and development of larger labor and middle class which desire political participation and power.

2) Desire for power of new powerful classes coupled with traditional oligarchic power structure = instability.

In either case, the end result of change is increased instability in areas, particularly Central America, already infamous for instability. The elites in power now realize that if they choose this option their future will be seriously threatened, therefore the Central American states have opted to follow the first route of action.

East African leaders have decided to attempt to rapidly develop and modernize but to use regional integration to build a national consciousness. We will investigate this third alternative further when discussing a structural condition -- the ideology of political elites.

Despite the fact that neither Central America nor East Africa have experienced rapid changes in social structure due to economic development,
I would argue that this process mechanism is perhaps the crucial limiting or expanding factor in integration efforts. Large scale integration can only occur if large changes are made in the fabric of the society and leaders know that there will be instability and power struggles, thus national elites fear the consequences of extensive integration.

B. Integrative Potential.

Nye has taken the idea of the Haas-Schmitter typology earlier explicated in this paper and developed two sets of conditions to measure integrative potential: structural and perceptual conditions. These differ mainly in that

... structural conditions are conceived as relatively stable variables more determined by factors other than the integration process and perceptual conditions which are quite volatile during an integration process and are determined more by the integration process itself.

These conditions affect the original strength of the process mechanisms in that they influence the initial establishment of the regional organization. In addition, they in turn are influenced by the pressures of the process mechanisms. Taken together, the structural and perceptual conditions act somewhat as a final assembly stage, where pressures of the process mechanisms and the dynamic outcomes are modified or minimized. The results of the final stage are transformed by national elites into possible changes of support for the regional organization.

1. Structural Conditions.

Symmetry or economic equality of units is of particular importance in lesser developed regions, particularly in economic unions. Poorly developed countries are integrating because they are aware of their economic weakness and wish to do something about it. Their leaders are
extremely sensitive about exploitation, and the relative lack of capital and resources available magnifies any real or apparent discrepancy in development levels. Therefore, no state will join if it feels that it will lose by integration. Symmetry of units in level of economic development helps alleviate fears by minimizing the potential backwash effect of development, where industry, labor and capital gravitate to the most developed member. In addition, equality of units economically equates roughly with equal political power in bargaining for regional distribution of resources. Therefore, the greater the economic symmetry of participating states the better the possibilities of fewer disruptive crises over distribution of benefits.

Elite value complementarity does make a difference as the tecnicos of Central America have shown us. Do corresponding elite groups think alike? The problem arises when we must specify which elites in which instances, and how complementary need they be? During the economic integration stages of the model, it is the elites who control economic policy decisions that matter. Nye states

... the greater the complementarity of elites with effective power over economic policy as reflected in similar statements and policies toward the most salient political-economic issues in their region, the better the conditions for positive or integrative response to the pressure for decisions arising from the process mechanism. 51

This need not always be the case. If similar elites decide to follow similar disintegrative policies, then integration will suffer. As an example we can note that the political elites of Uganda and Tanganyika decided to pursue more nationalistic development plans because of the problem of unequal distribution of benefits to Kenya. This resulted in, among other things, the disruption of the central bank and the common
currency. Care must be taken to investigate whether corresponding elites are acting together in a manner which will benefit integration before Nye's hypothesis can be called logical.

Nye argues that "... the greater the pluralism in all member states, the better the conditions for an integrative response to the feedback from the process forces." This argument, taken wholly from the original neo-functionalist theory, appears convincing but in reality is too unsophisticated for our analysis. The development of a pluralist society, a society composed of mobile achievement-orientated groups and competing centers of power, is a modern-state phenomenon. As we have already stated in our discussion of the changes in the social structure of integrating nations, developing nations are not modern and do not possess a pluralist society. True, Nye's hypothesis is reasonable if we can look at pluralism as a static condition. However, changes in the level of pluralism will create or accompany subsequent increases in instability and disruption of the traditional political power structure. Low levels of pluralism -- a premobilized, somewhat traditional society -- can achieve initial levels of integration easily because of elite control and acceptance of the integrative process. High levels of pluralism already achieved are artifacts of a modern society and will be beneficial for integration -- as we have seen in the E.E.C. Middle ranges of pluralism, especially if the pluralism level is increasing, can be inimical for integration efforts by accompanying and/or creating instability and additional power struggles. As a static condition, aspects of pluralism are easily explained. As a dynamic, changing condition, the covariant effects of pluralism are enormous.
The capacity of member states to adapt and respond is a straightforward structural condition. All developing countries suffer from institutional weaknesses and internal noise. Lack of trained bureaucrats, low levels of resources, and often internal instability seriously hamper the ability of member states to quickly and effectively respond to new crises. Nye's hypothesis, that the greater the amount of internal instability and other factors that restrict the national decisionmaker's ability to respond to problems, the more likely that feedback from the process mechanisms will have a negative effect appears verifiable.

Nye has presented a comprehensive case of essential structural conditions. As with the process mechanisms however, we must add two additional variables: structure of political elites, and the ideology of political elites, in order to better explain integration efforts in developing lands.

Perhaps the most important needed structural condition is the structure of political elites within the member nations. Not only must we look at who holds the political power at the national level, but we must also be concerned with the stability of the political elites. Nye, in another work, succinctly states a major problem that integrates efforts in developing states must overcome.

When we look at the nature of the political process within which the elites function, we frequently find such characteristics as personalistic leadership, an elite-mass gap, urban-rural cleavage, and a scarcity of administrators. While this might at first glance seem to clear the way for decisive rapid action by top leaders on matters of integration, in practice it seems to have an opposite effect of creating a sense of insecurity which diverts their attention away from cooperation with their neighbors and tempts them to elaborate nationalist ideologies for internal 'nation-building'.

Economic integration can increase the resources available to national leaders. It can also lead to instability and unrest. Political integration, while
perhaps the most optimal solution for real and future economic growth, is an even greater threat to national political elites.\textsuperscript{56}

When we speak of political elites it is perhaps necessary to clarify our definition. Many elites have the potential to influence integration. Businessmen and industrialists, trade unions, intellectuals, civil servants, and political elites can hinder or help regional integration. Two arguments led us to focus on the effect of political elites. First, in developing regions (as with the cases of East Africa and Central America) elites other than political are usually poorly organized or nonexistent.\textsuperscript{57} Second, these other elites can be adequately covered in the structural condition pluralism. Political elites in both of our case study areas have been crucial factors in helping or hindering economic and political integration.

In Central America we have seen that economic integration . . . has flourished through a tacit de facto coalition of businessmen, industrialists and tecnicos, and the benevolent indifference of the politicians and military.\textsuperscript{58}

The two principal power bases in Central America: the military and the large landowners, have favored limited economic integration because it did not threaten the bases of power for the political elites. Not only did the early supporters of economic integration stress the non-political, non-threatening effects of integration, but certain aspects of the relationship of the political elites in the culture helped economic integration. One author argues convincingly that

denote the importance of this political characteristic for the early success of economic integration was in providing the degree of separability of economic matters from the mainstream of political debate - the element of noncontroversiality - that functionalist theory suggests is necessary to allow technocrats to operate.\textsuperscript{60}
Be this as it may, the important point to grasp is the essential power of the political elites in Central America. They allowed economic integration to begin and also curtailed any drastic changes that would affect their stature. Therefore, to fully understand their impact one must look inside the region to the national structure of elites. Wynia, in correctly calling our attention to political elites, states national economic and political structures must be studied as variables affecting and affected by regional integration.

Thus, similar regime-types can act differently according to national interest. El Salvador may desire further integration because of her advanced industrial state while Nicaragua disrupts integrative efforts in order to receive a fairer share.

In East Africa we encounter different political elites but a somewhat similar story.

We remember that substantial economic integration was in effect throughout East Africa from colonial days under British rule. In 1963, the three leaders of the participating states, Nyerere, Kenyatta, and Obote professed a desire to politically federate the three separate nations into a single unit. This attempt failed, and one of the principal reasons for failure was the structure of political elites within each nation.

One author correctly states that in East Africa one must focus on the political elites which control the state machinery and the one political institution they created - the major nationalist party in each country. The political elites of each country were democratically elected. In Tanzania Nyerere ruled through the Tanganyika African National Union, an extremely well developed party that successfully integrated nearly all
national groups and was the overriding power in the nation. Uganda's major political party, the Uganda National Congress and later its successor the Uganda People's Congress, were unable to integrate the Buganda and many Catholics, therefore President Obote had limited resources and leeway in speaking for his nation. Kenya stood somewhat between her new neighbors. President Kenyatta ruled through the Kenya African National Union, but the history of Kikuyu nationalism and a somewhat callous rule led to the failure to integrate many of the lesser tribes. A different party, the Kenya African Democratic Union resisted control by the K.A.N.U.

Democratic control by political elites at the national level has hindered regional political integration in two important ways. First, the national development of institutions resulted in severe difficulties to regional integration. Before independence

African nationalists built organizations to capture the government at the level which was important - the territorial level. Once developed, it proved difficult to integrate these territorial nationalist organizations into more than a coarse framework for debating common ideas.

Another aspect of national development that has hindered political integration is substantial differences in institutions. One African scholar argues that one of the most important prerequisites for founding any federated state is the homogeneity or at least similarity of the political structures of its member states-to-be.

The prospective member states of the East African federation differed substantially in parliaments, parties, and even in perceptions of basic freedoms.

Institutions can change quickly if there is the will, and the will was lacking in at least one of the East African countries. Uganda faced
the greatest threat to national integration upon receiving independence.
The kingdom of Buganda is a powerful and diversive force within Uganda.
Not only did this tribe fight regional integration efforts, it has resisted
efforts at national integration. Therefore,

faced with no stable basis for national political power,
Ugandan politicians doubted their ability to function
effectively within a federal system and feared that po-
litical integration would sweep away their domestic
political support. 67

Uganda faced two realities that colored her perceptions toward regional in-
tegration. First, Buganda support was necessary for the establishment of a
viable nation. 68 Second,

... Ugandans feared that with their smaller population
and weak party structure they would never control the
strong presidency, so they wanted a stronger upper house
in the legislature and fewer central powers over civil
service, agriculture, foreign affairs, higher education
and citizenship. 69

To enter into a federation great efforts were needed to convince Uganda
that she would not suffer. These were not forthcoming, and all subsequent
integration agreements have not infringed upon the national bases of power
for political elites.

In the East African case the structure of political elites conclusively
influenced political integration efforts. As in Central America, differences
within nations led to different stresses upon political actors, and finally
to different actions toward regional integration.

The ideology of political elites as a structural condition differs
substantially from the process mechanism ideological-identitive appeal.
The later is more a legitimacy score attributed to the actions and resources
of the regional organizations. As an example most Americans have extremely
strong affective feelings toward the concept of America as a nation. American's feelings toward the President, as an actor, however, are not as strong and are based heavily on instrumental output. Thus, we can criticize the president as an actor who has erred in his decisions, but refrain from attacking America or the presidency as an institution. Ideology of political elites is the overall picture of how they relate their national interests to regional integration.

In Central America the "ideal of union" gave the integration movement a protective shell against attacks. Integration was considered honorable and perhaps somewhat inevitable given the historical efforts toward union. The "ideal of union" as a regional ideology was extremely transitory however, and one can conclude that it was tolerated only so long as it served a useful and not harmful purpose to the national elites who desired economic integration. No strong regional ideology has developed at the elite level, and thus entirely pragmatic evaluations of national interests govern further integration. There has been no ideology to ease sacrifice and promote compromise.

East Africa has been a different case. We have seen that in 1963 the leaders of the separate nations declared their intentions to federate within a year. One leader expressed

... our meeting today is motivated by the spirit of Pan-Africanism. ... we believe that the East African Federation can be a practical step towards the goal of Pan-African unity. 72

1963 was the year of the dream, and the year of the ideology of Pan-Africanism. Political elites throughout the separate states professed to believe in Pan-Africanism. It provided the catalyst to integration
efforts. It was a symbol and a framework for discussion and compromise.

It was used to mold and justify actions.

Probably the most important contribution of Pan-Africanism was its provision of a set of beliefs and values through which leaders perceived their interests.

Often it pressured leaders to act against their national interests.

Tanganyika offers a good example.

Tanganyika has the least to gain and the most to lose from federation. Yet, under the leadership of President Nyerere, pro-federation sentiment has been the strongest in this country.

Economically, Tanganyika benefited little from union. In addition, the relative stability enjoyed by Tanganyika would have been threatened by the attachment to a more volatile Kenya. Nye echos the thoughts presented above.

In other words, Tanganyika's position on federation was not completely in accord with her national interests, and it seems that the discrepancy cannot be explained without referring to the Pan-African commitment of her top leaders.

Perhaps unfortunately, Pan-Africanism was not enough to reconcile differing national and personal interests. Because of weaknesses of national integration, Kenya, and particularly Uganda, decided to follow nationalist ideology. Kenya still opted for integration, but only on terms that would continue her industrial dominance. Uganda faced extensive national integration problems. Therefore, regional integration had to suffer.

In addition to making special concessions to minorities and tribes, Kenya and Uganda were compelled to set about the preservation of national integrity and the defeat of schism by emphasizing positive nationalism, with inevitable concomitants of 'Kenya first', and 'Uganda first'.

The important point to realize is that ideology of national elites can be of great importance in understanding integration efforts and results,
particularly in developing countries. The ideology of Pan-Africanism almost led the way to a federation. The ideology of nationalism has sacrificed building a regional state to building a national one. A regional ideology can ease sacrifices, lead the way to compromises, and color the perceptions of the national elite. A nationalist ideology exaggerates the value of every available resource, prejudices leaders against sacrifice, and exasperates compromise. Integration efforts in developing countries are influenced by ideology, and therefore the variable should be included in our model.

2. Perceptual Conditions.

Nye establishes three perceptual conditions that satisfactorily fulfill this aspect of nation's behavior. Each of the three is of great importance to the integration effort, and each heavily influences national commitments to integration.

Perceived equity of distribution of benefits has been, and remains, one of the most volatile perceptual conditions affecting integration.

Governmental and industrial elites in these countries are highly sensitive to the backwash problem for three reasons. First, it is so easily measurable; statistics on trade and new industrial investment are gathered as part of the everyday functions of government. Second, it is so visible; in Central America a new manufacturing complex creates such a vivid contrast to its environment that it necessarily commands attention. Third, elites involved in these integrated schemes have been alerted to the problem even before it has arisen. The problem is a complex one and much effort has been made in both integration efforts to solve it.

Despite contention that distribution of benefits is easily measurable, the opposite can be the case. Nations must take into account many ambiguous
factors. What are the potential long term gains? Would we gain more if we were separate? What policies could we follow to increase our gains? Many economists have concluded that a precise measurement of costs and benefits to developing countries integration schemes is impossible to achieve.

No satisfactory estimates of the benefits and costs of the East African Common Market have yet been made, mainly because although in a static framework the factors on which the values depend are clear enough, the cost and demand data necessary for adequate quantifications are not available.

What is most important however, are national perceptions of equity of distribution. These perceptions cause two problems for regional integration. First, perceptions of unequal distribution cause strife and disruption of integration already accomplished. Despite the Integration Industry plan, and the Central American Bank for Economic Integration (CABEI), both of which were established specifically to help balance benefits, some Central American nations still perceived unequal benefits. Often, as was in the cases of Costa Rica in 1967 (dual exchange rate), and Nicaragua in 1969 (added regional import tariff because of trade balance), special concessions had to be worked out for nations who felt they were being exploited. East Africa contains even better examples. Uganda and Tanganyika felt that Kenya was benefiting unequally from the economic union. As examples, they showed that by 1958 of 474 companies registered in East Africa, 404 were in Kenya, and some 70 per cent of total manufacturing activity was centered in Kenya.

Trade balance was also unequal, with Kenya selling nearly two and one-half times as much to her East African partners as she purchased from them.
The Raisman Commission estimates that from 1952-54 to '57-'59 real income/capita rose by 40% in Kenya, 20% in Tanganyika and about 0% in Uganda.  

Three separate efforts have been made to overcome this galling discrepancy. The Raisman distribution plan redistributed income proceeds to the poorer nations. The Kampola Agreement of 1964, although never becoming fully operative, stressed the need for more industry in and purchases from Tanganyika and Uganda. Finally, in the 1967 Treaty for East African Co-operation -- the institutionalization of the economic union -- common services were decentralized, an East African development bank was established, and nations with trade deficits could instigate a transfer tax to help balance of payments.

More important to integration in the long run is the second problem. If nations feel that benefits are not, and will not be distributed equally, they will develop a pragmatic and somewhat selfish approach to integration. Integration efforts will be tolerated as long as they benefit national development. Industrial development is a good example. El Salvador and Kenya are distrusted by their neighbors because of their relatively advanced industrial state. New industry would probably locate in these countries if given the option. Therefore, every participating nation has become extremely protective toward new industry. In East Africa, more serious (were) the problems arising from deliberate government pressures that affected the location of industry, regardless of the general East African interest, resulting in economic waste and political bitterness.

The story is the same in Central America. Nations fearing future losses refused to adopt a regional plan of development and attempted to develop
on national lines. Thus, many industries were duplicated, and much waste occurred. Any integration effort, especially in developing countries, must solve this perceptual condition or be doomed to ultimate failure.

Perceptions of external cogency, or perceptions of the international environment, are key factors in integration efforts, particularly in initiating and maintaining economic integration in lesser developed countries. Our analysis of economic theory stressed the low economic development of these nations and their dependence on a few primary exports. We also noted that the potential for future economic development based on expansion of traditional market sectors was slim for developing countries. Therefore, perceptions of the world environment can limit national actors alternatives to integration.

The greater are the limits to the growth of an industrial sector in one of these countries, imposed by lack of domestic purchasing power, and the more vulnerable is its present economy to the problems of export dependence, the more compelling are the pressures to resolve domestic problems through various modes of economic integration, and the less possible is a retreat into 'national exclusiveness'.

Nye does well in bringing this perceptual condition into the model, but I feel he fails to grant it enough influence in the integration efforts. We have seen how effective the ECLA economic theory was in initiating integration efforts in Central America. At the same time, perceptions of external cogency heavily influenced the continuation of the East African integration effort and its institutionalization through the 1967 signing of the East African Treaty of Co-operation.

When faced with the realization that the common market was disintegrating (1965-66), elites in each member country recognized the compellingness of the situation.
For Kenya, it lay in the fact that her protected areas to Tanganyika and Uganda provided the Kenyan manufacturing sector with its major foreign markets; without them Kenya's economy would face mounting structural difficulties. For the other two members, compellingness involved not present markets for manufacturers so much as potential markets. They, even more than Kenya, needed the protection of the union's common external tariff to foster incipient manufacturing sectors.  

Changes in the external environment such as large aid grants, or trade agreements could quickly place unbearable stresses on regional integration. As long as underdeveloped countries' leaders perceive the outside world to be a barren, hostile place for their nation, integration efforts will be favored.

The last of our perceptual conditions is low (or exportable) visible costs. These costs can be political, social, or economic. We have already seen how national elites in both areas have molded regional integration to their specifications. In both instances political and social costs have been minimized. Economic costs were also very low, particularly in initial stages.

East Africa was economically integrated while still in colonial stage, therefore no initial sacrifices were needed. In Central America there were few industries or vested interest groups to be hurt by integration. In addition, United States' aid to regional organizations and an increase in foreign capital eased any pains in Central America. As time passes, one formerly hidden cost has assumed larger and larger proportions -- loss of tariff revenues. Usually tariff revenues are a prime source of income for developing countries. A customs union lowers tariff revenues and leaves governments faced with higher demands short of resources. Once this cost becomes too great, compromises have to be made, such as the
agreements made in East Africa and Central America. Nye is correct in his assumption that the lower or more exportable the visible costs, the more favorable the conditions for integrative response. As more highly politicized decisions have to be made in regional integration efforts, the more important this perceptual condition will become.

C. Hypothesized Outcomes

Nye completes his model by hypothesizing four conditions that are likely to characterize an integration process over time: politicization; redistribution; reduction of alternatives; and externalization. The important thing to realize is that these conditions summarize the effects of the process conditions and directly influence the perceptual conditions of integration potential. These conditions, then, are of great importance to integration over time.

Politicization is a condition that occurs if integration grows over time. From a minimum of economic integration dealing with technical, relatively non-controversial issues, regional integration can grow and become more politically controversial. As new groups become involved, through rising transactions, spillover, or social change, the potential for conflict grows. In fact, growth of any of the process mechanism increases the possibility of controversy. Another factor leading to politicization is the reduction of noncontroversial actions that the regional organization can do. Simple growth will lead to involvement in highly political issues. In developing areas this growth factor is of more importance than politicization generated by individual process mechanisms. The effect of politicization is to decrease the chances for further integration by increasing the costs of integration, particularly to the
political elites. For further integration to occur elites must be pressured by some forces, perhaps external actors with aid packages or the growth of internal pressure groups, or decide that further integration is worth the costs (an ideology could influence them). In developing areas politicization will primarily have a negative effect on integration because pressure forces are very limited and slow growing. Redistribution is directly tied in with perceptual conditions. Economic integration over time will, or should, affect the economic development of participating countries. If there are marked inequalities of economic gains, caused either by poor distribution of new industries or redistribution of existing ones, integration will suffer. Nye correctly points out the severity of this problem in developing areas where all resources are valuable. This condition has been realized as a serious detriment to integration by the Central American countries. We saw how efforts were made, through institutions and agreements, to restructure inequalities developing from simple market-place movements. However, these efforts have not been very successful due to the condition of politicization. Because national economic development is such an imperative nations have stressed high importance on economic growth. Each nation is attempting to develop its economy through regional efforts. Compromise and conciliation are extremely difficult in this atmosphere, and thus efforts to institutionally redistribute benefits are severely curtailed by those nations benefiting from market place mechanisms. This logic leads us to a pessimistic conclusion. Action by national elites to overcome politicization is unlikely, therefore adequate redistribution of benefits is unlikely. Both of these conditions appear detrimental to integration.
Reduction of alternatives as a dynamic outcome is a modification of the early neo-functionalist hypothesis that integration, once started, was automatic. Study of earlier integration efforts has shown that automatic integration does not necessarily take place. However, as integration continues, changes in the process mechanisms and perceptual conditions affect political alternatives national leaders can employ. Those process mechanisms and perceptual conditions that develop can increase the legitimacy of integration. Rising transactions, functional linkage of tasks, and perceived external cogency make it difficult for the leader to renounce integration completely. However, as changes in social structure occur, along with politicization, national leaders are faced with increasing political and economic costs to integration. The leaders are faced with a difficult choice. They cannot destroy integration without alienating new and increasingly powerful sectors of the society and losing tangible economic benefits as well as jeopardizing the only development strategy that appears feasible to developing nations. Further integration may cost them their power.

Therefore, I hypothesize this dynamic outcome will result in a stagnation of the integrative effort at a fairly high level of economic integration unless the elites which are in power perceive that only through massive economic and political integration can substantial economic development be achieved. If the external environment remains hostile and the gap between the have and have-not countries increases, leaders of developing areas may choose political integration as the only feasible method of development. Clearly, however, this possibility, given the characteristics of the elites in developing countries, is very limited. Much more likely
are the prospects of social revolutions, such as in the Cuban case. Thus, both the short and long term outlook is one of stagnation of integrative efforts.

Externalization is the last of the hypothesized dynamic outcomes. Briefly, the argument goes as follows. As integration continues, participant nations; either though internal pressure of interest groups such as business, because of an emotional appeal by national elites, or simply to maximize gains of economic integration, increasingly develop a broadening common external position vis-a-vis the outside world.

Of all the dynamic outcomes this is perhaps the least likely to occur because of the influence of the outside world. One of our key perceptual conditions was the perceived external cogency of the outside world. As long as a development strategy based on traditional exports and aid appears unpromising, integration will be benefited. Externalization will be influenced heavily by perceptions of the outside world and actions of external actors. In East Africa, a common external tariff existed long before independence. Soon after independence however, Tanganyika negotiated separate trade agreements with Japan and Czechoslovakia. Although partially thwarted by her common market partners, the lesson is clear.\[99\]

The other large influence on externalization will be the success of integration itself. If legitimacy develops through the process mechanisms, and the structural and perceptual conditions are favorably influenced by integration outcomes, then naturally national elites will try to protect and maximize what has been successful in the past. Even if large and comprehensive externalization of policies does occur, the instability of the integration process in developing countries, coupled with the potential for
rapid change in the external environment, make externalization a very flexible outcome.

After explicating our revisions of Nye's neo-functionalist revisions, we perhaps can benefit from a schematic model of the fully developed model. By looking at table two at those aspects circled, we can clearly see the additions made by this student. The sequence of the model is both clear and confusing. Schematically, the model is relatively simple. Yet we must caution once more that integration in reality is much more complex. For any one example in any time period the researcher may use this model as a guide to understanding the entire integration process. Some factors, such as some of the process variables, will be more important in one case than another. Different circumstances will affect the sequence and importance of some of the factors of the model. However, with the additions joined to the valuable core model developed by Nye, we do have a very comprehensive model to use in investigating the processes of integration over time.

Therefore, some concluding remarks on the chances for extensive integration in less developed countries will verbalize the predictive powers of our model. Nye concludes that the chances for increases in integration over time appear very slim. By analysis of his model, he posits that in lesser developed countries the process mechanisms are too weak to overcome increasing costs of integration and the stagnation caused by outcomes such as politicization. Integration will stagnate at a level acceptable to national political leaders. Despite excluding some key factors in his model, Nye has arrived at the most possible outcome of integration efforts in developing countries. The addition of: changes in social structure, visible economic benefits, structure of political elites, and ideology of
FINAL REVISED REGIONAL INTEGRATION MODEL
political elites has increased our model's power. Therefore, I would like to hypothesize that integration processes in developing countries will stagnate at a basically economic stage unless one of the three following conditions occurs.

First, drastic changes in the social structure of one or more of the participating countries occur, replacing traditional leaders with new leaders. Most likely, new leaders will emerge after a national revolution and will be as jealous of their power as the traditional leaders were. If this occurs regional integration will suffer because the new leaders will withdraw their nation and perhaps attempt to develop by social revolution using integration to further national development. Only a regional revolution with regional leaders could help regional integration.

Second, perceptions of the increasingly hostile external environment coupled with tangible economic benefits could lead elites to the conclusion that increased integration such as regional development plans are the only feasible solution to significant economic development.

Third, political elites could develop or be affected by a persuasive regional ideology that could greatly ease the costs of further integration.

Each of the outcomes is possible, but the short-term outlook for further integration is gloomy. Predictions about long-term potential for integration are extremely chancy, but one might argue that time will enable the process mechanisms to influence elites toward further integration. In fact, we might best conclude that by studying integration in the EEC today, we shall be able to more expertly explain integration when the developing nations reach the level of development attained by the European nations.
Our model then, is perhaps doomed to obsolescence once developing nations alter their social, economic and political characteristics. Until that very future time, however, students interested in integration efforts in all areas will hopefully benefit from the theoretical model developed in this paper.
FOOTNOTES CHAPTER V


3 Ibid.


6 Ibid., p. 3.

7 Ibid.

8 Ibid., p. 4.


10 This problem is more completely discussed in Donald J. Puchala, "International Transactions and Regional Integration", Regional Integration, eds. Leon N. Lindberg and Stuart A. Schingold (Cambridge: Harvard U. Press, 1971), pp. 128-159.


12 Puchala, op. cit., p. 128.


21. Ibid.


30. Ibid.


38 Wionczek, "Latin American Integration", p. 102.

39 Castillo, op. cit., p. 104.


41 Ibid., p. 284.

42 Segal, op. cit., p. 255.

43 Ibid.

44 Wynia, op. cit., p. 328.

45 Schmitter, op. cit., p. 15.

46 Wionczek, "Latin American Integration", p. 104.


48 Cochrane, The Politics of Regional Integration, p. 103.


51 Ibid., p. 213.

52 Ibid.

53 Ibid., p. 214.

54 Ibid.


56 Segal, op. cit., p. 260.

57 Ibid., p. 274. In Central America, to be sure, civil servants and later businessmen provided essential support for economic integration. We shall see, however, that political elites have controlled the overall process.
58 Ibid., p. 281.
59 Ibid., p. 273.
60 Nye, "Central American Regional Integration", p. 27.
61 Wynia, op. cit., p. 334.
63 Ibid., p. 129.
64 Ibid., p. 128.
66 Ibid., p. 226.
67 Segal, op. cit., p. 281.
69 Nye, Pan-Africanism, p. 191.
70 Segal and Rosberg, op. cit., p. 62.
71 Cochrane, The Politics of Regional Integration, p. 166.
72 Nye, Pan-Africanism, p. 4.
73 Ibid., p. 53
74 Ibid., p. 127.
75 Ibid., p. 55.
76 Ibid., p. 209.
77 Segal and Rosberg, op. cit., p. 66.
78 Ibid., p. 66.
79 Nye, Pan-Africanism, p. 207.
80 Ibid., p. 201.
82 Roger D. Hansen, "Regional Integration: Reflections on a Decade of Theoretical Efforts", World Politics, XXI, 2 (January, 1969), 259.


84 Ibid., p. 147.

85 Wynia, op. cit., p. 325.

86 Wionczek, "The Rise and Decline", p. 56.

87 Nye, Pan-Africanism, p. 147.

88 Ibid.

89 Dell, op. cit., p. 235.

90 Van Arkadie and Ghai, op. cit., p. 378.

91 Robson, op. cit., p. 150.

92 Van Arkadie and Ghai, op. cit., p. 352.


94 Nye, Pan-Africanism, p. 157.

95 Hansen, "Regional Integration", p. 268.

96 Ibid.


98 Ibid.

99 Nye, Pan-Africanism, p. 152.
CHAPTER VI
INTEGRATION AND INSTABILITY

Earlier we argued that theoretical development and explication is perhaps not enough. Operationalization and empirical testing are needed to show the practical value of the model, to ease the understanding of the model, and to suggest avenues of further research. Theory should not be an end in itself, but rather a key to practical understanding and prediction.

One of the most neglected areas of integration research concerns measuring the impact of integration on participating nations. Many prominent researchers have stated that further research in integration should emphasize the impacts of integration rather than further explicate process. Others have hypothesized that links between variables in the integration process may not be identifiable or measurable.

Be this as it may, insightful empirical work has been done investigating the links between integration and instability in participating nations. Charles Doran has argued that integration elicits basically two types of political instability, directly-induced and indirectly-associated, at each of two levels, the elite and the mass.\(^1\)

Directly-induced instability is characterized by three aspects: purposiveness, immediacy, and specificity.\(^2\) This type of instability occurring at the elite level results in responses made by key decision-makers of the society to demands and opportunities created by integration. Usually such responses are not violent, nor do they create large incidents of instability within the originating country. Rather, the responses create instability for regional integration as a whole. For example, the pressures
by Honduras and Nicaragua to receive special trade concessions created instability for integration within the Central American region.

If directly-induced instability occurs at the mass level then violence within the originating nation is likely to occur. Normally, this type of action occurs on highly politicized issues, such as the location of industries in developing areas. The instability may take the form of demonstrations, boycotts or other mass-centered activities protesting direct results of integration. Where the distribution of benefits appears equal or favorable to the disadvantaged countries, then directly-induced mass instability should be minimal. However, if unequal distributions of benefits continue to enrich the already more developed nations, then this type of instability should increase, particularly in the disadvantaged countries.

Instability can also be indirectly-associated. If it is elite instability, then it is characterized by instability at the elite level that is an indirect consequence of the integration process either because of the success of integration, the too sudden heavy demands placed on weak political institutions, or because temporary reverses result in the search for political scapegoats. We earlier discussed the process mechanism changes in social structure, and argued that integration, to be really successful, had to be accompanied by large dislocations of traditional social structures, often with concomitant threats to the power bases of traditional elites. Such social changes, if they result in a coup d'etat by leaders acting to protect themselves, are good examples of elites reacting not to any one demand or opportunity of integration but rather to the weight of the entire process.
Finally, there can be indirectly-associated mass-centered instability. Numerous, ambiguous chains of causation link the integrative process with what can be called secondary instability. The act of reducing internal tariffs and erecting common external tariffs creates many confusing demands on the workers of the nations. They perhaps will have to face new competition that might cost them their job. Or, if large economic benefits occur, then there can be great changes in the life-style of the country. Traditional values will be eroded. There will be large immigration to urban centers unready to receive their burden. Government institutions, already unable to satisfactorily teach, transport, or feed its people, will be further overloaded even if new economic resources perhaps appear. All of these disturbances will act to increase the overall instability of the nation, particularly if the economic rewards of integration do not ease the pains of cultural transitions.

Indeed, one can argue that this type of instability; indirectly-associated mass-centered, has the greatest impact on participating nations. Elite-centered indirect instability rarely effects the masses within the countries, for changes in leadership personnel rarely bring any dynamic changes in government. Directly-induced mass-centered instability is usually shortlived and confined to a narrow group of people.

Instead, it is in the indirectly-associated mass-centered instability that we should look for the greatest impact of integration on instability.

Therefore, our job is two-fold. First, by comparing instability levels -- as measured by economic strikes and demonstrations -- before and after integration, we shall be able to comment on the impact of integration on indirectly-associated instability. As we are dealing with a population,
no statistical significance test, such as the t test, is needed to justify the reliability of our findings. Thus, a simple comparison of average instability levels in the before and after integration period will suffice.

<table>
<thead>
<tr>
<th></th>
<th>1950-1959</th>
<th>1960-1964</th>
<th>Instability</th>
</tr>
</thead>
<tbody>
<tr>
<td>Costa Rica</td>
<td>5.1</td>
<td>4.6</td>
<td>decreased</td>
</tr>
<tr>
<td>El Salvador</td>
<td>1.0</td>
<td>1.8</td>
<td>increased</td>
</tr>
<tr>
<td>Guatemala</td>
<td>4.3</td>
<td>4.0</td>
<td>decreased</td>
</tr>
<tr>
<td>Honduras</td>
<td>1.7</td>
<td>2.2</td>
<td>increased</td>
</tr>
<tr>
<td>Nicaragua</td>
<td>2.8</td>
<td>4.0</td>
<td>increased</td>
</tr>
<tr>
<td>Total Region</td>
<td>2.98</td>
<td>3.32</td>
<td></td>
</tr>
</tbody>
</table>

Obviously, the results are mixed, with overall instability increasing but with two nations having decreased instability after integration. Not only can we not draw any clear conclusions from the data, the unsophisticated simplicity of this test which ignores some internal validity problems further reduces the significance of any findings. Even had we discovered overwhelming trends our findings would have had to been cautious implications. Our mixed findings lead to no conclusions except two: integration appears to have no overwhelming impact on instability levels, and the model is too simple. This leads us to our second task.

In spite of the fact that we cannot operationalize our entire integration model, we can make a start on better measuring the impact of integration on instability by looking at the association of instability and some of the more important process mechanisms in the integration model. If integration does cause changes in levels of instability, or even if acts to minimize potential rises in instability levels, we should begin to dissect the overall integration process to see how and why this is so.
One method that can be used to measure the covariance of variables is the regression model. Stepwise regression, the method used in this paper, adds a variable to the regression equation at each step. This variable is the one which makes the greatest reduction in the error sum of squares and equivalently it is the variable with the largest partial correlation with the dependent variable partialed of the variables which have already been added. Output includes two measures of use in our model. Multiple R is a measure of covariance between the dependent variable (instability) and the independent variables in the regression equation. Even more important is the regression equation itself, which once standardized, clearly states the independent variables of most importance in predicting instability levels, the relative importance of each variable in that regression equation, and the direction of covariance of each independent variable to the dependent variable.

We have been arguing that integration is a very complicated multivariate model, and even though we are operationalizing but a few of the integration process mechanisms, we still must use a multivariate statistical technique such as stepwise regression in order to more clearly control for covariance between independent variables.

As our interest lies in the association of process mechanisms with instability after integration, our study will be done on five independent variables for each nation in the Central American Common Market from 1960 through 1964. The main question is, how are intraregional trade, foreign trade, foreign aid, foreign investment, and balance of payments for each country associated with changes in instability? Of all our process mechanisms intraregional trade flows seem most likely to rapidly change following integration. Adoption of a common
external tariff and almost free internal trade can be a great catalyst
to trade flow changes. Even though intraregional trade is small in
Central America, disparities are not only easily seen, but are consciously
looked for by alerted elites. Disparities, though they may be small,
often result in negative feelings toward regional integration, particularly
if these disparities occur in the more disadvantaged countries of the
market. These negative feelings can lead to instability at the direct or
indirect level. Therefore, the scope of the independent variable should be
negative (see footnote on measurement), meaning that positive disparities
should covary with decreased instability.

The other process mechanisms are more difficult to predict. One might
argue that increases in foreign trade, foreign aid, foreign private in-
vestment and balance of payments would lead to increased economic resources
and thus economic rewards for the populace. This should result in a happier,
less violent population. This reasoning has been followed by many, in-
cluding the United States government, who have argued that the cure to all
social ills is development which comes from aid and money. Others have
clearly shown that this simple reasoning may not be the case. Increased
foreign trade and particularly a surplus balance of payments may have re-
sulted from governmental policies that expand foreign orientated exports
at the cost of money for social problems. Foreign aid may be used for show-
place industries such as a national airline to the overall detriment of the
national economy. Or, if the money is used to promote the private economy,
as in the case of private investment, this modernization can cause cultural
transformation such as urbanism -- that perhaps create more problems than
they alleviate -- as well as nationalistic violence over American control.
Indeed, it is highly possible that the effects of similar levels of our independent variables will vary in direction from country to country due to the characteristics of that country. Positive levels of foreign investment might lower instability levels where there is a ready and unemployed source of skilled labor. Or, it might raise instability if societal disruptions occur by agricultural workers leaving the countryside for the city because of the lure of a better living.

Needless to say, enough rival hypotheses could be generated until the social scientist might conclude the cause is hopeless. However, a start can be made in understanding by empirical use of data to pinpoint covariance along with judicious interpretation.

The results of the stepwise regression are:

Costa Rica 1960-1964

\[
R = .999 \quad SE = .04 \quad R^2 = .99
\]

\[
Z_{x0} = -.43 Z_2 - .87 Z_4 + .52 Z_6
\]

2 = relative intraregional trade

4 = relative foreign trade

6 = relative aid

El Salvador 1960-1964

\[
R = .94 \quad SE = .35 \quad R^2 = .88
\]

\[
Z_{x0} = .91 Z_{x1} - .39 Z_{x3} - .62 Z_{x7}
\]

1 = absolute intraregional trade

3 = absolute foreign trade

7 = absolute investment

Guatemala 1960-1964

\[
R = .99 \quad SE = .14 \quad R^2 = .98
\]

\[
Z_{x0} = -.54 Z_{x4} - 1.64 Z_{x7} + 1.47 Z_{x9}
\]
4 = relative foreign trade
7 = absolute investment
9 = balance of payments

Honduras 1960-1964

\[ R = .9969 \quad SE = .03 \]
\[ Z_{x0} = 1.19 \quad Z_{x2} - .77 \quad Z_{x3} \]

2 = relative intraregional trade

Nicaragua 1960-1964

\[ R = .92 \quad SE = .39 \quad R^2 = .84 \]
\[ Z_{x0} = .4 \quad Z_{x1} + 1.19 \quad Z_{x3} - .84 \quad Z_{x5} \]

1 = absolute intraregional trade
3 = absolute foreign trade
5 = absolute aid

Several important observations can be made from the output. First, multiple R's in every case are very high, with the lowest being Nicaragua with .92. By squaring the multiple R one can arrive at the amount of variance in the dependent variable accounted for by the independent variables in the regression equation. Again, these figures are extremely high. This clearly shows that in ever Central American country aspects of the process mechanisms used as independent variables are greatly associated with instability.

Beyond this however, the picture clouds. As we earlier stated, the links between integration and instability, particularly indirectly-associated instability, are ambiguous. The same can be said to hold for links between process mechanisms and measures on indirectly-associated instability. By
examining the beta weights associated with the independent variables one can see if the effect of the independent variables on instability is the same from country to country.

1. **Intraregional trade - Beta**
   - Costa Rica -
   - El Salvador +
   - Honduras +
   - Nicaragua +

2. **Foreign trade - Beta**
   - Costa Rica -
   - El Salvador -
   - Guatemala -
   - Honduras -
   - Nicaragua +

3. **Foreign Aid**
   - Costa Rica +
   - Nicaragua -

4. **Investment**
   - El Salvador -
   - Guatemala -

5. **Balance of Payments**
   - Guatemala +

In retrospect, what has this empirical test done to help us understand the model, integration in developing countries, or open the door to further research? The results are somewhat non-conclusive. In addition, given the problems of: a very few data points often with large outliers; the presence of several plausible rival hypotheses; lack of proof of definite causation; many unconsidered exogenous variables; and the inability to generalize with great confidence from this universe to any other, one can hardly close with strong assertions that our model of integration as tested clearly predicts, describes, and explains better than any other. Yet despite the problems
mentioned above, which are present but often ignored in many empirical tests, we have shown evidence in support of several propositions that merit further consideration.

1. The slopes of the beta weights given the independent variable intraregional trade imply that the covariance between changes in intraregional trade and instability is not as straightforward as many, including this author, have posited. Great emphasis has been placed on attaining favorable intraregional trade balances by elites, and of all the measures of integration impact this one is the most closely watched. Yet our evidence shows that in three of the four Central American countries in the Central American Common Market an advantageous intraregional trade balance covaried with increased instability. Possible reasons are numerous. Perhaps overall economic development was sacrificed to take advantage of potential gains in intraregional trade. This might have resulted in positive intraregional trade balances but disrupted economies. Another reason might be that expectations of intraregional benefits soared much higher than results, thus leading to frustrations and disenchantment with integration. Whatever the reason or reasons, a clearer understanding is needed of the impacts of this exceedingly important process mechanism.

2. The clearest conclusions that can be drawn from our test concern the impacts of external actors as process mechanisms. Seven of the nine beta coefficients vary inversely with instability, evidence that benefits from external actors covaries with decreases in instability. And, as the money sources foreign trade, aid, and investment are of much greater financial importance than intraregional trade, it seems that the external actor process
mechanism is of great importance in the integration model, as I posited, and perhaps can be stressed when studying the impacts of integration.

3. Our final conclusion deals with the vicious circle hypothesis we earlier generated. Elites desire economic development, and in Central America have decided that integration is the most viable route to increased economic development. However, we argued that economic development requires modernization which often brings increased instability and threats to traditional power bases. Empirically we have just tested this hypothesis and while not proclaiming positive causation, we have discovered high degrees of covariance between aspects of integration and instability. And, of perhaps more damage to chances for further integration, we have noted that often the process mechanisms covary with increased levels of instability. Therefore, given the political atmosphere in most developing countries where power is held by traditional power bases who will not tolerate rapid political change, the integration process, if successful, may bring its own demise. It appears that integration, if successful, brings modernization and increasing instability from new power groups. Traditional elites value retention of political power above all other goals, and thus integration is held to an acceptable level. However, the vicious circle could be broken. We have seen that some of the process mechanisms covary with decreased instability. Given much greater understanding of the workings of the entire model, it is plausible to conceive of a day when aspects of the integration model in reality could be manipulated to generate economic and social changes acceptable to those in political power.
FOOTNOTES CHAPTER VI


2 Ibid.

3 Ibid., p. 5.

4 Ibid., p. 7.

5 Ibid., p. 12.

6 Ibid., p. 13.


1. Absolute intraregional trade - (exports to region - imports from region)

2. Relative intraregional trade - (exports to region - imports from region) (exports to region + imports from region)

3. Foreign trade - (exports - imports)

4. Relative foreign trade (exports - imports) (exports + imports)

5. Absolute foreign aid - total foreign aid received

6. Relative foreign aid - aid received by country total aid received by region

7. Absolute foreign investment (new investments - money taken out)

8. Relative foreign investment foreign investment for country foreign investment for region

9. Balance of payments - absolute plus a minus

All data was collected in millions of United States dollars.

8 Another note of caution is needed here. Because of the small number of observations, our correlation coefficients are somewhat artificially inflated because of our small number of degrees of freedom. However, the correlations are so large that even this problem fails to negate the strong covariance except for Nicaragua and El Salvador. To get an accurate estimate of the inflation we use the formula \( R' = \sqrt{1 - (1-R^2)(N-1)} \), where N equals the number of observations and \( n \) the total number of variables in the regression equation. Our findings are C.R. \( R' = .98 \), E.S. \( R' = .72 \), Guat. \( R' = .96 \), Hond. \( R' = .98 \), and Nic. \( R' = .60 \).
BIBLIOGRAPHY


