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Power and Ideas

Regional Power Transitions: Lessons from the Southern Cone

Luis Leandro Schenoni

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Regional Power Transitions: Lessons from the Southern Cone

Abstract

Approximately four decades ago, the Southern Cone witnessed the beginning of a transition from a bipolar balance of power between Argentina and Brazil to unipolarity under Brazilian primacy. While such processes are expected to generate conflict, this particular transition was cooperative, leaving an interesting IR puzzle unresolved: Why did Argentina stop counterbalancing Brazil and opt for accommodation instead? Building on power transition theory, I use process tracing to show that key cooperative turns in this bilateral relationship – during the late 1970s and early 1990s – were possible only after social coalitions were redefined in Argentina. My conclusions suggest that cooperation between Argentina and Brazil was not a product of democracy but rather a consequence of structural changes, at both the international and the domestic level.

Keywords: Brazil, Argentina, Southern Cone, power transition

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Luis Leandro Schenoni

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1 Introduction

The structure of international politics in the Southern Cone has changed considerably over time.[1] While today's scenario is one of Brazilian unipolarity, four decades ago the region exhibited a two-centuries-old bipolarity between Argentina and Brazil (Martín 2006; Lima 2013; Schenoni 2015; Flemes and Wehner 2015). Although regional power transitions are expected to result in conflict (Lemke 2002; cf. Waltz 1979; Organski and Kugler 1980; Gilpin 1981), during Brazil's shift to a position of regional primacy Argentina gave up competition, agreeing

1 The final version of this paper is forthcoming with *Foreign Policy Analysis*. An earlier version was presented at workshops at Sciences Po, Paris, on 24 April 2014, and the German Institute for Global and Area Studies, Hamburg, on 23 March 2015. The author would like to thank Jorge Battaglino, Olivier Dabène, Michael Desch, Andrés Malamud, Detlef Nolte, and Sebastian Rosato, for their insightful comments at different stages of this research.

to a series of compromises regarding nuclear capabilities, defence technology, and trade. The result was highly unusual: an increase in bilateral cooperation in the midst of a power transition. Given that IR alchemists concerned with the rise of China are seeking the formula for peaceful power transitions as the philosopher's stone of our age, this result is what renders this case interesting.

What allowed for the peaceful Brazilian rise in the Southern Cone? Building on previous IR literature on Argentina–Brazil cooperation (see Resende-Santos 2002; Malamud 2005; Oelsner 2005; Darnton 2012; Gómez-Mera 2013), I tackle this question by considering the domestic variables that deterred Argentina from prolonging competition in the economic, nuclear, and military realms; discouraged it from forming alliances with third countries; and dissuaded it from going to war with Brazil. This strategy of accommodation,[2] I will argue, was evident in two critical junctures – the resolution of the Itaipú dispute (1977–1980) and the creation of Mercosur (1990–1994) – during which Argentine presidents successfully dismantled pro-conflict coalitions in the domestic realm. Following these critical junctures, a cooperative relationship that has lasted until today was cemented.

Although this paper may be framed within neoclassical realism (Rose 1998),[3] it differs from this research programme in two important respects. On the methodological side, neoclassical realist analyses have worked on hypotheses derived inductively from particular case studies, leading to explanations that fit those cases but are difficult to generalise (Geddes 1990). On the theoretical side, neoclassical realism claims that accommodation is an anomaly and that the balance of power will always be restored (Legro and Moravcsik 1999), which is implausible in the case of the power gap that separates Brazil and Argentina today. I address these shortcomings in Section 2 by proposing a deductive approach to identifying those variables that explain accommodation. I argue that we can deduce from theories of power distribution[4] that a change in social coalitions is a necessary condition for a peaceful power transition.

In Section 3, I analyse Argentine–Brazilian relations in relation to power transition theory as a passage from a bipolar balance of power to Brazilian unipolarity. In sections 4 and 5, I examine the two critical junctures where Argentina drastically revised its foreign policy strategy toward Brazil: the resolution of the Itaipú crisis (1977–1980) and the establishment of

2 I would like to thank Michael Desch for proposing the use of this concept. In previous drafts and in other articles I have used the term underbalancing instead of accommodation to highlight the incentives to restore the previous balance that Argentina had in a scenario of early regional unipolarity (Schweller 2006). However, underbalance was so protracted in this particular case that the idea of accommodation more accurately captures the long-term nature of the Argentine response to the Brazilian rise.

3 Arguably the main research programme concerned with the causes of underbalancing in unipolar contexts (cf. Wohlforth 1999; Schweller 2006) and how domestic variables may intercede to prevent foreign policy outcomes induced by the international structure.

4 I will use the phrase "theories of power distribution" to refer to those realist theories that predict conflict or cooperation based fundamentally on power distribution. In principle, this is the case for balance of power theory (Waltz 1979), hegemonic stability theory (Gilpin 1981), and power transition theory (Organzki and Kugler 1980).

the Southern Common Market, hereafter Mercosur – (1990–1994). In Section 6 the aforementioned hypothesis and other possible explanations for the Argentine accommodation at these critical junctures are compared with historical evidence using process tracing (Mahoney 2012; Beach and Pedersen 2013). The conclusions close the paper.

2 A Deductive Approach to Peaceful Power Transitions

Prominent realist theories based on power distribution would have predicted intense competition between Argentina and Brazil in the 1970s (cf. Mello 1996). On the one hand, balance of power theory (Waltz 1979) expects subsystems to be stable when two or more powers balance each other and would have predicted conflict following the rise of a single major regional power such as Brazil. On the other hand, hegemonic stability theory (Gilpin 1981) and power transition theory (Organski 1958; Organski and Kugler 1980) expect subsystems to be stable when a single power bears uncontested primacy and would have predicted that power parity – what Argentina and Brazil experienced in the 1970s – would cause conflict. From both points of view, the distribution of regional power should have led to a conflictive outcome, something that never happened.[5]

Since Argentina and Brazil had started to cooperate intensely by the late 1970s, most scholars have addressed this puzzle by simply abandoning the realist frame and searching for alternative explanations. I argue in this section that the answer lies in the assumptions of these power distribution theories. Those who expected the rise of Brazil to disturb the regional balance and produce conflict[6] assumed that domestic actors who had vested interests in the bilateral competition – industrialists, the military, and the state bureaucracy – would continue to be as powerful in Argentina as they were in Brazil. Conversely, those who ex-

5 It has been argued that these theories have not been developed to explain regional subsystems. However, important efforts have been made to show that power transition theory should and can explain regional outcomes (Lemke 2002). Prominent theorists have called for these theories to be tested at the subsystemic level. After acknowledging that "A general theory of international politics is necessarily based on the great powers," Waltz immediately continues by saying that "The theory once written also applies to lesser states that interact insofar as their interaction is insulated from the intervention of the great powers of a system" (Waltz 1979: 73). The Southern Cone was a case of such insulation. The effects of great power politics on Argentine and Brazilian foreign policy were relatively constant during the late 1970s and early 1990s. Both countries were constantly under US hegemony. Systemic incentives show little country specific variation – that is, the way the international system influenced Brazil was relatively similar to the way it influenced Argentina. Moreover, the Argentina–Brazil interaction was rarely affected by the direct intervention of a great power that may have inclined the playing field in favour of one or the other.

6 For Waltzian realists, stability depends on the maintenance of relative parity, which is characterised by (i) uncertainty about the results of an eventual war, (ii) self-reliance in the control of resources, capital and markets, (iii) little differentiation in the production of value-added goods, and (iv) scarce development of international regimes (cf. Waltz 1979; Grieco 1993).

pected stability – rather than conflict – under the scenario of Brazilian primacy[7] assumed changes in coalitional patterns to be a given.[8] In other words, these theories seem contradictory because they make different assumptions about domestic coalitions. The main theoretical insight of this paper is to treat these coalitions as a variable.

Balance of power theory postulates that the two leading states in a bipolar structure are always functionally equivalent and that "competitors become like one another as their competition continues" (Waltz 1979: 173). This implies not only a mirrored display of strategies but also a similar configuration of domestic actors – such as the state bureaucracy, the local bourgeoisie, and the military. These influence the decision-making process in similar ways, leading to analogous foreign policy outcomes. Conversely, in hegemonic stability and power transition theories, states involved in hegemonic relations are supposed to be very different with regard to their roles (Butt 2013: 579). To comply with its distinctive functions – that is, provide public goods to the system – the hegemon exhibits a far more competitive local bourgeoisie, a more active state bureaucracy, and a more capable military (Wallernstein 1974; Rogowski 1989). While a coalition of these actors is always at the core of the hegemon's decision-making process, in subordinate states these actors are typically absent.[9]

Table 1 summarises the set of assumptions that need to be true for the predictions of theories based on power distribution to be true as well. The grey areas are of special interest for my argument. In a system of small power differentials, balance is based on the countries having similar social coalitions. Conversely, for a system of large power differentials to be stable, only

7 More specifically, for Gilpin and Organski, systems are likely to be stable when a single hegemon (i) has enough military power to systematically defeat any potential contester, (ii) controls the access to raw materials, natural resources, capital, and markets, (iii) has competitive advantages in the production of value-added goods, and (iv) generates accepted international regimes reflecting the status quo (cf. Gilpin 1981; Keohane 1984; Kindleberger 1973; Krasner 1976).

8 In this sense, this article intends to bridge Waltzian and Gilpinian traditions (Wohlforth 2011). These two theoretical branches of realism developed separately, but many IR theorists implicitly accept that hegemonic or "suzerain" systems interact with balance of power systems (cf. Wright 1948). Robert Keohane (1984) argued for a peaceful transition from American hegemony towards a multipolar world, and, more recently, John Ikenberry (2011) has applied the same logic to the relations between China and the United States. Regional hierarchies can also coexist with international balances. John Mearsheimer (2001) conceives of the existence of an American regional hegemony in the Western Hemisphere compatible with offshore balancing behaviour. But in such a world of "multiple hierarchies" (Lemke 2002), both approaches would have predicted conflict in the case of the power transition between Argentina and Brazil, somewhere between the 1950s and the 1990s.

9 With regard to the Southern Cone, social scientists have long argued that the differences in social coalitions are a central feature of hegemonic systems. Dependency theory has stressed that "the overcoming of the centre-periphery structure requires a programme of import substitution industrialisation (ISI) and the active participation of the state in the promotion of industrial development" (Briceño Ruiz 2012: 196), which is another way of saying that the coalition of a competitive local bourgeoisie and a capable state bureaucracy is usually limited to the hegemon. For such scholars, the formation of this coalition – sometimes called a developmentalist coalition – has been considered a key objective for attaining some autonomy in international relations (cf. Jaguaribe 1985; Puig 1980).

the hegemon should present a coalition of the local bourgeoisie, the state bureaucracy, and the military. In other words, large power differentials are based on differences in social coalitions.[10]

Table 1. Assumptions and Expectations of Power Distribution Theories

HEGEMONIC STABILITY	BALANCE OF POWER STABILITY
CAPABILITY DISTRIBUTION	
Large power differential ($\boldsymbol{p}$)	Small power differential ($\neg p$)
SYSTEMIC ASSUMPTIONS	
The hegemon has enough military power to systematically defeat any potential contester.	Relative military parity and uncertainty about the results of an eventual war
The hegemon controls access to raw materials, resources, capital, and markets.	Self-reliance in the control of resources, capital, and markets
The hegemon has competitive advantages in the production of value-added goods and services.	Little differentiation in the production of value-added goods and services
The hegemon builds legitimacy through international regimes that reflect its primacy.	International regimes including the poles are weak and limited.
BEHAVIOURAL ASSUMPTIONS	
Functional differentiation	Functional equivalence
DOMESTIC ASSUMPTIONS	
Only the hegemon has a competitive and outwards-oriented local bourgeoisie.	Relative equivalence with respect to the competitiveness of the local bourgeoisie
Only the hegemon has a capable outwards-oriented state bureaucracy.	Relative equivalence in the capabilities and tasks of the state bureaucracy
Only the hegemon has a professionalised outwards-oriented military.	Relative equivalence with regard to the professionalisation and capabilities of the military
Coalitional difference ($\neg \boldsymbol{c}$)	Coalitional similitude (c)
PREDICTION	
Hierarchies are more stable and parities increase the probability of war.	Balances are more stable and imbalances increase the probability of war.

My argument is based on two simple propositions: First, stability (s) can be attained in the event that the power differential is low ($\neg p$) and there is coalitional similitude (c), a situation that we call balance ($\neg p \wedge c \implies s$). Second, stability ($s$) can be attained in the event that the power differential is high (p) and there is coalitional difference ($\neg c$), a situation that we call hegemony ($p \wedge \neg c \implies s$). In accordance with modus tollens, we know that conflict ($\neg s$) must be the product of two possible configurations: $[\neg s \implies (p \wedge c) \vee (\neg p \wedge \neg c)]$ a large

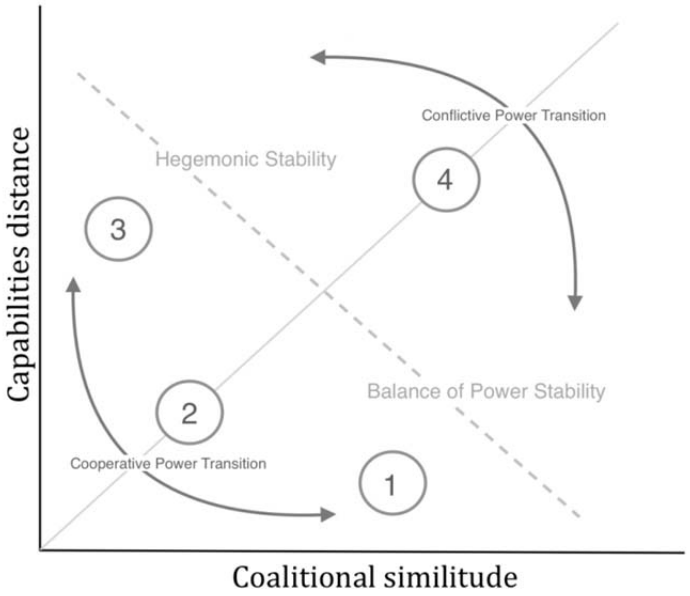
10 Some examples can illustrate how the stability of these two ideal types depends on these assumptions holding. If among two countries in a hegemonic system the behaviour of the subordinate one violates these assumptions – e.g. trying to produce value-added goods that compete with the hegemon's, developing military capabilities that threaten the hegemon, etc. – it would be reasonable to expect conflict, even in the presence of a large power differential. The other way around, an imbalance may not be conflictive from a Waltzian perspective if increasing power differentials are accompanied by a change in other systemic or domestic assumptions of the theory. For instance, neorealists have proposed that increasing power differentials do not lead to conflict in countries that do not behave as if the difference existed (cf. Walt 1987). Similarly, imbalances could happen peacefully if the local bourgeoisie, the state bureaucracy, and the military are relatively weakened in the declining state as the power differential increases.

power differential with coalitional similitude or a small power differential with coalitional differentiation. Therefore, the absence of conflict in a context of changing power distribution must be accompanied by a change in social coalitions.[11] Ergo, the change from a small to a large power differential has to be accompanied by a change from similar to different coalitional patterns among countries.

Deductive logic leads to my central hypothesis: When the local bourgeoisie, the state bureaucracy, and the military in the declining country – Argentina – are weakened, the power transition should not lead to conflict since the domestic interests affected by the rising country – Brazil – are no longer influential foreign policy decision makers. In other words, peaceful power transitions should be preceded by the disarticulation of the coalition between the local bourgeoisie and the state bureaucracy within the declining state.

This theoretical account seems to fit not only the Southern Cone's experience but also other peaceful power transitions at the systemic level such as that between Great Britain and the United States, where the dismantling of deep-rooted coalitions was of central importance for peace (Friedberg 1988; see Snyder 1991). External shocks may play a role in inducing coalitional change – as was the case in both the UK and, as I will show, Argentina – but even if we disregard what causes coalitional change, it nevertheless appears to be a necessary condition for a peaceful power transition.

Figure 1. Power Transition from Balance to Hegemony



11 We can infer this from what in logic is called the Destructive Dilemma: $If\ (p \wedge c) \Rightarrow \neg s\ \ and\ (\neg p \wedge \neg c) \Rightarrow \neg s\ and\ s, then\ \neg(p \wedge c) \wedge \neg(\neg p \wedge \neg c)$. In other words, if great power differentials in contexts of similar coalitional patterns lead to conflict $[(p \wedge c) \Rightarrow \neg s\,]$ and small power differentials in contexts of different coalitional patterns lead to conflict $[(\neg p \wedge \neg c) \Rightarrow \neg s\,]$, and we see no conflict $(\neg s)$, it follows that we had similar coalitional patterns when the power differential was small and different coalitional patterns when the power differential was large $[\neg(p \wedge c) \wedge \neg(\neg p \wedge \neg c)]$.

The plain thin grey line divides the figure into two areas. The lower area represents the assumptions of balance of power theory, while the upper area displays the assumptions of hegemonic stability theory. The dashed line also divides Figure 1 into two areas, which represent the probability of conflict. Each numbered circle represents an ideal type of bilateral relation: the balance of power ideal (circle 1), the hegemonic stability ideal (circle 3), the hegemonic war or "conflictive power transition" ideal (circle 4), and, finally, the accommodation or "cooperative power transition" ideal (circle 2).[12] The latter is possible when social coalitions are restructured before changes in relative power lead to conflict. In the following sections the power transition that took place between Argentina and Brazil is analysed through these lenses.

3 In the Midst of the Transition: No Longer Balance but Not Yet Hegemony

Thirty years ago, when the Latin American subsystem became unipolar, the rivalry between Argentina and Brazil involved much more than football (Martín 2006; Lima 2013; Schenoni 2015; Flemes and Wehner 2015). Most historical analyses of Argentina–Brazil bilateral relations consider GDP to be the main indicator that Brazilian ascendency began in the middle of the twentieth century (Fausto and Devoto 2004; Rapoport and Madrid 2011), following at least 50 years of Argentine economic primacy in the Southern Cone.[13]

12 Circle 1 represents the ideal of bilateral balance. The two countries are very similar in terms of their domestic coalitions and they are not very different in terms of their national capabilities. However, an increase in domestic capabilities by either of them would rapidly lead to the dotted line, and therefore to conflict. Here, both actors have incentives to balance.

In contrast, circle 3 represents the ideal of bilateral hegemony – e.g. of 'B' over 'A' – where the two countries are different in terms of their domestic coalitions ('B' has a much stronger state and national industrial bourgeoisie) and the hegemon exhibits a much higher CINC, accounting for its systemic pre-eminence. Here, incentives exist for 'A' to bandwagon.

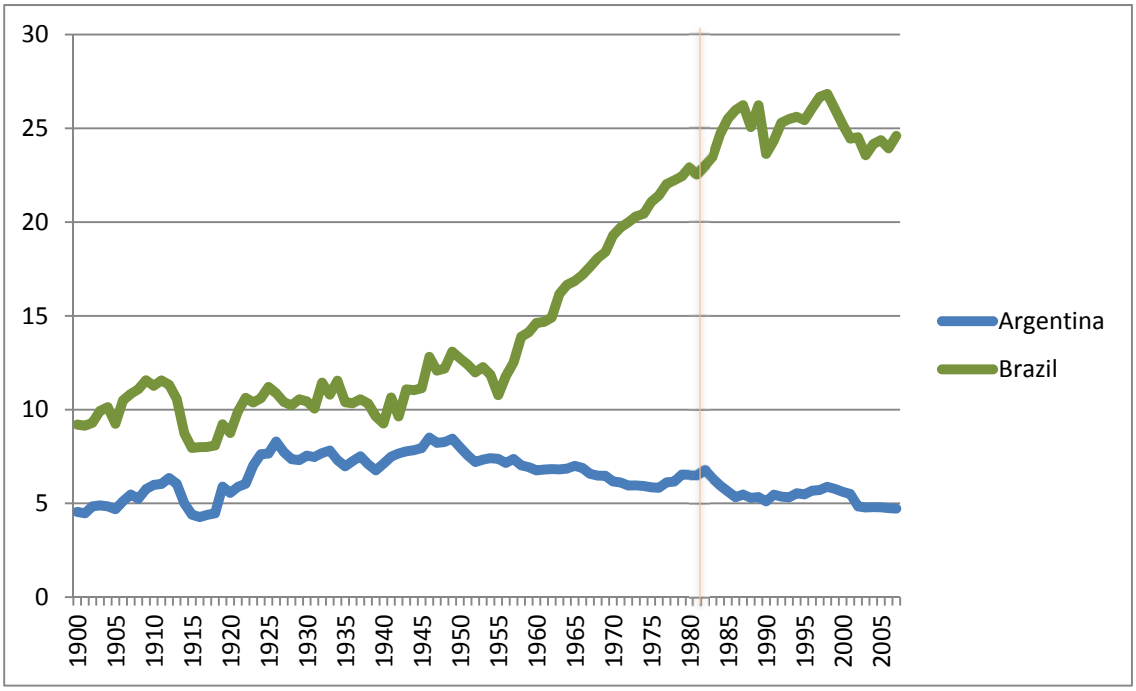
Circle 4 represents a situation where two states, being very similar in their domestic coalitions, exhibit a considerable difference in systemic power and thus go to war – the Waltzian conflict hypothesis – or, on the contrary, being distant in terms of power relations suddenly exhibit competing coalitions that, in time, may defy hegemonic stability – the Gilpinian conflict hypothesis, also shared by power transition theory.

Finally, circle 2 represents an interesting case, not purely understandable using these theories. It is the ideal of a transitional bilateral relation, going from balance to hegemony or vice versa. In this case, there are no clear incentives to balance or bandwagon, because the domestic coalitions are already very different before great disparities in power capabilities arise. It is in this situation where underbalancing – or peaceful power transitions – may take place. In the next section it will be argued that Argentina–Brazil bilateral relations resembled this ideal type for more than 30 years.

13 Even if Brazil is almost three times greater than its southern neighbour in size, with 8,514,215 km² to 2,791,810 km², and has always been more populous – the relation was already 2.8 to 1 in the 1950s and is now 4.9 to 1 – its pre-eminence was not that obvious considering the productivity of its territory and population. In 1951 Brazil's GDP was equivalent to that of Argentina. However, many indicators continued to relativise the case for Brazilian ascendancy. Argentina's GDP per capita was more than double that of its neighbour by the 1950s

The Composite Index of National Capabilities (Singer et al. 1972)[14] suggests that Brazil started its rise in the 1950s and had triple Argentina's power by the 1980s, thus making the South American subsystem unipolar (Schweller 2004; Martin 2006).

Figure 2. Argentinean and Brazilian National Capabilities, 1900–2007



Source: CINC 2015 (Singer et al. 1972).

The existence of a subjective balance can also be identified in the behaviour of relevant political actors on both sides of the border.[15] Confrontational behaviour and discourse reached a climax during the 1970s. By then, many Argentine businessmen, bureaucrats, and military elites – who used to think of Brazil as an underdeveloped American satellite in the region – were seriously concerned about the geopolitical ambitions of Argentina's rising neighbour (Moniz Bandeira 2011: 124-126).[16]

– it is still 1.5 times higher. This was also the case for development indicators such as life expectancy or literacy (UNDP 2015), and for infrastructure indicators such as railroad mileage, highways, telephones and commercial vehicles per capita (Banks and Wilson 2015). Although the gap has decreased in many of these areas, particularly human development indicators, the differences continue to demonstrate Argentine pre-eminence.

14 The CINC is based on six indicators of international power which are considered relevant for a neorealist definition of the concept: energy consumption, iron and steel production, military expenditure, military personnel, total population, and urban population.

15 This history of rivalry is so internalised that, even in the twenty-first century, many actors in both countries still interpret the bilateral relationship in the terms of the historical balance of power (Russell and Tokatlian 2003).

16 A paradigmatic case is that of Mário Travassos, a leading geopolitical analyst whose book *Projeção Continental do Brasil* (Travassos 1935) unequivocally articulated how Brazil's long-term strategic interests in South Ameri-

In fact, it was during these years that the increase in Brazil's energy consumption, triggered by a long period of impressive economic growth known as "the Brazilian miracle" (1968–1973), led to the construction of the Itaipú hydroelectric dam near the Argentine border. The project was interpreted by Argentina as affecting its control of the Paraná River flow and its strategic position in an eventual conflict. Between 1974 and 1979 – and for the first time in more than a century – the military resolution of the dispute became a possible scenario for both countries (Moniz Bandeira 2004: 385), thereby constituting a clear example of the tensions expected when power transitions take place. However, against all odds, Argentine foreign policy towards Brazil changed radically during the late 1970s – and then again in the early 1990s – thus ultimately allowing the Southern Cone to transition smoothly to unipolarity.

However, the fact that Brazil accumulated more than three times Argentina's power did not make it hegemonic in the commercial, financial, productive, military, or ideological realms (see Wilkinson 1999). This point is important, since some scholars have referred to Brazil in these terms (Lima 1990; Burges 2008).[17] First, Brazil is not yet a hegemon in military terms. Even though Brazilian military expenditures are six times those of Argentina (SIPRI 2014), Brazil has a larger payroll of military personnel, roughly four times the Argentine troops, just 2.3 times its combat planes, two times its tanks, and only 1.5 times its battle ships (The Military Balance 2015). In this situation, potential regional alliances and technological parity make it difficult to guess the result of a hypothetical conflict.

Second, Brazilian hegemony would imply preferential access to the Argentine market and considerable competitive advantages. Mercosur – the only institution intended to restrict third-party access to the Argentine market – has an average common external tariff of 13 per cent, which is too low to discourage third-party imports (Porta 2008). Since the inception of this imperfect customs union, Argentina has never imported more than 31 per cent of total imports from nor exported more than 25 per cent of its total exports to Brazil (CEPAL 2015; SECEX 2015; MECON 2015).[18]

Third, Brazil cannot be hegemonic in the financial realm until the real becomes an important reserve or trade currency or Brazil becomes the primary debt holder and source of

ca clashed with Argentina's in the Plata Basin (Colacrai 2002). Another work that intensified the Argentine concern with Brazilian ambitions was Golbery do Couto e Silva's *Geopolítica do Brasil* (Couto e Silva 1966).

17 Hegemony is a systemic concept. Therefore, it may be confusing to talk about "bilateral hegemony." In a strict sense, Brazil can only be hegemonic with regard to a region and not with regard to just one neighbour. However, as we know that Argentina has historically been the second-largest country in the region, it is assumed that if Brazil is not hegemonic in relation to Argentina, then it is not a regional hegemon and *vice versa*. Additionally, it should be noted that this article does not interpret hegemony in a Gramscian sense (cf. Cox 1983) as Sean Burges does.

18 Despite the fact that it did not provide control over the Argentinean market, it must be said that Mercosur set the conditions for a relatively more developed value-added production in Brazil (Crespo Armengol 2004: 134-138) – even if this was far from the hegemonic ideal type. However, the peso devaluation of 2002, Mercosur's stagnation (Malamud 2012), and Brazil's "re-primarisation" have been preventing the continuation of that trend for years now.

FDI for Argentina. Although it is true that Brazilian FDI in Argentina has increased substantially since the 2001 crisis, it is still exceeded by American, European, and Chilean FDI (MECON 2015).[19]

Fourth, if Brazil was a hegemon, this should be reflected in international regimes – that is, sets of rules governing specific issue areas – reflecting that primacy. The regimes in the Southern Cone are far from reflecting the preferences of Itamaraty. Sometimes they are even meant to contain Brazil.[20]

To summarise, Brazil cannot yet be said to be a hegemon (Schenoni 2015) in the way the United States is in the Americas, even though it had achieved unipolar primacy in the Southern Cone by the 1980s and its relative power has been continuously increasing since then.[21]

4 From Conflict to Cooperation: The Late 1970s

Transitions from authoritarian rule beginning in the 1980s encouraged an extended democratic peace hypothesis, which suggests that regime change nullified the effect of balance of power competition between Argentina and Brazil. Other liberal approaches hold that new international regimes and an increase in commercial exchange in the 1980s further affected cost-benefit assessments, making balance of power too expensive. In fact, it is a combination

19 Brazil has become the only South American country that invests more than it receives from abroad – six times the Argentine FDI (Schenoni 2015) – but in the economic realm Argentina–Brazil relations do not follow the hegemonic paradigm. Instead, they show some asymmetries regarding size, market share, specialisation pattern, and regulations (Bouzas and Kosacoff 2010).

20 International organisations such as the Alianza Bolivariana para las Américas (ALBA), the Comunidad Andina de Naciones (CAN), or the recent Alianza del Pacífico exclude Brazil (Flemes and Wehner 2015). Others, such as the Organization of American States (OAS) or the Asociación Latinoamericana de Integración (ALADI) are a remnant from a time when Brazil did not bear South American primacy and therefore do not reflect its strategic interests (Nolte et al. 2013). But even some institutions which were actively promoted by Itamaraty and could be said to reflect Brazilian strategic conceptions – such as Mercosur, the Comunidad de Estados de América Latina y el Caribe (CELAC), or the Unión Sudamericana de *Naciones* (UNASUR) – do not reflect Brazilian primacy in their design. The decision-making procedures in some of these institutions could have reflected the difference in size between Brazil and its neighbours, as is the case within in the Council of the European Union, with the quota system in the IMF, or with the veto power in the UN Security Council. Nonetheless, the institutions in the Southern Cone are all based on a strict "one country, one vote" principle, which allows for regional contestation by second-tier states (Nolte and Wehner 2014).

21 Last but not least, Brazil is not a hegemon because of the United States' weight in the Western Hemisphere. In almost every aforementioned dimension, the distance between the United States and Brazil is greater than the distance between Brazil and Argentina. This affects our subsystemic analysis in two ways. Firstly, it shows that, beyond the logic of their bilateral relations, Argentina and Brazil are further constrained by their relationship with the United States. Secondly, it opens up the possibility of forming an alliance with the United States against any rising country that would threaten regional stability (Huntington 1999). Although these effects do not affect this article's conclusions, they must be taken into account to further relativise the idea of Brazilian hegemony in South America at the current time.

of these explanations that constitutes the official history of the "friendship" between Argentina and Brazil (cf. Oelsner 2005; Rapoport and Madrid 2011).[22]

However, a process-tracing approach to this matter asks us to identify the precise moment when the cooperative turn took place and to analyse the contextual conditions and immediate causes of this particular change in bilateral relations (Mahoney 2012; Beach and Pedersen 2013). In this sense, it is indisputable that an initial critical juncture – that is, an initial radical change in the two countries' foreign policy behaviour toward each other – had already taken place under authoritarian rule. "The mid-1980s agreements, significant as they were, did not begin cooperation *de novo*. While a new set of factors prompted both sides in the mid-1980s to erect more elaborate, deeper structures, institutionalized cooperation was built on the foundations established in 1979–80" (Resende-Santos 2002: 89; cf. Solingen 1994; Darnton 2012).

The end of the Itaipú crisis was closely followed by a series of treaties that consolidated a friendly relationship between both countries long before the democratic transitions. From 1977 to 1978, five meetings between the foreign ministers of Argentina, Brazil, and Paraguay took place. These negotiations ended with the signing of the Acuerdo Multilateral de Corpus-Itaipú, also known as the Tripartite Agreement, which formally settled the dispute on 17 October 1979. In 1980, de facto presidents Figueiredo and Videla visited each other. These meetings ended in 11 protocols regarding mutual cooperation in the development of missile, aeronautic, and nuclear technology. Although no agreements were made on other issues, the talks also included commerce and cooperative defence in the South Atlantic (Escudé and Cisneros 2000). Considering the broad range of issues discussed during these meetings and the level of compromise reached, it is obvious that the advances made between 1977 and 1980 constituted the most important critical juncture in the bilateral relationship. The democratisation of Argentina (1983) and Brazil (1985) were significantly less meaningful events. In the words of a prominent authority, "the initial rapprochement occurred much earlier, under the military regimes in 1979–1980" (Darnton 2012: 120).

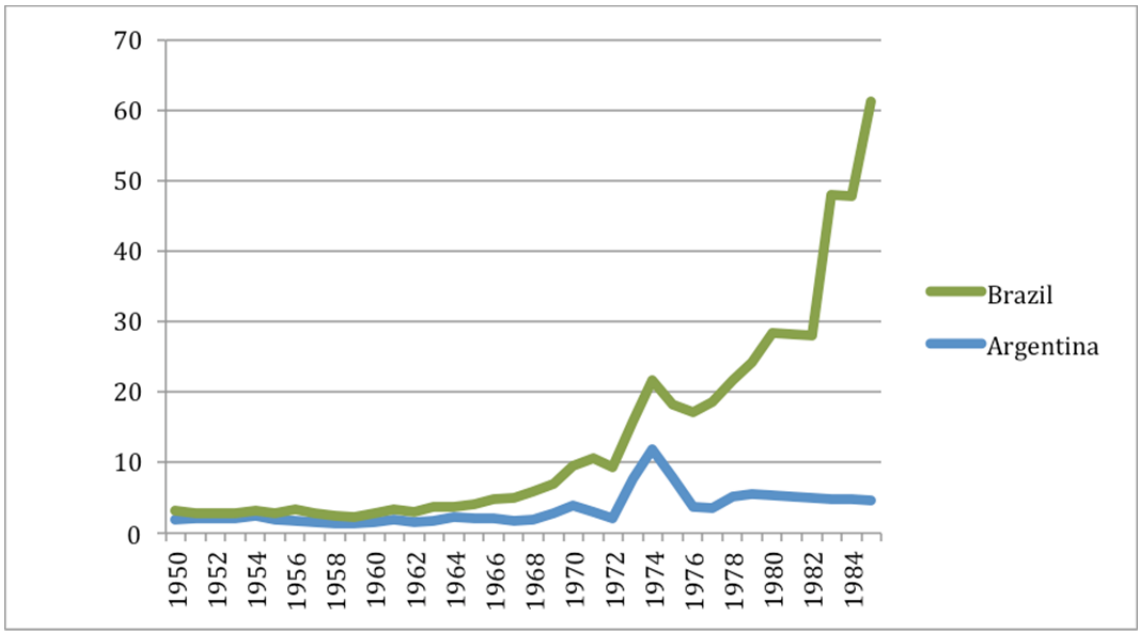
What changed between 1977 and 1980, then, that allowed for a cooperative turn in Argentina–Brazil relations? The answer appears to be both systemic and domestic. On the one hand, Buenos Aires had to face international pressure on a second front starting in 1977, after a court of arbitration granted disputed territory near the Beagle Channel to Chile, putting both countries on the verge of war (Garrett 1985). On the other hand, a radical coalitional

22 Democratic transitions did bring a series of compromises. In 1985, José Sarney became president of Brazil – Argentina had already achieved democracy in 1983 – and met Alfonsín in Foz de Iguazú. They discussed security in the South Atlantic, giving support to the Contadora Group, which was managing the Central American conflict at the time, and even signed the Iguazú Declaration on Nuclear Policies, fostering scientific and military cooperation. More importantly, one year later, Argentina and Brazil signed the Programa de Integración y Cooperación Económica (PICE), often considered the first step toward Mercosur and the moment Argentina and Brazil decided to undertake serious economic commitments toward each other on a long-term basis. However, democratisation does not explain the turn to cooperative behavior.

change took place in Argentina, sidelining economic and political actors who had previously impeded cooperation with Brazil.

During 1977 – the most violent year in terms of the state's repression of leftist movements – Videla initiated a market-oriented reform "in an alliance with rural sectors and financial capital" (Fausto and Devoto 2004: 387). The local industrial bourgeoisie was deeply affected, and state capacities – along with a highly trained developmentalist bureaucracy – were severely damaged by an overvalued currency, high interest rates, and a significant decline in public expenditure (see Figure 3).[23]

Figure 3. Public Expenditure in Argentina and Brazil



Source: Banks and Wilson (2012).
Note: In current US dollars (billion).

Although Brazil later had to undertake some liberal reforms, it did not suffer from a turn from state interventionism to neo-liberalism, as Argentina did, but rather experienced a sequence of autonomy, control, and relative privatisation during the 1980s (Tavares de Almeida 1999). The importance Brazil gave to the national bourgeoisie and state-owned enterprises as the axis of its development strategy was still evident at the end of the decade (Barros de Castro 1994; Peixoto 2011) and was explicitly introduced into the 1988 constitution, limiting neo-liberal governments' room to manoeuvre in the 1990s. This is reflected in the enduring influence not only of the national bourgeoisie, but also of the developmentalist military and bureaucrats.

23 This was not the result of mere neo-liberal ideas; it was the consequence of the historical competition between the industrialist and agro-financial *patrias* in Argentina, each of which had always promoted different development models (O'Donnell 2004). Interestingly, only the victorious model could benefit from a more cooperative relationship with a rising Brazil and decompress bilateral tensions.

The neo-liberal reforms undertaken by the military had left Argentina's industry much more vulnerable and its state much less capable. By the mid-1980s the state-owned enterprises' share of Argentina's GDP was 2.7 per cent, while in Brazil they accounted for 7.6 per cent of a much higher GDP (Pang 2002: 133). The results for industrial protection in the two countries are also impressive. By the winter of 1990 – one year before the signing of the Mercosur Treaty – the average import tariff in Argentina was 11.7 per cent, compared with 25.4 per cent in Brazil. Although Brazil undertook an economic reform plan under Sarney from 1988 to 1990, it was limited to special import arrangements and the elimination of tariff redundancy, and it scarcely affected protection levels (Berlinski 2004). In fact, Brazil did not undergo true market reforms until the 1990s.

The novel coalition between the military, neo-liberal technocrats, the financial and agricultural sectors, and foreign capital (cf. O'Donnell 1973) in Argentina had much to gain from a peaceful settlement of the Itaipú crisis and the re-establishment of cooperative relations with Brazil:

> Starting from a realist assessment of the enormous power gap between Argentina and Brazil, the president and the economic diplomacy [intergovernmental agencies of the Ministry of Economy], as well as big financial and agricultural capital linked to transnational networks, coincided in favouring subregional cooperation and extended markets instead of old-fashioned conflict hypotheses […], [whereas] nationalist and developmentalist sectors on the Argentine and Brazilian sides had their reservations about it [the Tripartite Agreement]. On the Argentine side, led by General Juan Gugliamelli, it was argued that these developments turned Argentina into a "minor partner" of Brazil, a country that would reach the status of a great power in the Plata Basin by the year 2000. For Gugliamelli, this result was inevitable if Matínez de Hoz's liberal economic policies were to continue, given the existing gap between the Brazilian industrial potential and the agro-export bias of the Argentine economy. (Escudé and Cisneros 2000: 312)[24]

This paragraph summarises the logic of the coalitional change that took place in Argentina, and which made it possible for Brazil to achieve regional pre-eminence in the form of the current unipolar order. From 1977 on, the further strengthening of this new coalition and the concentration of foreign policymaking in hands of the Argentine military – with the diplomats and other developmentalist bureaucrats excluded (Russell 1988) – made it possible for these two countries to maintain cooperative relations while the power gap between them increased.

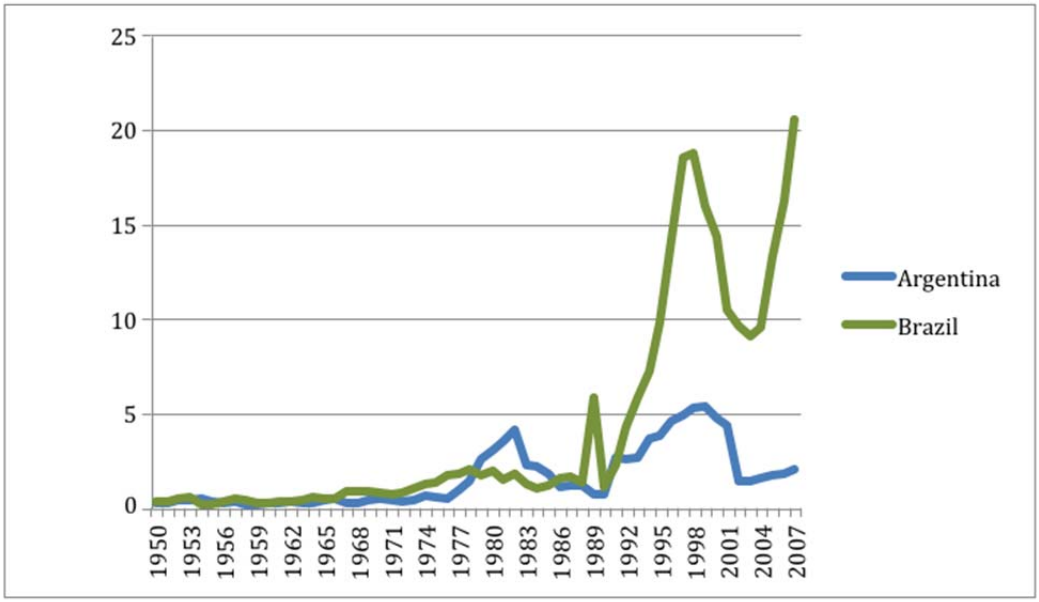
Following these changes in the economic realm, the next step towards subsystemic unipolarity was the Malvinas/Falklands War in 1982.[25] With the Itaipú crisis resolved, Argentina

24 Translated by the author.

25 The Malvinas/Falklands War is also an example of how Argentina–Brazil bilateral relations had improved from 1977 to 1982. Brazil transferred small arms and several planes and even disclosed technological military

had renounced its industrial primacy, but it remained a powerful military player. Therefore, the resolution of the Brazilian conflict hypothesis could have contributed to the dynamics that almost led to war with Chile and altered the strategic balance in the South Atlantic. However, the Falklands/Malvinas defeat eliminated Argentina's military competitiveness in the Southern Cone. Successive democratic governments in Casa Rosada would continue to downgrade defence budgets as a way to control the military.

Figure 4. Military Expenditure in Argentina and Brazil



Sources: CINC 2015 (Singer et al. 1972) and SIPRI 2015, in current US dollars (billion).

5 The Consolidation of Brazilian Primacy: The Early 1990s

After the significant turn in bilateral relations that took place from 1977 to 1980, democracy facilitated the deepening and institutionalisation of the compromises initiated under the authoritarian regimes (Resende-Santos 2002: 89). Yet further negotiations were timid.[26] If there was a second moment when Argentina unambiguously accepted the advancement of "integration" with Brazil, it was during the presidency of Carlos Menem. On 6 July 1990, he and

improvements to Argentina during the conflict (Moniz Bandeira 2011: 223). Furthermore, Brazil denied the use of its territory for any British operations, backed Argentina's sovereignty claim, and represented its neighbour in London.

26 Even the first democratic administrations, which had sought the aforementioned improvements in bilateral relations, did not promote many compromises after the Programa de Integración y Cooperación entre la Argentina y Brasil (PICAB) was agreed in July 1986. The implementation of the programme only began in 1988, since the further downgrading of tariffs was seen as potentially damaging for the Argentine industrial sector.

Fernando Collor de Mello signed the Buenos Aires Act, which put an end to a decade of hesitant sectorial negotiations and promoted the creation of a common market.[27] The Asunción Treaty followed in March 1991, giving a name and an institutional structure to Mercosur and establishing a schedule for progressive, linear, and automatic tariff reductions, which now also included Paraguay and Uruguay. In 1994 the Ouro Preto Treaty further institutionalised the free trade agreement – with the exception of some products, such as sugar and materials for auto manufacturing – and transformed Mercosur into a customs union by establishing a common foreign tariff. The 1990–1994 period must therefore be viewed as a moment of unusual cooperative behaviour (Onuki 2006).

The dynamics of domestic politics in Argentina during those same years support the hypothesis that changing coalitions constrained balancing behaviour. Mercosur talks were made possible after a tremendous hyperinflation crisis that led neo-liberals back to economic policymaking under Menem's administration starting in July 1989. By October 1990, the Argentine state had already sold its state-owned monopolies in five sectors – highways, trains, telephones, commercial aviation, and oil – and had announced the privatisation of water and electricity, both of which were in the hands of the private sector by 1993 (Palermo and Novaro 1996: 171). These services went mostly to foreign investors; only steel production was sold to Argentine investors from the company Techint.

Through a series of harsh negotiations with trade unions, Menem also managed to reduce public employment, deregulate the labour market, and decentralise healthcare and education (Etchemendy 2001: 681-682). The state reform was accompanied by commercial measures that also damaged the competitiveness of the remaining industrial activities and fostered transformations that favoured the agricultural and financial sectors. Moreover, the legal establishment of a fixed parity between the peso and the US dollar – through the Convertibility Law – prevented Argentina from devaluing its currency, further damaging the local industrial bourgeoisie. In summary, during this period "Argentina suffered one of the most comprehensive market reforms among developing countries. In less than five years this country witnessed the fundamental restructuring of state–society relations" (Etchemendy 2001: 675).

Brazil also had its share of neo-liberalism during the 1990s,[28] but Mercosur was far from being only the project of a neo-liberal coalition, as it was in Argentina. In Brasilia, pragmatic developmentalists conceived of Mercosur as a way to protect the local bourgeoisie from the hemispheric trade policies sponsored by Washington (Onuki 2006; Saraiva 2012: 91; Poggio Teixeira

27 In fact, they changed the PICAB's formula, which agreed to "gradually remove asymmetries," to an ambitious commitment to "Establish a common market between Argentina and Brazil that should be definitely confirmed by 31 December 1994" (Buenos Aires Act, Art. 1).

28 As Fabiano Santos and Maria Regina Soares de Lima put it: "During the Sarney administration, the dispute between developmentalists and economists who were critical of the previous model of industrialization prevented major changes in the status quo. However, from the Collor administration onward, the decision to pursue trade liberalization through more or less radical measures became a state policy" (Lima and Santos 1998: 17).

2014: 113-118).[29] Moreover, while the local bourgeoisie was excluded from the process of liberalisation in Argentina (Etchemendy 2001), the Brazilian state became more permeable to the demands of Brazilian business people during the 1990s (Oliveira and Pfeifer 2006: 391). As a result, market reforms in Brazil were better regulated, quicker, and less comprehensive.[30]

Furthermore, this first neo-liberal wave in Brazil ended rapidly. When Collor de Mello attempted to continue unilaterally fostering state reform and economic liberalisation through presidential decrees – *medidas provisórias* – a coalition of the local bourgeoisie and the developmentalist bureaucracy, represented by established political parties, called for his impeachment. This led to Collor's resignation in October 1992 (Skidmore 1999: 221). The political crisis froze the reforms until Fernando Henrique Cardoso, once a leftist activist and scholar, became president in 1995. He enacted some temperate reforms during his first term.[31] In the words of a renowned Brazilian historian:

29 "[…] [while] for Argentina the strengthening of Mercosur indicated an approximation to the United States and a possible entrance to the North American Free Trade Agreement; for Brazil – on the contrary – integration with neighbouring countries represented an opportunity to legitimate its leadership position in South America, besides consolidating a distinct regional space, independent from the United States' orientation" (Onuki 2006: 307).

30 When Collor launched the National Programme for Destatisation (PND) in April 1990 – three months after assuming the presidency – 188 federal enterprises were to be privatised. By 1992 the Brazilian PND had privatised only 18 of them, in the steel, fertilisers and petrochemicals sectors (Fausto and Devoto 2004: 488). In these cases, the majority of shares ended up in hands of Brazilian investors or other *clubes de investimento* involving workers themselves (Di Tella 1995: 158).

Despite Collor's will, privatisation had to comply with a restricted regulatory framework: "A foreign investor was limited to 35% of the total shareholding of any public company […] The investment should remain in the country at least six years. Another 35% of the shares were reserved for Brazilian individual investors, each investor could retain up to 5%, and finally 30% of the remaining stock should be reserved for employees of the destatised public company. The law still reflected economic nationalism with a strong dose of xenophobia […] Unlike Mexico or Argentina, Brazil established strict regulations on how foreign investors could participate" (cf. Pang 2002: 135).

Additionally, major state enterprises were strengthened while purchasing smaller ones. The so-called "privatisation" process in Brazil ended with an increase in the state-owned enterprises' share of the GDP to 8 per cent – while it decreased to 1.3 per cent in Argentina – by 1995 (Pang 2002: 133-136).

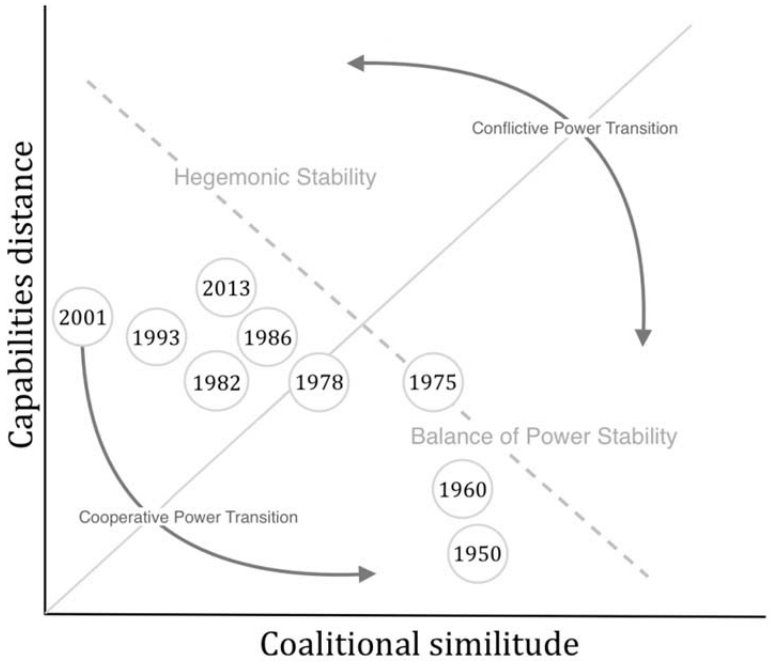
31 Cardoso created a National Council for Destatisation, which continued to privatise the huge mining company Vale do Rio Doce, along with trains, computer systems, banks, energy, and telecommunication companies. This second cycle of large privatisations ended with that of Petrobras in 1997. However, destatisation was far from the Argentine style. BNDES gave large and flexible loans to the Brazilian bourgeoisie to purchase a major portion of the shares in almost every enterprise (Boschi 2011). In some cases, such as Petrobras, the state remained the majority shareholder.

Moreover, Cardoso could not implement many other reforms. Congress rejected tax reform, labour reform, and social security reform (Peixoto 2011). Brazil did not tie the real to the US dollar, instead keeping a "dirty" floating exchange rate. Brazilian integration into international markets was progressive and controlled. While Argentina was trading 4.2 times its average of the past decade by 1995–1998, Brazil expanded its foreign trade by only 2.5 times during those years (Petrecolla 2004: 20).

> Even if neo-liberalism impregnated the intelligence of the Brazilian elite in the 1990s, it did not become the exclusive tendency in determining the international relations of Brazil, as was the case in Argentina. Public opinion distrusted Fernando Collor's discourse and never forgave the failure of his shock monetarism. This inspired the substitution government of Itamar Franco (1992–1994), which stopped the neo-liberal impetus by promoting development and valorising national production. Afterward, Cardoso's reservations reflected the heterogeneity of Brazilian society. (Cervo 2006: 14)[32]

Figure 5 summarises the logic behind Argentina's failure to balance Brazil, following the scheme proposed in Figure 1. It shows that Brazil's increased power capabilities made it impossible for Argentina to maintain the former coalition of local bourgeoisie and state bureaucracy without this leading to conflict. By disempowering these societal actors, Argentina secured peace through accommodation.

Figure 5. Yearly Snapshots of the Power Transition



Sources: CINC 2015 (Singer et al. 1972) and Index of Economic Freedom (Fraser Institute 2015).

Note: As in Figure 1, each circle represents the state of bilateral relations during a certain year. Capabilities distance – values in y – is the difference between Argentina and Brazil in terms of their CINC; as the circles go upward, the power differential grows bigger. Coalitional similitude – values in x – is calculated as the difference in economic openness, as measured by the Fraser Institute's Index of Economic Freedom, between Argentina and Brazil. From 1975 to 2001 Argentina became relatively more open than Brazil, therefore pushing the circles to the left. This indicates that the developmentalist coalition was stronger in Brazil during that period.

Finally, Brazil devalued the real in January 1999, ending a brief second cycle of reforms and seriously damaging Argentina's trade balance.

32 Translated by the author.

6 A Process-Tracing Analysis of Alternative Hypotheses

The previous sections offered an account of the changes in bilateral relations and domestic social coalitions that took place during the periods 1977–1980 and 1990–1994, allowing for a peaceful power transition in the Southern Cone. However, more than one speculative explanation of these changes has been given in the past and I test all of these more thoroughly in this section.

My main hypothesis – derived deductively from realist theory in Section 2 and offered as an analytic narrative (cf. Bates et al. 1998) in sections 3, 4, and 5 – is that changes in coalitions within Argentina, the weakening of the local bourgeoisie and the state bureaucracy, explain the peaceful power transition. This hypothesis (H1) has at least two observational implications: First, if a change in social coalitions is taking place, the government has to insulate decision-making from previously influential actors. Second, once decision-making processes are insulated, the government has to enact economic policies that overtly damage those actors.[33] Therefore, H1 requires the insulation of the decision-making process – for example, the concentration of power in the hands of Argentine president – *and* a subsequent change in economic policy that supersedes previous policy frontiers – for example, neo-liberal measures that affect the developmentalist coalition – and precedes important negotiations and agreements.

Some competing hypotheses are laid out in the literature: "Institutional liberalism" (H2) proposes that the establishment of international regimes precedes cooperative foreign policy turns. "Commercial liberalism" (H3) argues that transnational economic interchange drives cooperative behaviour. And "republican liberalism" (H4) highlights the importance of domestic regime type (cf. Keohane 1990). "Ideational liberalism" (H5) also stresses that a change in "social values or identities" (Moravcsik 1997: 515) may explain cooperation. The latter is also associated with constructivism (H6), which argues that changes in ideas – as evidenced in policy speeches (Onuf 2001) – are the most immediate cause of actual changes in foreign policy. Last but not least, extra-regional factors (H7) – for example, changes in the foreign policy of the United States, the end of the Cold War, etc. – may impact the bilateral relationship.

33 Presented this way, H1 acknowledges the bulk of the foreign policy analysis literature on social actors. Most of the time, "states represent some subset of domestic society, on the bases of whose interests state officials define state preferences and act purposively in world politics" (Moravcsik 1997: 518), but in certain critical junctures, the state can insulate decision-making from societal pressures, moving previously rigid "policy frontiers" (Golob 2003: 363-368) and using international agreements to restructure social coalitions (cf. Gourevitch 1978; Putnam 1988).

Table 2. Process-Tracing Analysis of Critical Junctures Leading to Cooperation

	Itaipú (1977–1980)		Mercosur (1990–1994)	
	Hoop	Smoking gun	Hoop	Smoking gun
Social coalitions (H1)	✓	✓	✓	✓
Institutions (H2)			✓	
Commerce (H3)			✓	
Democracy (H4)			✓	
Social ideas (H5)			✓	
Political discourse (H6)	✓		✓	
Global context (H7)	✓	✓	✓	✓

Note: "Hoop" tests evaluate if the conditions were present, while "smoking-gun" tests evaluate if the condition was evident immediately prior to cooperative turns within these critical junctures.

Table 2 summarises the results of a process-tracing analysis of these hypotheses. "Hoop tests"[34] are intended to show whether the conditions predicted by each hypothesis were present in 1977–1980 and 1990–1994, while "smoking-gun tests"[35] evaluate whether such conditions were evident immediately prior to major agreements (Mahoney 2012: 576-579). The results, based on historical accounts and primary sources, support the hypothesis that changes in coalitions (H1) – as evidenced by the concentration of power in the hands of the chief executive and radical changes in economic policy that affected developmentalist actors – were necessary conditions for cooperation between Argentina and Brazil. They also suggest that external shocks initiating from the systemic level (H7) helped to induce such coalitional changes and are therefore necessary to explain the peaceful power transition. Although space constraints permit me from going into too much detail, I will briefly describe the mechanics and results of this process-tracing analysis.

The 1977–1980 critical juncture provides the most decisive evidence in favour of H1. Declassified documents from the Argentine Ministry of Foreign Affairs show that Ambassador Oscar Camilión began intense negotiations with the Brazilian government in May 1977 (MRECIC 2015), precisely one month before Martínez de Hoz announced his most important neo-liberal policy: a financial reform that liberalised interest and exchange rates, and practically eliminated all subsidies to credit. This was the most damaging policy setback that the

34 A hoop test specifically asks about the occurrence of certain conditions or mechanisms that should be present at a precise historical moment for a hypothesis to be true. Passing the hoop test is a *necessary* condition for the hypothesis to be true. In other words, if a hypothesis does not pass though the hoop, then it should be discarded. For example, the democratic peace hypothesis does not jump the hoop for 1977–1980 since both Argentina and Brazil were strong authoritarian regimes at that time.

35 A smoking-gun test does not test the mere possibility that a certain hypothesis is true as the hoop test does. Smoking-gun tests are intended to confirm a particular hypothesis by finding very clear evidence – like a smoking gun in the hands of a suspect – that there is a causal relation between events. One way to pass this test is by proving temporal precedence and close temporal proximity between an alleged cause and the effect. For example, as will be shown, the fact that the Convertibility Law was sent to Congress the same day Menem attended the summit in Asunción that gave birth to Mercosur provides clear smoking-gun evidence in favor of H1.

Argentine industrial bourgeoisie had suffered since the 1930s (Canitrot 1980) and also demonstrates the overwhelming power that President Videla had obtained by then.

The timing of the 1979 Tripartite Agreement also offers some smoking-gun evidence. The day it was signed – October 19 – the Argentine National Institute of Statistics announced an unemployment rate of 1.5 per cent, the lowest ever registered in Argentina (*La Nación*, October 19, 1979). The spring of 1979 represented the apex of Videla's power. The last demonstrations against the government took place that April. Journalists, lawyers, judges, and religious hierarchies by then all supported the "authoritarian peace" (Novaro, 2010: 173). Not even Admiral Emilio Massera – Videla's nemesis inside the junta during his first two years in power – questioned the president's authority.[36] This situation allowed Videla to impose the Tripartite Agreement on the developmentalist and nationalist opposition, sign further accords in 1980, and continue to apply neo-liberal policies until March 1981.

An analysis of the 1977–1980 juncture not only offers support for H1, but also, most remarkably, shows that all other hypotheses beside H7 have little basis. Bilateral trade (H3) was at a historical low in 1976, with a total volume of USD 760 million, and would only increase considerably by 1980, to USD 1,847 million, probably as a consequence of the aforementioned agreements (Camilión 1987: 11). There were still almost no important bilateral institutions (H2) that could have had any agency or acted as a neutral sphere within which bilateral cooperation could be enhanced. Even Pan-American institutions were blocked due to Washington's stance vis-à-vis authoritarian regimes.

It would be problematic to assert that social values or ideas led to a push for cooperation (H5) in a context where the level of radicalisation was high and nationalist sentiments were mobilised repeatedly and consistently until after the Malvinas/Falklands War (cf. Mainwaring & Pérez-Liñán 2013). Obviously, democracy (H4) was far from a reality.

H6 and H7 are the only alternative hypotheses that pass the hoop test for the first critical juncture. The official economic discourse in Buenos Aires had acquired a neo-liberal tone starting in 1976, and the international environment had changed due to Carter's human rights policy and Argentina's conflict with Chile. However, H7 is the only hypothesis besides H1 for which there is smoking-gun evidence. In February 1977 Carter announced a considerable reduction of foreign aid to Argentina, and in July the EXIM bank refused an important loan, blocking the purchase of police equipment (Selden 1999: 130). On 2 May 1977, Queen Elisabeth II also presented her arbitration favouring Chile in the Beagle Channel dispute, which led to increased pressure on Argentina from Santiago as well. Therefore, in the first critical

36 Admiral Isaac Francisco Rojas was the only influential politician who publicly expressed his concern about the treaty, in a letter to Videla, stating that the Tripartite Agreement had "[…] highly prejudicial connotations for Argentina, not only political, but economic, and military […] now they [Brazil] will dominate the Parana River, upstream and downstream Itaipú, like a lock, whose key will be in their hands […]" (*La Nación*, October 17, 1979).

juncture, both coalitional change and a change in the global context appear to have been present and to have constituted the necessary conditions for Argentina–Brazil cooperation.

The 1990–1994 critical juncture is far more complex and confusing, since all the hypotheses pass the hoop test. However, the concentration of power with President Menem and economic reforms closely preceded changes in foreign policy, providing smoking-gun evidence in support of H1 that is lacking for every other hypothesis – perhaps with the exception of H7.

So far, few scholars have identified power concentration in the hands of the president as a determinant of the Act of Buenos Aires of 6 July 1990 and the Asunción Treaty of 26 March 1991 (cf. Malamud 2005). A close analysis of what happened during the winter of 1990 is consistent with this hypothesis. Menem took office in a context of economic and social unrest that jeopardised his presidency in 1989 (Novaro 2009: 356); it was only in April 1990 that he managed to discipline his own party, bring about the privatisation of several state-owned enterprises, reduce public employment by 14 per cent, and apply a drastic cut of 25 per cent to the government bureaucracy (Pucciarelli 2011: 40). These measures had restored economic stability by July 1990 and allowed Menem to meet Collor with an approval rate of 80 per cent, having overpowered the developmentalist veto (*Clarín*, July 08, 1990). The July 1990 juncture is, however, not conclusive, since the international context (H7) had also changed dramatically as a result of President Bush's announcement of the Enterprise for the Americas Initiative in June of the same year (Gomez-Mera 2013).

Still, the signing of the Asunción Treaty one year later provides conclusive smoking-gun evidence in favour of H1. Little had changed in the domestic or international contexts when President Menem travelled to Asunción, except that it was the same day that he sent the Convertibility Act – ostensibly the most damaging policy undertaken against Argentine industrials since Martínez de Hoz's financial reform – to the Argentine Congress (*La Nación*, March 25, 1991). The temporal coincidence in this case is stunning. We can see both the smoke and the bullet coming out of the gun; the most important policy setback for the developmentalist coalition was sent to Congress a few hours before the most important bilateral agreement with Brazil was signed.

Thus, in looking back at the early 1990s, it seems clear that Mercosur, the most important bilateral cooperative initiative ever agreed between Argentina and Brazil, occurred simultaneously to coalitional change under the first Menem administration. The concomitance of these two policies – which, amazingly, has never been highlighted before – provides conclusive smoking-gun evidence supporting H1. Therefore, to summarise, this second critical juncture points again to H1 and H7 as the necessary conditions for Argentine–Brazilian cooperation and the occurrence of a peaceful power transition in the Southern Cone.

7 Conclusion

In this article I have addressed the puzzle of peaceful power transitions and the phenomenon of accommodation, looking for an answer both in the theory and the specific regional example of the Southern Cone from the 1970s to the 1990s.

In Section 2, I surveyed the theories of power distribution and identified the invariable nature of domestic coalitions as a key underlying assumption of this literature. Departing from this finding, I demonstrated deductively that power transitions might not be conflictive if they are accompanied by a change in the domestic social coalitions in one of the countries involved. By following this strategy, I avoided the problems of inductive theorisation, therefore providing some grounds for generalisation and further testing.

The analytical narrative based on the case study of the Southern Cone shows that the two critical junctures in the history of Argentina–Brazil rapprochement, 1977–1980 and 1990–1994, coincided with coalitional changes in Argentina. This hypothesis and other alternative explanations have been tested using process tracing to search for the contextual (hoop tests) and simultaneous (smoking-gun tests) presence of other explanatory variables. These tests suggest that historical accounts that highlight constructivist or liberal variables, which today constitute the mainstream history of these two countries' friendship, are fundamentally mistaken. Cooperative ideas, shared identities, democracy, commerce, and international institutions should be seen not as a cause but rather as epiphenomena of improving bilateral relations. Cooperation was seemingly possible only when certain domestic actors – namely, the state bureaucracy and the local industrial bourgeoisie, and later the military – were excluded from foreign policymaking in Argentina.

Through the process tracing, I also detected the importance of international pressures that were not theorised but were nevertheless to be expected given the subsystemic nature of the Argentina–Brazil dyad. The coalitional changes in Argentina and the cooperative turns in its bilateral relationship with Brazil appear to have been contemporaneous with important external shocks. The pressures arising from the Beagle Channel dispute with Chile and the US human rights policy help to explain the radical changes undertaken in Argentina by 1977. The pressure arising from Washington's Enterprise of the Americas in 1990 also appears to have hastened neo-liberal reform and the development of Mercosur.

These lessons from the Southern Cone are not automatically transferable to other cases of power transition. Particularly because of its subsystemic nature, this case offers only partial insights regarding the dilemma posed by the rise of China. In the Southern Cone, the United States pressed for peace and market reform during the power transition, whereas there may be no third party capable of inducing coalitional change in either China or the United States. However, illuminating the critical role of these social coalitions during regional power transitions is a valuable first step in considering how to engineer them for the purposes of peace, even at the systemic level.

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