

## THE NEW REGIONALISM IN LATIN AMERICA: IS THERE A CASE FOR AN EMERGENT PARADIGM OF INTEGRATION?

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*Abstract. This article studies the characteristics of the new Latin American regionalism from four angles: the conceptual fundamentals; the criteria of association (the country that benefits most in economic terms from integration); compatibility with the WTO, and the comparative relationship with the European model. To facilitate the explanation of its particularities, this study considers the contrast with the 'old' regionalism of the 1960s and 1970s, broadly inspired by the European experience. The objective is not to establish absolute relationships; it is to identify and to analyze the meanings of this strategy as an emerging paradigm of integration.*

### INTRODUCTION

The promise of the new regionalism can be summed up in a single phrase: organizing the Latin American policies of insertion into the international economy. This objective does not exhaust the meanings of the strategy adopted by Latin America at the Cartagena Summit (1994), although it has stimulated the perception of a confusing strategy (Kuwayama 1999: 7), lacking in theory (Guerra-Borges 2002: 228) and representing "little more than a slogan" (Schiff and Winters 2004: 262). Its more directly experimental terrain has been: the free trade agreements inspired by the North American Free Trade Agreement (NAFTA); the Third Generation Agreements on Economic Complementarity (ACE); and the reforms applied to the old customs unions (created under the influence of the European model of integration), such as the Central American Common Market (CACM), the Andean Community of Nations (ACN) and the Southern Cone Common Market (MERCOSUR).

It should be noted that not all of these initiatives respond to its recommendations; the gap between the doctrine and the taking of decision is widened not only

because of national specificities or the schemes themselves, but due to the fact that, as regionalist innovations, they also contain a number of deficiencies. This article studies the characteristics of the new Latin American regionalism from four angles: a) the conceptual fundamentals; b) the criteria of association (the country that benefits most in economic terms from integration); c) compatibility with the World Trade Organization (WTO), and d) the comparative relationship with the European model. To facilitate the explanation of its particularities, this study considers the contrast with the 'old' regionalism of the 1960s and 1970s, broadly inspired by the European experience.

### THE SEARCH FOR DEFINITION

To define the new strategy of integration, the literature has employed alternatively the concepts of 'new regionalism', 'open regionalism', 'outward-oriented regionalism' and 'deeper' integration. Although they refer to the same experiences, their nuances and connotations contain sufficient differences to impede a common definition. This can also be seen within the main doctrine, open

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regionalism. Reynolds, Thoumi and Wettmann (1993), identify it with a "group of dynamic markets, fully integrated into the international economy through the progressive elimination of barriers to trade, in conjunction with vigorous measures aimed at increasing social access to the market". The Economic Commission for Latin America and the Caribbean (ECLAC, 1994: 12 and 78), for its part, proposes linking the "interdependence borne of agreements of a preferential character with that driven by market signals, resulting from trade liberalization in general". The proposal is to make the *de facto* integration coincide with the objectives of the formal agreements, for which the following are recommended: economic stability via regional financial institutions; liberalization of the national markets and sectors; the adoption of clear rules and standards compatible with the WTO, and the rationalization of institutional agreements, stimulating its flexibility (Fuentes 1996: 132 et seq.). In more recent versions, this concept insists above all, on classical themes of integration, such as the manufacturing competitiveness (Bulmer-Thomas, 1998) and the creation of trade and investment (Kuwayama, 1999: 9).

Despite its variants, open regionalism is insufficient to deal with the combination of policies adopted in the region.<sup>1</sup> One concept that is increasingly utilized, new regionalism, prescribes, in turn, the need to combine the liberalization of goods, services, capital and labor, with the harmonization of the trading regimes of member countries. Following this policy, little different from that advocated by the ECLAC, it suggests: more precision in the criteria for association; the enlargement of the agreements (in terms of the number of member countries admitted); convergence between the sub-regional, regional and

hemispherical initiatives, and creation of agreements among industrialized and developing countries (Primo, 1994, and Palacios, 1995). This search for commercial coverage can be interpreted as a peremptory response to an old Latin American problem the narrowness of its markets critical in a context dominated by the promotion of non-traditional exports. Also, it represents an analytical platform for the creation of a free trade area on a continental scale, to the extent that one of the original proposals of the Free Trade Area of the Americas (FTAA) was precisely the formation of a North-South agreement compatible with the bilateral and sub-regional agreements of the continent.

Deeper integration is another concept that is in vogue. According to Lawrence (1996: 17), while the 'superficial' integration of the years 1950-1970 favored increasing international trade without affecting the decision-making autonomy of member countries, deeper integration promotes an interdependence ruled by the forces of globalization and a subsequent reduction of the gap between national policies. The components of this strategy number four: smaller differences in standards and production systems; governmental stability; elimination of tariff and non-tariff barriers in the important markets; and the ending of obstacles to the trade in services. Apart from elements that are common to the notions noted above, the novelty of this focus has to do with the establishment of a close linkage with globalization. In essence, it aims to bring about global reforms within the economies through the opening up and standardization of policies. The objective is not entirely unprecedented, if we consider what is implied, at least partly, in the Washington Consensus reforms and in the North American model of integration itself, a subject that we shall return to later.

<sup>1</sup> For some of the shortcomings and the "fall of open regionalism", see Phillips (2003).

A final group of studies makes use of the relative interconnection of these concepts to work with a synthesis. In a recent study for the World Bank, Schiff and Winters (2004: 279-284) use without distinction the terms 'more open' regionalism and 'deep' integration, seeing the latter as an amplification of the liberalized instruments.<sup>2</sup> From this definition are derived eight rules, applicable to "the majority of circumstances": linking integration agreements to the promotion of competition; preferring North-South agreements due to their greater contribution to welfare; explicitly inscribing economic and political reforms to increase the credibility of the initiatives; making political benefits depend on the efficiency of the integration process; stimulating regional cooperation through instruments different from trade discrimination; attending to the transaction costs of operating regional agreements; associating the fiscal effects of integration with the carrying out of reforms to the tax system; and not seeking an exclusive adaptation to the WTO, but putting national development criteria in the first place.

The reader will have noticed a sharply normative intention within these conceptualizations, closer to the design of policies than to the explanation of the new strategy. This aspect defines a first analytical limitation. To disregard the feedback from its postulates leads to dependence on the established premises and to concentrate on the problems of application and statistical

perfection. Another insufficiency is the elimination of the sense of the integration. Apart from brief references to the objectives of the customs unions, the new doctrine lacks any programmatic horizons, those waybills that in the past used to guide the process from a perspective of accumulating internal capacity to project itself on the world. In its place is postulated a horizontal integration, of continuing expansion and convergence with the WTO. This approach identifies itself as 'inclusive', and leads to sacrificing the profundity of the process in exchange for the expansion of thematic and geographical coverage, with the observation that these do not result from the internal dynamism of the agreements, but from the preparation of new multilateral standards. A final problem, but no less important, is the limited interest in the meanings of the break with the 'old regionalism'.<sup>3</sup> This ahistorical approach to dealing with regional tasks presents itself as if it were making 'a fresh start', supposing the novelty of the approach to be a value in itself.

The choice of Asian regionalism as a source of inspiration illustrates this fracture. As is known, the Asia-Pacific Economic Cooperation (APEC), promotes regional interdependence through consultative authorities, non-negotiated and non-binding commitments, characterized by "the external liberalization of trading blocs" and complete consistency with the WTO.<sup>4</sup> Clearly, this model cannot be applied

<sup>2</sup> This study develops and updates World Bank's *Trade Blocs*, published in 2000 by Oxford University Press, New York.

<sup>3</sup> Among the studies that compare the old and new regionalism to stress the superiority of the second (in terms of trade creation), see Devlin and Estevadeordal (2001), and López and Soler (1998). For the meanings and the scope of the 'old' regionalism, see Hass (1958); Balassa (1961), and Hass and Schmitter (1964). For the European model, Pelkmans (1993), and Weiler, Begg and Peterson (2003), among others.

<sup>4</sup> Cf. Frankel and Wei (1998). According to Bergsten (1997), Asian regionalism is defined by five elements: 1) Access to the open market, although geographically limited to the Pacific Rim. 2) A general focus based on an unconditional MFN aimed at favoring joint liberalization and GATT-WTO negotiations (not all countries are subject to this principle, in particular the United States). 3) Promotion of a conditional MFN (or trade concessions that are extended to any country that accepts reciprocity); this is not an immediate process, above all in third countries. 4) Stimulating worldwide liberalization via unilateral and multilateral disarmament, although for now this does not go beyond the WTO's commitments. 5) Finally, facilitating trade through the reduction of border frictions and the integration of policies, without any important results, above all in the case of the less-developed countries. These and other indicators suggest that APEC's objective of constituting itself as a stepping-stone for multilateralism does not concur with the effective policies applied by partner States. For a comparison of Asian and Latin American regionalism, see Kuwayama (1999).

to a region such as Latin America, where there are several formal economic integration agreements, and a not insignificant experience of half a century.<sup>5</sup> The scale of the rupture with the tradition that in many senses represents a break with the European model, shares a series of aspects that are worth reviewing in detail.

#### NEW REGIONALISM VS. MULTILATERALISM

A first component of this rupture consists of the already-mentioned close linkage between the new regionalism and the multilateral system, reflecting in the first place the strengthening of the WTO.<sup>6</sup> There is no doubt that the WTO has a presence today that the GATT never achieved during the classical period of Latin American integration. Until the 1970s, the Generalized System of Preferences (GSP) and its non-reciprocal commercial concessions, rather than the reciprocal commitments of the GATT, represented the principal reference for the regulation of trade between the industrialized and developing countries. After 1990, the boom in multilateral liberalization accompanying the implementation of structural reforms, granted pre-eminence to the principle of reciprocity. In that context, regionalism

presented itself as transitory more insistently than in the past, justified in the case of Latin America by the “stop-go” multilateral negotiations (LAIA 1994).

A digression is necessary here. It should be recalled that the basic condition of Article XXIV of the GATT-WTO, the ruling that concedes international legality to regional agreements, is that these should form customs unions or free trade zones.<sup>7</sup> Its stipulations envisage that: a) in the customs unions, the tariffs and restrictions imposed on third countries should not be greater or more restrictive than the general incidence of those applied prior to the definition of a common external tariff; b) in the free trade zones, tariffs should be eliminated with respect to trade in products of origin; c) in both, the timetables for liberalization should be subject to reasonable timetables. Finally, the Habilitation Clause guarantees differential and more favorable treatment for the least developed members of the agreement.

It should be observed that between 1948 and 1994, the life-time of the GATT, none of the 124 regional agreements notified to this body received a ruling of inconsistency. To correct what is seen as an extreme degree of flexibility, in 1994 the

<sup>5</sup> During the XIX Century, another form of integration the confederation- was promoted in Latin America in four occasions: in 1826 (the Panama Congress); in 1847-48 (the Lima Congress); in 1856-57 (the Santiago Congress), and in 1864-65 (the Second Lima Congress). For their characteristics and achievements, see De la Reza (2001).

<sup>6</sup> The relation between regionalism and multilateralism occupies an important space in the specialist literature. For the classic version, integration is equivalent to a second-best choice. For others, who have in mind the characteristics of open regionalism with respect to the more protectionist versions of the years 1960-1970, the forces driven regionalism oblige it to be multilaterally compatible: global competition, globalization of financial markets, capital flows and consumer demand, plus cross-border mobility of technology and innovation (Mistry, 1995; Freud, 1998). A number of contributions have the same sense: a) regionalism can facilitate negotiations in areas that require high levels of coordination and permit an expanded multilateral thematic coverage (López and Soler, 1998); b) the complexity of the regional process impedes its treatment within the WTO, which implies that regionalism does not ‘oppose’ multilateralism (Krugman, 1993); c) the regional agreements generally adopt a WTO ‘plus’ focus and accept high levels of commitment in areas that prepare the multilateral agenda (Sampson, 1996); and d) regionalism constitutes an incentive for multilateral liberalization to the extent that this strengthens the capacity of the small countries to deal with the large trading blocs (Nordstrom, 1995).

<sup>7</sup> The U.S. initiative of 1949, the origin of the GATT and Article XXIV itself, gives priority to the customs union and free trade zone (reciprocal concessions), because they “eliminate obstacles to competitiveness, make possible a better allocation of resources and raise welfare”, while the preferential system (non-reciprocal concessions) “obstructs production and restricts the growth of incomes and demand” (Wilcox, 1949: 70-71). One year later, Viner (1950: 48) refutes that assumption, considering that the costs of the preferential system “can be imputed, at least potentially, to the customs unions, and inversely, since the benefits of the customs union can also be given by the preferential unions if the circumstances are adequate”. Mundell (1964) defends the same argument a few years later.

Uruguay Round approved the Understanding on the interpretation of Article XXIV. This agreement seeks to determine the consistency of the regional integration based on "the general incidence of the duties and other regulations of commerce applicable before and after the formation" of the scheme. Rates of duties are recognized as a basic measure, although additional information can be requested on measures, regulations, coverage of products and specific trade flows. The "reasonable length of time" can exceed ten years "only in exceptional cases". At the same time, the arrangement empowers special WTO groups for the first time to examine not only the text of the treaties, but the policies that arise from their implementation. To resolve, in the final instance, any possible contradictions in the interpretation of the ruling, the Dispute Settlement Understanding (DSU) has been instituted.<sup>8</sup> Another reinforcement foresees that the agreements are also examined in the light of Article V of the General Agreement on Trade in Services (GATS), which stipulates similar conditions to Article XXIV, this time with respect to trade in services.<sup>9</sup> A further initiative was the creation in 1996 of the Committee on Regional Trade Agreements (CRTA) aimed at making it possible to review periodically the contradictions or violations of the regional agreements.

Taken together, these measures and the progress made in multilateral liberalization seek to favor the design of

regionalism as a stepping-stone towards multilateralism (Mistry, 1995). Certainly, the dispositions of the WTO are not homogeneous in their efficacy nor do they impede the existence of a trend with an opposite sign. The Ministerial Meeting in Doha in 2001 took charge of the CACR's discouraging balance, motivating the request to achieve substantial progress on the compatibility of the agreements in the short term. More recently, the absence of a consensus at the Ministerial Meeting in Cancun, 2003, impeded the establishment of commitments on access to markets and trading rules, leaving in question not just the future of the WTO reforms, but also the convergent initiatives such as the FTAA, whose commissions had linked themselves to the results of the Doha Round for progress on their own agenda.

However, these difficulties should not obscure the contribution of the WTO to the relaxing of the Latin American customs unions, and their scope of creating a community of nations. These schemes preserve their identity and objectives, while the unfolding of their potentials appears to be polarized by the search for convergence with the multilateral free trade zone foreseen by the WTO for around the year 2020.<sup>10</sup>

#### CUSTOMS UNION VS. FREE TRADE AREA

Another aspect of the rupture between the new and old regionalism has to

<sup>8</sup> According to paragraph 12 of the document, "the provisions of Articles XXII and XXIII of the GATT 1994 as elaborated and applied by the Understanding on Rules and Procedures Governing the Settlement of Disputes may be invoked with respect to any matters arising from the application of those provisions of Article XXIV relating to customs unions, free trade areas or interim agreements leading to the formation of a customs union or free trade area." Behind this cryptic elaboration, the text means that the problems of interpretation of any possible inconsistency in the agreements will be resolved without appeal. On the problems of applying Article XXIV, see Hudec and Southwick (1999: 51 et seq.).

<sup>9</sup> Article V of the GATS includes the following rules: 1) Countries will be able to participate in regional agreements if the sectoral coverage is substantial, considered as a function of the number of sectors, the volume of trade affected and the methods of supply. 2) All discrimination is essentially eliminated among the parties. 3) Flexibility is anticipated in the ruling in the case of the developing countries, both in general and in the case of sectors and sub-sectors. 4) The global level of obstacles to the trade in services within the respective sectors or sub-sectors will not be increased with respect to the pre-existing level.

<sup>10</sup> This year could be modified due to the standstill in the Doha Round negotiations, coincident with the APEC timetable, the most drawn-out of the regional agreements.

do with the forms of integration. Between 1950 and 1970, both theory and practice were concerned almost exclusively with the customs unions. The effects of the free trade zones are considered to be "similar to the creation of a customs union" (Shibata 1967: 78) and to be generally lower performers than the latter. In the more specialized debate, it is accepted that the choice of one or the other scheme should take into account the characteristics of the associated economies, in particular their degree of diversification and productive complementarity. Thus, in the case of a country with high levels of specialization and generally oriented towards international trade, it is recommended that it join a free trade zone, as the common external tariff could increase the price of a large number of its imports. The industrially diversified country, meanwhile, should prefer the formation of a customs union given that it is necessary to protect a greater number of industries. Nevertheless, the customs union constitutes the principal reference for regionalism in Europe and Latin America, where it is attributed with the capacity of coordinating the trade policies of the associated countries vs. the rest of the world (Wioncsek, 1964: XXV). This primacy is due in part to the perception that the customs union favors the more ambitious processes of integration, stimulated by the spill-over effect from the economic sphere into the political domain and vice versa. Its logic permits the transitional processes of regional cooperation towards the coordination of policies and from this to the merging of sovereign authorities, where "one leads progressively to the other" (Kitamura, 1964: 28). As a consequence, the customs union is identified as a higher step towards the free trade zone, necessary for the creation of a common

market, followed by economic union and political integration (Balassa, 1961).

Later developments of this concept have added intermediate phases, such as the preferential agreements (prior to trade integration but higher than an absence of agreements), the imperfect customs union (a situation covering the MERCOSUR, CACM and ACN) and the unique market (Figure 1). Beneath the tasks assigned at each stage lies the premise according to which the free mobility of goods, services and labor can be realized at the same time as the integration of national policies. However, the difficulties of the Latin American customs unions in the 1980s, broadly connected to the failure of the import-substitution strategy, stimulated the creation of free trade zones and their greater conceptual autonomy.<sup>11</sup> This change implied a revision of the meanings of the free trade zone, to which are attributed the characteristics of being more liberal, flexible and compatible with multilateralism. The argument has several versions. The first states that non-equalizing of imported goods prices incites a dynamic of competitiveness that pushes the most protected country's external tariffs downwards. The second defends the hypothesis according to which in the free trade zone, the country with the highest barriers tends to reduce tariffs to third parties once the political influence of its import industries declines (Richardson, 1993). Another version emphasizes that the free trade zones do not increase the reprisal capacity of their members (Kennan and Riezman, 1990), in contrast with the customs unions, which stimulate the recourse to protection and make multilateralism difficult (Krugman 1991b). In all cases, the underlying idea is that the free trade zone reduces the Vinerian risks of trade deviation.

<sup>11</sup> *The regionalist basis for the import-substitution model is given by the premise that a deterioration in the terms of trade affects, above all, the primary industries, dominant in Latin America. To this is added confirmation of the limitations on productive investment and the lower size of the economies of the region, leading to the adoption of a model of regional development promoted by public investment and the protection of incipient industry. For a critical study of the import substitution model, see Ground (1988).*



Figure 1  
The stages of integration (European model)

Standard stages	Intermediary	Type	Characteristics
	Preferential area	<i>Commercial</i>	Non-reciprocal trade agreement. Does not postulate free trade.
Free trade area	Imperfect customs union	<i>Commercial</i>	Eradication of tax barriers and quantitative restrictions to trade.
Customs union	Unique market	<i>Of factors</i>	Free trade area with a common external tariff without exceptions.
Common market	Economic union	<i>Of factors</i>	Customs union characterized by free movement of factors (goods, services, labor).
	Political integration	<i>Total</i>	Common market and the harmonization of fiscal and monetary policies.
			Common market with integrated economic policies including a common currency.
			Economic union with supranational institutions similar to a federation.

Source: Balassa (1961), and Pelkmans (1993).

## MIXED SCHEMES

As would be expected, the hypothesis of the free trade zone's economic superiority does not benefit from sufficient empirical support. Whether or not a clear link exists between the forms of integration and trade deviation, or that the growing number of agreements impedes conclusive results in continuously modifying the equilibria and economic structures, the fact is that there are no clear reasons for preferring one scheme or another.<sup>12</sup> To this it should be added that the differences of these schemes are now less certain than in the past; in the case of agreements inspired by the North American model, the traditional functions of the free trade zones are amplified by financial liberalization, the incorporation of binding mechanisms for solving controversies and parallel agreements on environmental and labor issues. The slight difference between these schemes entails that mixed phenomena can arise. The CACM, the ACN and MERCOSUR share, to a greater or lesser extent, signs of a regressive character regarding the implementation of the common external tariff. Their imperfect customs unions fluctuate between one and the other scheme, according to the economic pressures that affect them. This situation can be illustrated by the incidents surrounding MERCOSUR's approval of a common external tariff in January, 1995. Brazil included 150 new exceptions to a list of more than 300 approved. Paraguay, meanwhile, added 200 new exceptions to its already-accepted list of around 600. To regulate the trade in products not included in the agreement, it was necessary to appeal to the rules of origin, the distinctive instrument of the free trade zones. The result was a lasting imperfect customs union.

Meanwhile, one of the problems of dealing with the idea of the mixed schemes is that we are unable to distinguish the quality of the agreements. If we state that the free trade zone favors the creation of trade simply because it brings it closer to multilateralism, does this mean that all countries are prepared for it and, above all, that this is the objective of all the agreements? The priority for the CACM, the ACN and MERCOSUR is to constitute themselves as enlarged markets capable of increasing productivity and, in the end, creating a community of nations. In these schemes, not only is multilateralism secondary to their objectives, but also the profundity of the integration process takes into consideration matters that have nothing to do with the multilateral agenda.

## INSTITUTIONALISM IN INTEGRATION

The break between the new and the European-like regionalism also comprises the institutional dimension. Together with the proliferation of the free trade areas, the dense institutionality which characterized the schemes under the old strategy recedes, in the 1990s, in favor of flexible mechanisms of an inter-governmental character. In that context, the established customs unions uncouple tacitly from the objectives of supranationality and none of the new agreements propose an advance towards the other stages of integration. The case of the NAFTA is significant for its influence on the new regionalism. Some authors accept the possibility of a spill-over effect (Hufbauer and Schott, 1994: 3), although this is absent from the Treaty and from its main medium- and long-term objectives. Undoubtedly, proposals exist for the expansion of its competences the so-called

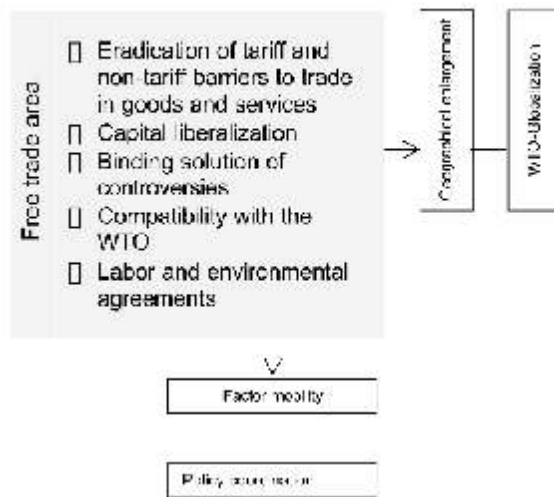
<sup>12</sup> A similar argument is sustained by Carlo and Perroni (1996).



NAFTA-plus, proposes a certain degree of liberalization of the factors of production and eventually coordinating some macroeconomic policies more closely (Figure 2). However, this refers to initiatives that are external to the Treaty and have not yet benefited from any commitment by the North American governments.

of hindsight, we now know that the rivalry between the European and the North American models in Latin America do not yet have a clear winner.<sup>13</sup> But this rivalry help to explain, at least in part, a series of apparently isolated facts, such as the relative abandonment of the mechanisms to control disparities in the ACN, the relapse of

**Figure 2**  
Central and peripheral components of the North-American model



This feature of the NAFTA, together with its influence on the definition of regional policies, promotes the creation of agreements of low institutionality in Latin America, which are assumed to grant more opportunities than the European “to become universally acceptable”. The argument is that they represent an alternative “consistent with the nature of a modern State” (Kozolchik, 1996: 13). With the advantage

supranational institutions within the CACM and the ACN, the proliferation of bilateral agreements inspired by the North American agreement, and the close relationship between structural reforms, on the one hand, and hemispherical integration and multilateralism, on the other. Nevertheless, these changes have not eliminated the European reference in any of the Latin American imperfect customs unions. The

<sup>13</sup> Bhagwati (1993) visualizes the successive character of influences: first the European (between 1960 and 1970), afterwards the North American (from the end of the 1980s onwards). Ten years after the NAFTA came into being, this assertion seems incomplete. The North American scheme has not yet incorporated a new member and the FTAA presents problems for its acceptance by an important number of countries in Latin America. Neither the FTA with Chile nor the CAFTA can hardly rival the dynamism of the EU, a scheme which in the same year extended its geographical spread to ten new countries and approved a pan-European constitution.

meeting of both tendencies suggests rather that the organizational competition on either side of the North Atlantic will give continual incentives in the south to eclecticism in the forms of integration.

#### CONCENTRIC INTEGRATION

Until the mid-1970s, the hypothesis that the absence of critical disparities increases the economic potentials of an association had aroused a consensus among analysts and decision-makers. It was understood that homogeneity in development levels permits each country to make concessions to imports in the hope that their growth could be compensated through greater exports (Johnson, 1965). At the same time, it was thought that there are more opportunities to coordinate policies if the member country have relatively similar objectives. This criterion of association is at the origin of the oldest Latin American schemes, the CACM and the Andean Pact, where zonal identity coincides with the medium-sized and small associated economies. Later, with the failure of development planning and the arrival of the outward-looking model this requirement is replaced by the search for integration with a natural partner i.e. the country or region with which reciprocal trade is greater than 25%. The recommendation, fashionable at the beginning of the 1990s, does not attempt to be immediate. Given that the majority of the schemes do not consist of natural partnerships, it is proposed as an alternative to create agreements with the largest possible number of countries aimed at increasing the preferential coverage of effective trade. If this was also not possible in the short term, it was recommended to wait until unilateral liberalization generates sufficient interdependence, after which

new agreements are to be created (ECLAC, 1994: 78).

A decade later, seven small economies now satisfy that requirement: Bolivia destines 30.6% of all its trade to its partner in the ACN; El Salvador, Guatemala, Honduras and Nicaragua destine to the CACM, respectively, 59.9%, 39.2%, 26.1% and 44.8%; and Paraguay and Uruguay, meanwhile, concentrate in the MERCOSUR 58.2% and 33.0% of their foreign trade (CEPAL, 2004b: A-2). These levels of cohesion enable them to deal with their integration from positions that are more favorable for regional interdependence. However, one of the more important aspects implicit in this criterion, stressed by the concentration of Latin American exports in a few external markets, is the promotion of concentric integration.<sup>14</sup>

This trend was first expressed in the Southern Cone through its organization around the Argentine-Brazilian nucleus. The process starts with the Argentina-Brazil Integration Treaty of 1988, and continues through the bilateral agreements with the ACN countries and the creation of the South American Free Trade Area (SAFTA) itself. In a sharper way and in conjunction with the structural reforms, the following case is presented with the regionalization of the Western Hemisphere. Carried to its practical consequences, it implies the integration with the United States, begun in 1991 via the free trade agreement framework, consolidated in 1994 with the NAFTA and later with the negotiation of the FTAA, as well as several free trade agreements with Latin American countries (Table 1).

Beyond the bilateral or multilateral character of the agreements, they generate together a hub-and-spoke system where the axis country determines the form of integration, the thematic agenda and the

<sup>14</sup> For the particularities of the concentric integration following the creation of the NAFTA, see De la Reza (1996 and 2004).

Table 1.  
Regional and bilateral agreements in the Americas

Year	Name	Member countries	Scheme
1960	<b>CACM</b>	Costa Rica El Salvador Guatemala Honduras Nicaragua	Customs Union
1969	<b>ACN</b>	Bolivia Colombia Ecuador Peru Venezuela	Customs Union
1991	<b>MERCOSUR</b>	Argentina Brazil Paraguay Uruguay	Customs Union
1994	<b>NAFTA</b>	United States Canada Mexico	Free Trade Area
1994	<b>TLC M-CR</b>	Mexico Costa Rica	Free Trade Area
1994	<b>ACE Nr. 31</b>	Mexico Bolivia	Free Trade Area
1994	<b>ACE Nr. 33</b>	Mexico Colombia Venezuela	Free Trade Area
1995	<b>TLC M-N</b>	Mexico Nicaragua	Free Trade Area
1995	<b>ACE Nr. 41</b>	Mexico Chile	Free Trade Area
1995	<b>ACE Nr. 38</b>	Chile Peru	Free Trade Area
1996	<b>C-CFTA</b>	Canada Chile	Free Trade Area
1996	<b>ACE Nr. 35</b>	MERCOSUR Chile	Free Trade Area
1996	<b>ACE Nr. 36</b>	MERCOSUR Bolivia	Free Trade Area
1997	<b>ACE Nr. 23</b>	Chile Venezuela	Free Trade Area
1997	<b>ACE Nr. 32</b>	Chile Ecuador	Free Trade Area
1998	<b>ACE Nr. 24</b>	Chile Colombia	Free Trade Area
1999	<b>TLC CA-C</b>	CACM Chile	Free Trade Area
2000	<b>TLC M-TN</b>	Mexico El Salvador Guatemala Honduras	Free Trade Area
2001	<b>C-CRFTA</b>	Canada Costa Rica	Free Trade Area
2004	<b>US-CAFTA</b>	United States CACM Dominican Republic	Free Trade Area
2004	<b>US-CFTA</b>	United States Chile	Free Trade Area
2005	<b>FTAA<sup>1</sup></b>	Western Hemisphere (34 countries)	Free Trade Area

<sup>1</sup> Under negotiation.

negotiating floors.<sup>15</sup> The anchors of this system are found in the dependence of practically every country of the region on U.S. investment and trade. Between 1996 and 2002, that country was the origin of about 32.5% of all investments in the six main receiving countries in Latin America: Mexico, Brazil, Argentina, Chile, Venezuela and Colombia. At the same time, it was the origin of 83% of the net productive investment flows to the region and to the Caribbean. As a consequence, 24 of the 50 largest transnationals located in Latin America are from the United States.<sup>16</sup> For their part, the region's exports destined to the U.S. market accounted for 39.3% of the total in 1990, falling in 1996 by just under one percentage point to 38.9%, and rising again in 2002 to 40.1%.

These indicators, added to the importance of the country as the region's major creditor, have favored the adoption of U.S. legislation on matters of intellectual property, competition policies, antidumping measures, government procurement and foreign investment. To close the circle, the substitution of parity requirements for the concentric regionalism underlies the implementation of a one-way-multilevel integration.<sup>17</sup>

## CONCLUSION

Most of the studies reflecting a new regionalism view exclude historical factors as well as economic concerns about integration in disparity. Their analytical dependence on the Latin American export model adds to these limitations a certain temporary status and determines a strategy of low-quality integration. The combination of these characteristics highlights the need for reformulating the new regionalism as a function of the regional objectives and of a better administration of common markets. Having said this, the defining features of the strategy help us to answer the question presiding over this article: compared to the European model, the new regionalism represents a new approach to integration in as much as the outward looking model constitutes a change vis-à-vis the import-substitution strategy. In one or another case, the changes involve a similar intensity. However, the breakdown of the process of accumulating experience, important for the rationality of integration in Latin America makes a new analytical agenda necessary. The differences between the new regionalism and the European model should not matter because of their greater or lesser ambitions, but because of the consequences they have for the region's countries.

<sup>15</sup> The main argument for this strategy contains two parts. The first states that the creation of trade with developed countries favors an upward convergence in levels of welfare. Ben-David (1993) arrives at this conclusion based on his study of European convergence, where income differentials, calculated as an annual logarithmic standard deviation for incomes, fall from 0.34 in 1947 (when the BENELUX group was created) to 0.13 in 1981. The second establishes that the total productivity of the factors for the less-developed countries responds better in the case of the North-South agreements (Schiff, Wang and Olarreaga, 2002). Of course, the components of the argument have a complex rationality and their expectations with respect to the benefits of concentric integration are not exempt from polemics.

<sup>16</sup> The subsidiaries of these companies, whose sales exceed US\$ 100 million are located in Mexico, Brazil, Argentina, Chile, Colombia, Peru and Venezuela. The U.S. firms operate in the auto, autoparts, beverages, computing, electronics, agro-industry, petroleum and telecommunications segments (CEPAL, 2004c: 30 et seq.).

<sup>17</sup> An interesting case represents the trade remedy laws, in particular the antidumping measures, adopted by all Latin American countries by 1994. Although the vast majority of Western Hemisphere has adopted WTO agreements on trade remedy laws (to a large extent inspired in U.S. legislation), in most cases the legislation show operational gaps and reduced capacities of enforcement (De la Reza 2005).

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