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**Two Types of Regional Integration Processes:  
The FTAA and its comparison with the EU and MERCOSUR**

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**TWO TYPES OF REGIONAL INTEGRATION PROCESSES**  
**(The FTAA and its comparison with the EU and MERCOSUR)**

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## **ABSTRACT**

The Introduction tries to explain the reasons, beliefs, and prejudices of the author that led him to write this essay. The first section sets out the historical background and features of regional integration in Latin America between 1960 and 1990. The second section examines the one-dimensional, so called, Free Trade Agreements that have been signed (or are being negotiated) in the hemisphere. The third section describes Latin American and Caribbean (LAC) multidimensional schemes. The fourth examines the degree of compatibility between both types of agreements. The fifth, departing from USA and EU experiences, explains the decisive importance that the political dimensions of regionalism have acquired after the re-democratization process, and the sixth section discusses the economic benefits of multidimensional integration.

**Keywords:** Latin America, trade agreements

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## INTRODUCTION

Allow me to begin this introduction anticipating the main conclusion of this essay. The process of re-democratization of Latin American societies, coupled with the increasing interdependence of their economies in the framework of global capitalist rules is a new historical outcome that includes all Latin American and Caribbean (LAC) countries from the beginning of the 1990s. This new economic and political scenario is the fundamental reference-point to suggest that feedback between democracy and regional integration can initiate a historically unprecedented virtuous circle capable of reinforcing both processes in the long term. *In order to take advantage of this unique historical opportunity, it is convenient for LAC societies to understand clearly the typological differences among one-dimensional and multidimensional regional integration agreements, and to evaluate their historical consequences. This is the main purpose of this essay.*

Let us begin recalling the rationale and evolution of the main integration agreements that unfolded in the western world during the second part of the 1990s.

First, the justification of the successive agreements that led to the European Union was, from the beginning, simultaneously political, cultural, and economic. It was political because the European integrationist movement was conceived as a way to protect Western Europe (WE) from the political pressures and menaces of the communist world, and also, to reconstruct the political worldwide presence of WE after the disastrous effects of the two great wars. It was economic, because the reconstruction of the European economy needed the cooperation of the main economic European players, as was the case with France and Germany who joined efforts through the European Community of Coal and Steel. It was also cultural, because WE is depository of the most important foundational expressions and fundamental values (religious, ethical, and political) of western civilization at a worldwide level. The European countries, explicitly or implicitly decided to share national sovereign powers in order to preserve that legacy, to protect their national interests and to restore their presence and powers in the world.

Secondly, the justification of the successive integrationist efforts that led to the creation of the four main Latin American Agreements (MERCOSUR, Andean Community, Central American Common Market, and Caribbean Community) was a “developmentalist” one. Large and medium Latin American countries were trying to consolidate and enhance their industrialization processes, projecting them at a regional level in order to capture the increasing returns of a large scale production directed at Latin American integrated markets. These agreements were conceived essentially as a strategic task to promote deeper and faster forms of economic development. The strategy was conceived only, or mainly, in economic terms, and was delegated to technocrats and diplomats with insufficient political will and political power to promote it. After meager results of 20 years of trade negotiations the protectionist economic philosophy of the national development models prevailed over the integrationist strategies. At the beginning of the 1980s, not only the protectionist economic models, but also the, so conceived, integrationist agreements collapsed, and gave place to new historical events.

These new historical events of the 1990s are connected with the emergence of the information technologies, with the globalization of the world economy, and with the new rules and ideological approaches that can be called “globalism.” As a consequence of these new historical developments we can, today (in the 21<sup>st</sup> century), speak about two different types and philosophies of regional integration agreements. The first type can be called *one-dimensional* and the second *multi-dimensional*. Both of them must be studied and understood under the new objective conditions of the globalization process, and under the new rules and values of economic globalism. We are using the suffix “ion” (as in globalization) to denote empirically verifiable historical processes. On the other hand we use the suffix “ism” (as in globalism) to denote rules of the international and transnational game.

Under this terminology, the process of Latin American regionalization can be also considered as a process of Latin-Americanization (increased interactive, empirically measurable, flows and relations among national Latin American societies). In the same sense, the creation of a Latin American regionalism can be founded on shared economic, political, and cultural rules among Latin American countries. The sharing of these rules derives from an historical heritage that began in the colonial period and can be examined with scientific research-tools under a universalistic approach to international relations. The integration of Latin American and Caribbean (LAC) societies to the hemispheric and global world can be done departing from their own economic, political, and cultural conditions, rules, and values. The multidimensional integration agreements can help to reach these goals.

Thirdly, the best example of the 21<sup>st</sup> century one-dimensional hemispheric agreements is the Free Trade Agreement of the Americas (FTAA). One main contention of this essay is that the two types of agreements are compatible and can coexist both in both the short- and long-run. This contention can be sustained and defended from two different points of view: first, from a short- and medium-run economic viewpoint, and secondly, from a long-run multidimensional viewpoint.

In the short and medium run, the compatibility among the hemispheric regional integration agreements (like NAFTA or FTAA) and the four sub-regional LAC agreements derives from the fact that Latin American protectionist models of development, applied under the patterns of the post-World War II period, now seem obsolete. The new generation of LAC agreements fully respects and accepts the concept of open regionalism. Customs unions, common markets, and economic communities can be compatible with the present economic global rules, as the EU experience is evidencing. If public opinion and intergovernmental world organizations accept the existence of the EU in the context of open regionalism, then it seems reasonable to believe in the legitimacy of multidimensional regional integration agreements also in Latin America.

In the long and very long run, the compatibility among the one-dimensional hemispheric regional integration agreements and the multidimensional LAC regional integration agreements will depend on cultural and political conditions affecting the overall relations between the USA and LAC countries. From a political and cultural view-point the relations between the USA and LAC societies can, perhaps, be graphically described departing from two concentric circles: one bigger and the other smaller inside the first one; the bigger circle including all the hemispheric common interests, internal and international relations, institutions, rules and values that are *shared* by the USA and LAC. The smaller circle can include all the specific relations, institutions, rules and values that cannot (for political, cultural, or economic reasons) be shared by the USA and LAC. That idea was already established in order to define the coexistence of the FTAA, on one hand, and the sub-regional LAC agreements, on the other: all the economic integration rules that are deeper than the ones required for comprehensive free trade regulations (the already mentioned Latin American customs unions) will remain and coexist with the FTAA'S rules.

Another hypothesis or intuition of this essay, which has to be tested by future historical events, is that South America can be considered as a geographical, geo-economic, and geopolitical unit that, in the long (or perhaps very long) term can reach very deep levels of economic, cultural and political regional integration. More specifically, we can imagine the creation of a political unit similar to the EU, but structured under the institutional, cultural and historical patterns that are inherent to South American Societies. This is, I believe, the rationale that underlies the recent creation of the South American Community of Nations.

The interest in the historical evolution of MERCOSUR and the comparison of this agreement with the

European Union relies on the following reasons: first, MERCOSUR is the largest sub-regional Latin American agreement in geographic, demographic and economic terms; secondly, in spite of the fact that the trade-relations between Brazil and Argentina have recently traversed very difficult conditions, the political alliance remains very strong, and has attracted all the other South American countries. Thirdly, adding the new associated-members and the original full-members of MERCOSUR, all South American independent nations are represented in this scheme. Fourthly, the recent creation of a new association: the South American Community of Nations seems to reinforce these prospects. These elements, among others, suggest that, for South American regional integration, the political dimension has its own weight, independent of purely economic considerations. Of course, in the short-run many political differences can be observed among South American countries but the majority of them relate to short-term interests of the member governments. In the long run, it is possible that, under the general political rules of representative democracy, the weight of the unifying political factors will overcome the transitory differences among South American countries.

There is another important similarity between the EU and the four sub-regional Latin American integration processes after the 1990s: both experiences were developed and strengthened under democratic political systems. *In fact we can say that the establishment of democratic political systems is the most essential condition to undertake a long-term multidimensional integrative effort.*

The historical precedent of this strong connection among democratic national political regimes and multidimensional regional integration is, of course, the process that led to the formation of the EU. In fact, until the end of the Second World War many of the most powerful countries of WE were not consolidated democracies and, in a certain sense, the war was a contest among such representative liberal democracies as Britain, France, and the USA against the authoritarian regimes of Germany, Italy and Japan<sup>2</sup>. German philosopher Emmanuel Kant established one of the stronger scientific laws of politics: democracies do not make war among themselves. It can be said that the interrelation between democratic and capitalist institutions not only ensured a lasting peace on WE but also promoted the integrationist process that led to the formation of the EU. In turn, the unfolding of the EU has reinforced the democratic foundations of their political processes.

During the 1960s and 1970s, the integrationist strategies of LAC countries were conceived under purely economic terms in the framework of political turbulence. The political relations between the USA and LAC grew tense due to the extremely leftist guerrilla movements that, especially since the Cuban revolution, spread through many rural areas of Latin America. On the other hand, the USA (with some luminous exceptions like Kennedy's Alliance for Progress) preferred to back many autocratic or dictatorial anti-communist regimes in Latin America, which were unconcerned about the internal social inequalities of their countries. After the wave of military repression of the 1970s, democracy returned to Latin American societies. During the 1980s almost all Latin American countries, reestablished democratic political regimes, and since then, military coups have almost disappeared from their political dynamics.

After the transition of the 1980s, the 1990s defined a new political and economic start to Latin American societies. The new economic model integrated Latin American societies to the global processes (globalization) and rules and ideologies (globalism). Then, surprisingly, commercial regional agreements

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<sup>2</sup> After the collapse of the communist world at the end of the 1980s the political struggle and the theoretical polemic among liberal and popular versions of democracy was over. But, in the meantime, the complete democratization of Western Europe was the most important political outcome of the Second World War. The other political outcomes closely connected with the first were the decolonization processes that unfolded in the postwar era under the general social, political and economic principles accorded at ONU.

began to unfold vigorously, and a new generation of multidimensional treaties took shape, strongly backed by the presidential powers of each member nation. *The main hypothesis of this essay is that the decisive turning point that will advance the LAC multidimensional agreements to deeper levels is the consolidation of democratic regimes.*

## **1. HISTORICAL BACKGROUND**

Among developing regions, Latin America achieved political independence relatively early (in the 19th century). The economic development of Latin American societies was strongly influenced by their colonial past and by the type of primary products that were available for export, as it was through these exports that they entered the world system of production specialization in the second half of the last century. The peripheral position of those Latin American countries that exported mining on one hand, or temperate or tropical zone agricultural products, on the other hand, to the developed countries was not conducive to interdependence among their economies in the spheres of trade and investment.

It is well known, furthermore, that during the first half of the 20th century, each of the large- and medium-sized economies of LAC responded to major international crises (the First World War, the Great Depression, the Second World War) by developing an industrialization process that was oriented towards their own domestic markets, in particular their major metropolitan areas. This process, which began with the intention of overcoming the shortage of manufacturing imports from the developed countries affected by these international crises, was subsequently consolidated by means of systems of stimulation and protection, adding up to what is known as import substitution industrialization. Again, the initial stage of this process was not conducive to economic interdependence among the countries of Latin America, whose trade with one another remained at low levels.

At the beginning of the 1960s, two integration agreements were signed with the objective of constructing free trade areas as a first step towards further-reaching forms of economic integration. Thus, the Latin American Free Trade Association (LAFTA) and the Central American Common Market (CACM) emerged. LAFTA included the ten independent countries of South America plus Mexico, and CACM the five countries of the Central American isthmus.

In terms of geographical, demographic and economic "size," LAFTA represented (and still represents) more than 90 percent of the LAC population and product, the remainder being accounted for by the Central American countries that were members of CACM and by the Spanish, French and English-speaking Caribbean countries, some of which would later form the Caribbean Community (CARICOM). In the case of CACM, tariff reductions were swift and wide-ranging, giving rise to a substantial increase in reciprocal trade which, however, quickly stagnated (measured as a percentage of total trade), due mainly to the limited range of products that the member countries had available for export.

In the case of LAFTA, the negotiating mechanism was more cautious and gradual. Its large- and medium-sized members had built up national industries on the basis of protectionist criteria that were still widely adhered to. The industrial structures of the major countries overlapped to a great degree, and the limited size of national markets reduced the scope for specialization and economies of scale. The limitations thus imposed by domestic market-oriented development were highlighted in a number of studies produced at the time by the Economic Commission for Latin America (ECLAC-ONU), a leading advocate of the integration process at this stage.

The negotiating procedures applied in LAFTA, however, tended to stifle much of the initiative. The products included in the lists for negotiation were not always among the most important in the trade



between the countries, and any product not included in these lists continued to be subject to tariffs. In the event, national-protectionist practices prevailed over regional-integrationist intentions, and the increase in reciprocal trade attributable to the trade liberalization that ensued turned out to be quite modest.

In addition, the Andean countries considered that they were not receiving sufficiently fair treatment (in the distribution of opportunities to industrialize) from the "big" countries and, without breaking away from LAFTA, they decided to sign the Cartagena Agreement, which produced the Andean Group (AG) in 1969. During the ten years that followed, trade within LAFTA (measured as a proportion of its total trade) continued to grow at very moderate rates, and the same happened within the AC. After a strong initial spurt, exports between the countries of CACM also stagnated as a percentage of total trade (see table 1). By the beginning of the 1980s, exports between the countries of LAC, expressed as a percentage of the total, had risen from 8.8 percent in 1960 to 16.4 percent. This was meager progress after twenty years of efforts towards commercial integration.

The protected development strategy based on import substitution industrialization began to lose credibility in the 1970s. On the one hand, a number of large- and medium-sized countries in South America experienced episodes of rampant inflation. Subsequently, there was a large inflow of "Eurodollars" from the strengthened world "petroleum cartel", which was offered by private commercial banks at negative real interest rates. This stage coincided with a period of recession with inflation ("stagflation") in the United States and other major developed countries, which produced a kind of subsidy for countries in receipt of credits. These cheap and abundant "Eurodollars" lifted exchange rates, opening the way for trade "liberalization" that began to weaken uncompetitive Latin American industries.

At the beginning of the 1980s, the main thrust of economic policy, in Great Britain first and in the United States subsequently, was to control inflation in the developed countries by applying policies that entailed rising real interest rates internationally. The world recession of this period meant tumbling prices for primary products, including petroleum. In Latin America, the economic bonanza abruptly ended, and the difficult recessive adjustment of the beginning of that decade commenced. The acute shortage of currency (dollars) resulting from the reorientation of external credits towards developed countries, combined with the fall in real prices for the primary products exported by the region, led to the region experiencing the most severe interruption in its growth since the crisis of the 1930s.

The need to generate trade surpluses in order to fund the heavy costs of debt servicing led to imports between the countries of the region being cut back sharply, with all the negative repercussions that this obviously had for the corresponding exports. By the mid-1980s, exports between these countries as a percentage of total trade had returned to levels scarcely higher than those seen in the 1960s, at the time the integration process began (see table 1). At the beginning of that same decade LAFTA was replaced by the Latin American Integration Association (LAIA), a much more flexible agreement that left room for what are called "partial scope" arrangements between two or more members, with considerable freedom in drawing up the clauses of these. This liberal framework was to prove very workable under the new conditions for Latin American integration that came into being in the 1990s.

The oversight of the Bretton Woods institutions that were "guarantors", so to speak, for the debt refinancing operations that LAC countries negotiated with creditor banks, in combination with the decline of the protection-based growth model, helped bring about the transition towards the new development strategy adopted in the 1990s.

*The 1990s were a turning point in LAC development and, also, in the strategic meaning of LAC*

*regional integration agreements. At the beginning of this decade, almost all LAC countries had already adopted the new economic model of open integration to the global economy, and recovered the representative democratic form of government.* The rest of this section is going to sketch certain historical episodes that evidence the new political and economic conditions that lead to the unfolding of MERCOSUR and also to the updated institutional conditions of ACN. The historical economic and political conditions of CACM and CARICOM were subjected to different influences and are not going to be considered here.

Particularly, the political relationships between Brazil and Argentina were reconfigured after the end of the Malvinas (Falklands, for the British) war. This historical episode is clearly representative of the new political attitude of some important South American countries. The Malvinas War, initiated for very demagogic reasons by a highly unpopular and authoritarian military government of Argentina, had disastrous military and political consequences for the regime. It sounded the death knell for the frequent military coups that in the 1960s and 1970s had interrupted the democratic functioning of civil governments in Argentina<sup>3</sup>.

Nevertheless, after the political election of Presidents Menem and Collor in Argentina and Brazil respectively, MERCOSUR was strongly influenced by the new, open, deregulated, and privatized growth models that were spreading throughout Latin American countries. When its four full members (Argentina, Brazil, Paraguay, and Uruguay) signed it at the beginning of the 1990s, the treaty's philosophy relied strongly on the economic approaches of "open regionalism" compatible with the global rules of the economic game, and downplayed the sociopolitical dimensions of the treaty. Nevertheless, and after different historical episodes, all dimensions (economic, political and cultural) of MERCOSUR are surviving and coexisting after traversing very difficult circumstances that almost led to the disappearance of the agreements at the beginning of the 21<sup>st</sup> century. *On one hand, the political dimension of MERCOSUR includes the, so called, democratic clause, as a necessary condition to acquire full or partial membership for all (full or associated) members; on the other hand, the associated members of MERCOSUR are sharing political commitments and promoting political alliances that led to the recent creation of the, so called, South American Community as a complementary political agreement.* In the last section of this paper, these two different faces of MERCOSUR will be analyzed again. But, beforehand, let us present a general overview of the regional integrations agreements, as they have unfolded until the beginning of the 21<sup>st</sup> century.

## 2. ONE-DIMENSIONAL AGREEMENTS

The **hemisphere-wide or hemisphere-comprehensive** free trade integration agreements already signed or now being negotiated are, strictly speaking, preferential market areas that have far wider scope

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<sup>3</sup> During the Malvinas War, a peculiar international situation unfolded at the hemispheric level. On one hand, in accordance with the Inter-American Treaty of Reciprocal Assistance signed at the OAS, the USA had acquired the obligation to defend LAC societies against any external aggression. On the other hand, as a member of NATO, the USA was an obvious ally of Britain. Given the importance of the USA-Britain alliance, and after febrile attempts to stop the war by the American Secretary of State, the USA decided not to intervene in the conflict. After the complete military defeat of Argentina, and the collapse of its authoritarian government, Raul Alfonsin, the new democratically elected president of the country recognized the need to strengthen the peaceful links and the cooperative efforts in Argentina's relations with the Brazilian government, not only at an economic level but also in sub-regional security matters. Long-term disagreements about the rights of both countries to use or exploit the shared waters of the River Plate Basin (Amazonas, Iguazu, Parana, Paraguay, and Uruguay rivers) were finally settled under the compromise of cooperating in the construction of hydroelectric giant turbines in order to share energy potential. Other agreements were also signed to introduce cooperation in the peaceful use of atomic energy. These historical episodes were the origin of MERCOSUR, initially signed by Argentina and Brazil.

than visible trade alone. They include commitments relating to services, investment and intellectual property, as well as temporary movements by people providing services of some type.

Hemisphere-wide free trade agreements, while qualifying for the description of open, vertical and symmetrical regionalism<sup>4</sup>, may also be regarded as one-dimensional or "market-limited" agreements, inasmuch as no political or cultural aspects are included in the undertakings of the signatories. The political aspects of integration relate to willingness to cede or share national sovereignty in formulating harmonized or common regimes or policies, and to grant people civil, political or social rights, for example national and non-discriminatory treatment for migrants from other member countries.

FTAA and NAFTA, being "free trade" agreements (preferential market areas) do not include cooperation in devising common or harmonized regimes or policies (for trade, taxes, exchange rates, etc.) between the members (which would involve ceding or sharing sovereignty), and nor do they make any provision for national and non-discriminatory treatment for migrants from other states that are signatories to the agreements. They are, in a way, **market-limited** forms of integration, since they do not even aspire to any institutionally far-reaching **economic** agreements of the type that are gradually constructed by creating customs unions (common trade policies) or common markets (tax and exchange rate harmonization, or even monetary union).

Likewise, these hemisphere-wide agreements do not include the option of negotiating en bloc with outside countries or groups of countries. The reasons for this limitation are obvious: a major global power like the United States is not going to subordinate its national regimes and policies to restrictions deriving from agreements with developing nations (or even other developed nations), which means that preferential market areas ("free trade") are the maximum that can be achieved in terms of reciprocal undertakings.

The FTAA negotiations began at the Santiago Summit in Chile, in April 1998, hoping that significant results would be obtained by the end of the century, with negotiations being concluded around 2005. At this point a programme of tariff reductions should begin, taking 10 or 15 years for the Agreement to become fully operational.

The FTAA is remarkable for the unprecedented number of countries (34) that take part in the negotiations; for their diversity in terms of size and development level; for the fact that most of the negotiating countries are already members of a sub-regional integration agreement; and, above all, for the vertical character of the agreement, as it includes two developed countries (Canada and the United States) which are seeking to conclude a symmetrical and reciprocal agreement with the other 32 American nations. The case of Cuba is very special and will not be considered in the remarks that follow.

In current 2002 dollars, the gross national income of the United States was around \$10.3 trillion in 2002, while that of Canada was 702 billion, and that of all the LAC countries combined 1.7 trillion. Thus, the United States economy is around 5 times the size of all the 32 economies of LAC combined, and around 4 times the size of the other 33 economies of the hemisphere (including Canada) combined. Per capita incomes in the Latin American and Caribbean economies, measured using purchasing power parity exchange rates, range, as percentages of US incomes, from around 30% in the cases of Chile, and

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<sup>4</sup> Open regionalism refers to its legal compatibility with the global rules of the game (globalism); vertical regionalism alludes, under the North-South approach, to the different degrees of development of the contracting parties; and symmetrical regionalism means that no special preferences or privileges are granted to the parties when the agreement is fully implemented and operative.

Argentina to 14% in the case of Venezuela and Peru, around 10% for the Central American economies (except Costa Rica with 22%), and 5% in the case of Haiti. Considered as a whole, average annual Latin American per capita income amounts to \$6,950 against \$36,110 in the case of the United States; that means that the USA per capita income is 5.2 times higher than the same index in the case of Latin American societies (See table 2).

The asymmetries referred to, relate not only to the ability of countries to compete on equal terms once the agreement is fully implemented, but also to the intellectual and institutional resources they have available to conduct the negotiations. Had the FTAA come into force under the originally proposed terms, these countries of such differing sizes and degrees of development<sup>5</sup> would have agreed, on a basis of equality, to remove all barriers to trade in goods and services, to give non-discriminatory national treatment to movements of productive capital, and to respect intellectual property rules.

As is now quite clear, the original intentions that led to the creation of FTAA have been modified after the eighth Ministerial Meeting held at Miami in November 2003. The modification relates with the negotiation procedure and with the results that are expected from the signature of the agreement. On the previous Ministerial Meeting held at Quito, Ecuador in November 2002, the original idea of a single undertaking was still alive: "We reaffirm that the result of the FTAA negotiations shall constitute a comprehensive single undertaking that incorporates the rights and obligations that are mutually agreed for all member countries." But in the Declaration of Miami, the negotiation procedure was spelled out as follows: "Taking into account and acknowledging existing mandates, ministers recognize that countries may assume different levels of commitments. We will seek to develop a common and balanced set of rights and obligations applicable to all countries. In addition, negotiations should allow for countries that so choose, within the FTAA, to agree to additional obligations and benefits. One possible course of action would be for these countries to conduct plurilateral negotiations within the FTAA to define the obligations in the respective individual areas."

This new "light" version of the treaty - so called, "a la carte"- derives mainly from the lack of agreement among the positions of MERCOSUR and the USA. MERCOSUR, under Brazilian leadership asked for deeper concessions in agricultural trade, especially sharp reductions in domestic agricultural subsidies. On the other hand, the USA considered that the real forum to negotiate agricultural issues should be the WTO, where all the main parties (especially the EU) could participate. This and other disagreements (trade in services) lead to the new "light" negotiating procedure already mentioned.

It should be noticed, nevertheless, that this failure has no direct connection with the existence of the

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<sup>5</sup> This striking asymmetry is also to be found in NAFTA, another hemisphere-wide agreement which has already been signed up to and which is now in the process of being implemented. The two "junior" partners, Canada and Mexico, send more than 80% of all their respective exports to the United States, and a similarly high percentage of their imports are from that country. Canada, however, has labour costs and living standards that are fairly close to those of the United States, and a north-north type intra-industrial trade has developed between the two countries, the tendency being to take advantage of economies of scale and specialization. The case of Mexico is different: there is also a vigorous intra-industrial trade on the northern border of that country, but the investors who set up in the export processing zones (assembly plant zones) of Mexico are seeking to turn to account the advantages of the location, these being the lower labour and environmental costs of Mexico and the low freight charges deriving from proximity to the United States market.

sub-regional agreements that were fully accepted in the agreement as a legitimate set of integration treaties fully compatible with FTAA. The lack of agreement derives from the different strategic positions on substantive issues that were being negotiated, and these disagreements would have emerged with or without the existence of MERCOSUR because of the conflicting and competitive positions of MERCOSUR members and the USA concerning temperate-climate agriculture.

The sub-regional agreements of LAC (CACM, CARICOM, AC and MERCOSUR) have quite different positions and interests in the FTAA negotiation process. The first two of these sub-regional agreements (as well as some countries that are not members, like the Dominican Republic), take advantage of their geographical proximity and lower wage and environmental costs to produce goods and services (including tourism) with which to supply the United States market.

On the other hand, in South America MERCOSUR and the Andean Community not only have conflicting interests on agricultural trade, but also (with Chile, which is not a full member of this agreement) are not situated close enough to United States market, to benefit from dedicated export processing zones. In these South American blocs, foreign direct investment in manufacturing (food, cars, chemicals, etc.) is directed towards the sub-regional markets in which these investments are located. On the other hand, mining, extractive and agricultural investments are oriented mainly towards the major markets of the developed world, not just the United States but also Europe and Japan. Most transnational investments in services are intended to serve the markets where the investments were located.

This ever-closer relationship between trade and investment is one of the keys to understanding the interests of the parties to FTAA, and to interpreting the implicit or explicit strategies of the major transnational companies, which are associated with the competitive advantages that these countries offer in terms of location and internalization and ownership of technical progress.

In the case of Mexico, Central America and the Caribbean, the transnational companies of the developed world are interested in their location advantages. They wish first to take advantage of their low labour and environmental costs, and secondly to minimize the cost of shipping goods to the great market of the United States (and, in the case of Mexico, to take advantage of NAFTA preferences).

In their relations with the AC and MERCOSUR, however, transnational investors, though interested in taking advantage of lower local costs, do not obtain the competitive benefits associated with geographical proximity to the United States nor with the preferences which that country gives to Mexico, Central America and the Caribbean. In the case of the AC and MERCOSUR, therefore, direct investment aims at developing cheap and abundant natural resources for the world market, building up manufacturing activities (food, chemicals, vehicles, etc.) primarily to service the local sub-regional market in which this investment is sited, and to a lesser degree the hemisphere or the rest of the world, and investing in services (energy, telecommunications, trade, banking, insurance, etc.), again for these same sub-regional markets.

Taking into consideration the size and economic dynamism of the different sub-regions that are negotiating the FTAA, the interest of the United States as regards market access is focused primarily on South America. The Mexican and Canadian markets are already highly integrated into the United States economy, and the same is true, although to a lesser extent, of the small markets of Central America and the Caribbean. By contrast, the degree of trade integration with South America is lower, particularly in the case of MERCOSUR.

The countries of Latin America and the Caribbean that are following the strategy of signing bilateral free trade treaties (Mexico, Chile, Dominican Republic, Panama) are not full members of any of the four sub-regional treaties that aim at far-reaching integration. All of them appear to have opted for unilateral trade liberalization and to have decided that hemisphere-wide integration must be the primary objective. Nonetheless, it cannot be ruled out that in the next few years these countries might be incorporated more fully into whichever of the different sub-regional agreements are most appropriate to them.

### **3. MULTIDIMENSIONAL AGREEMENTS**

Four incomplete or incipient customs unions are operational in Latin America and the Caribbean. The long-term objective of these efforts is to establish common markets or even economic communities. It is convenient to deal with these in two different groups: one comprises CACM and CARICOM, the other MERCOSUR and the AC.

In 2002, CACM (Costa Rica, El Salvador, Guatemala, Honduras and Nicaragua) had a population of 34 million people, a gross national income of \$143 billion, and per capita output of \$4,200 (PPP). The member countries have freed up reciprocal trade, are consolidating a common external tariff, and aspire to far-reaching multidimensional integration. Between 1997 and 2003, their exports to one another, measured as a percentage of total exports, rose from 16.8% to 26.9%.

CARICOM comprises more than a dozen Caribbean insular "micro-states" which, in 2002, contained a total population of 6 million people generating GNP of \$34 billion, with income per capita of \$5,800 (PPP). They have freed up reciprocal trade, and have a common external tariff. Their exports to one another, measured as a percentage of total exports, rose from 16.7 % in 1997 to 18.8 % in 2003.

These two groupings are beneficiaries of the Caribbean Basin initiative, but have been adversely affected by the incorporation of Mexico into NAFTA, which eroded the margin of the preferences granted to them by the United States. The member countries of CARICOM, again, are beneficiaries of the Lomé Agreement, which the EU operates for the benefit of its former colonies. Like Mexico, they have developed export processing zones (assembly plant production) housing subsidiaries of transnational firms from the United States, Europe and Asia which locate there to take advantage of the low costs (for wages, environmental and energy costs, etc.) and to export to the United States, benefiting from the geographical proximity of that huge market.

The Andean Community (Bolivia, Colombia, Ecuador, Peru and Venezuela) had, in 2002, a population of 120 million people, gross national income of \$594 billion, and output per head of approximately \$5,000 (PPP). It has freed up the bulk of sub-regional trade and established a fledgling and incomplete common external tariff, and intends to progress towards far-reaching multidimensional forms of integration. Exports between the member countries diminished from 12.1 % of the total in 1997 to 9.1% in 2003.

Because of the peculiar "longitudinal" geographical distribution of its members, the Andean Community lacks some of the economic advantages of natural areas of integration<sup>6</sup>, and this is reflected

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<sup>6</sup> In fact, a very high percentage of intra-Latin American trade is border trade (Devlin and Ffrench Davis, 1997). This upsurge in sub-regional trade is clearly linked to the existence of natural areas of integration, which became apparent when the trade liberalization strategy was implemented at the beginning of the 1990s. The enormous reduction in economic barriers to the movement of goods and capital, against a background of geographical, linguistic and cultural proximity, translated into much lower transport and transaction costs between neighbors. This led to the emergence of a range of economic ties that had been repressed during the stages of "protected

in the relatively low proportion accounted for by reciprocal trade between its members (despite the spectacular growth that has been seen during this decade). The member countries of the AC have experienced difficulties with the stability of their political regimes, as well as border frictions or conflicts, which have not helped to create the conditions needed for progress to be made towards multidimensional forms of integration. To look beyond these difficulties, however, the member countries have displayed a firm determination to strengthen the institutional aspects of the Agreement. At the Trujillo Meeting of Presidents (1996), a new institutional structure was created whereby the Andean Group was converted into the Andean Community, with a Council established at presidential level and charged with setting the political course of the Agreement. The intention of continuing to advance down the road of multidimensional integration, and of joining forces to defend common interests in external negotiations, has been reaffirmed.

MERCOSUR (Argentina, Brazil, Paraguay, and Uruguay) had 220 million inhabitants in 2002, with gross national income of \$1,732 billion and GNI per head of \$7,900. It has freed up most of its reciprocal trade and established a common external tariff, and is planning to work towards the establishment of a common market. The percentage of exports between member countries as a proportion of the total fell from 24.9 % in 1997 to 11.9 % in 2003.

There is a common characteristic of these sub-regional agreements: all of them have unfolding mechanisms and organizations that operate as complementary cooperative agreements aimed to facilitate the multidimensional objectives pursued by these types of integrative-regionalism-agreements. Chart I can be seen as an example of what we are trying to show.

#### **4. COMPATIBILITIES AMONG TYPES**

Notice that the two main South American agreements have experienced reductions in their percentages of reciprocal trade after the boom of the first part of the 1990s (see table 1). We shall argue in this section that the root of these poor performances must be found, first, in the negative impact of the global economy and of the global rules of the game; secondly, on the insufficient political commitment of their members to search for deeper forms of integration; and, thirdly, on the incomplete institutional evolution of the agreements themselves. Finally, we shall defend the argument that the two types of regional agreements are not incompatible and in many ways they can become complementary to each other, favoring in the long term a better economic, political, and cultural relationship among the USA and LAC.

When Regional Trade Agreements are deepened they necessarily become multidimensional in a political and social sense. A free trade agreement is the first important step towards regional integration agreements and it is limited to the elimination of institutional barriers to trade at the border. But the immediate second step is the constitution of a customs union that has political implications as long as the members of the union agree to share sovereignties in order to manage a common trade policy and a common customs regime. The next step is the constitution of a common market, and it has socio-political implications derived from the fact that the effective settlement of a common labor market implies the provision of increasing civil, political and socioeconomic rights to the migrants coming from other member countries. The next step, constituted by the formation of an economic and monetary community, implies much deeper reciprocal cessions of sovereignty in order to reach the harmonization or unification of macroeconomic regimes, including the adoption of a single currency. In almost all the historical experiences, regional integration has also a cultural implication derived either from the differences or

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development" (1950-1975), "easy borrowing" (1975-1980) and the "lost decade" (1980-1990).

from the similarities of the cultural backgrounds of the migrants within the boundaries of the agreement.

When we look at the hemispheric panorama, it is obvious that the USA cannot surpass the level of a free trade regional agreement with Latin American countries considered as a group. The reasons are mainly political, social, and cultural rather than economic. In the first place, a global superpower such as the United States cannot tie its hands by signing a customs union agreement (or such deeper integrative steps as common markets or economic unions) with underdeveloped Latin American countries unless these countries accept completely the economic terms imposed by the United States. But, in that case, we should not be talking of a regional agreement but of a political absorption of the weaker counterpart. Secondly, in connection with social issues, and previous to the nine-eleven terrorist attack, it seemed that the USA was going to consider a progressive relaxation of the restrictions imposed on Mexican migrants, but even without this terrorist episode, the acceptance of massive amounts of Mexican migrants was not easy for the American economy and society to digest. If even in the case of such a close trading partner as Mexico, it is difficult for America to accept the increasing flow of migrants, the restrictions probably will be even greater for the rest of eventual Latin American migrants, especially from those countries that generate massive flows to the north. Thirdly, also in the cultural field, there are problems derived from religious, idiomatic and other sources of differentiation that create increasing problems to a massive acceptance of huge amounts of migrants coming from Latin America or of any other part of the world. Fourthly, the competition created by migrants in American labor markets is a source of economic and political frictions among labor unions and entrepreneurs within the USA. It creates double standards that, on one side promote the existence of black labor markets and, on the other side, generate restricted (or nonexistent) citizens' rights for migrants. In sum, it is clear and perfectly understandable that, as a global superpower, the USA cannot submit its sovereign decisions in trade or other economic and migration issues to regional agreements with Latin American countries.

But this is not the case among Latin American countries. First, these countries have many reasons to sign deep multidimensional regional agreements, including those that entail the sharing of sovereign powers. Secondly, they do not have the same political, social, and cultural constraints as the USA in accepting free migratory movements among their citizens. Thirdly, the incentives to migrate among Latin American countries members of the same regional area are far less intense in view of the similar living standards existing among those countries.

Lastly, there are few if any radical incompatibilities that prevent the parallel unfolding of free trade commercial agreements between the USA and LAC on the one hand, and of deep multidimensional agreements among LAC on the other. The multilateral economic order and the intergovernmental organizations in charge of monitoring it are permanently dealing with this type of parallel situation in the case of the EU and both courses of actions seem not at all incompatible among them.

## **5. POLITICAL DIMENSIONS**

New events have occurred in the present patterns of LAC regional integration agreements. First, LAC countries returned to democratic political regimes; secondly, the agreements are directly promoted at the highest (presidential) political level; and thirdly, the political dimension of integration has an increasing role in the objectives pursued by the agreements.

As an extension of the Kantian assertion that democracies do not make war amongst themselves, we can add that democracies can peacefully undertake deeper and multidimensional regional agreements among them. In contemporary history,<sup>7</sup> we can mention two relevant examples (the USA and the EU),

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<sup>7</sup> Reference is made, here, to the well known historical eras: ancient, medieval, modern, and contemporary.



and try to compare them with the more recent efforts of South American countries to begin a deep, long lasting integrative effort<sup>8</sup>.

Especially, the perspectives of different degrees of political integration among South American countries under a unique overall agreement are increasing very fast. For the purpose of this section it can be admitted that the expression “political integration” refers to the sharing of certain types and amounts of political powers among sovereign nation-states under the rules accepted in regional integration agreements.

Among other elements, the political integration of South American countries began, first, with the sharing of the political powers needed to create customs unions. Secondly, the democratic clause of MERCOSUR implies that full or associated membership depends on the maintenance of democratic, constitutional regimes. Thirdly, the association of Chile and all the members of the AC to MERCOSUR implies that all South American countries are converging for economic and political purposes under the same institutional framework<sup>9</sup>. Fourthly, in the economic field the Free Trade Agreement between MERCOSUR and CAN is progressing. And, fifthly, in the political sphere, the recent creation of the South American Community of Nations (SACN) ratifies this commitment to deepen political associations.

The Cusco Declaration about the SACN was signed during the third South American Presidential Summit, on December 8, 2004. The common values that explicitly sustain the Declaration are, among others: democracy, solidarity, human rights, liberty, social justice, respect of territorial integrity, diversity, non discrimination, and peaceful resolution of controversies. The promotion of development is also a priority of the Declaration.

The main purpose of the Community is the creation of an Integrated South American Space in the political, social, economic, environmental and infrastructural fields, aimed to strengthen sub-regional identity. South American nations seem determined to promote, articulated with other sub-regional integration experiences, the strengthening of LAC, and of their influence and representation on international forums. The Declaration emphasized the role of the Latin American people as essential players and concludes its introductory remarks, emphasizing: “South American Integration is and must be an integration of the people”.

Many skeptical observers of this process emphasize that this accumulation of treaties and declarations is purely rhetorical, and implies a complete reversion of the “natural” sequence of the integration processes. They argue that, taking into account the difficulties traversed by the trade agreements and associated processes among many South American countries; the intention to search for deep political agreements seems completely disproportionate.

In spite of these critics, the lack of convergent macroeconomic regulatory reforms explains the fragility and instability of trade flows between Brazil and Argentina (especially the divergent exchange

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<sup>8</sup> We shall focus here on MERCOSUR and South America because the geopolitical and geo-economic positions of South America vis-à-vis the USA are very different from the respective positions of Mexico, Central America and the Caribbean. We have already developed this argument in a previous section.

<sup>9</sup> Guyana and Surinam will not, at least for the moment, join the Community. They are currently members of CARICOM and are to enter its common market in 2005. Some political decisions are pending on this matter. The only South American country completely out of SACN is French Guiana, a member of the EU through its colonial links with France.

rate policies). The different levels of convergence of commercial, fiscal, and monetary policies necessarily imply the sharing of different types and amounts of political powers in order to coordinate, harmonize, and unify the regulations affecting macroeconomic processes.

In opposition to these skeptical views, the historical foundation of the USA suggests that political integration may come first and pave the way for a fruitful economic integration. The USA can be seen, at least for research and argumentative purposes, as the first integration agreement among free and democratic states in contemporary times. One objection could be that the USA is a sovereign federal nation state rather than an integration agreement, so it seems misleading to identify those different entities as similar. Nevertheless, the point that determines the existence of a nation state is the creation of a sovereign political unit. In the case of contemporary western political democracies the sovereign power resides, in the last resort, in the people. *Consequently, if we consider the existence of political units organized under democratic political rules, we can talk of different types of political regimes that are sustained by the same principle of popular sovereignty.*

Unfortunately, in the case of LAC societies, after political independence in the nineteenth century the formal rules of representative democracy were adopted, but the ancient inherited rules of colonial times prevailed, and shaped (or strongly influenced) the internal political and economic order<sup>10</sup>. So democracy and capitalism did not operate together until recent times. On the other hand, the emergence of democracy was an internal outcome of the USA that gave essential meaning to the American Revolution.

The flexibility and dynamism of democratic regimes depart, precisely, from the popular sovereignty that determines the constitutional rules and can amend them through certain procedures determined in the constitution itself. Representative democracy is always a historical process and not necessarily a definitive accomplishment. That is due to the fact that democracy is a perfectible ideal. The 27 amendments to the USA Constitution, and, also, the Civil War itself, are essential historical episodes affecting the evolution of American democracy. It is reasonable to accept that the rules of political nation-states are written in a constitution, and the rules of an integration-area are written in a treaty, but when the integration agreement reaches profound political levels (increased sharing of political powers among its members) the differences between both sets of rules begin to blur. Precisely, that seems to be happening in the case of the EU.

On one hand, the EU is a group of member states that voluntarily confers its competences (areas of responsibility) according to the so-called “principle of conferral.” The Constitutional Treaty of 2003<sup>11</sup> states that the EU may only act (create new rules) under the unanimous agreement of their members, and

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<sup>10</sup> “What happens when a common set of rules is imposed on two different societies? I can illustrate from an historical example. The USA constitution was adopted (with modifications) by many Latin American countries in the nineteenth century, and third world countries have adopted many of the property rights laws of successful western countries. The results however are not similar to those in either the United States or other successful Western countries. Although the rules are the same, the enforcement mechanisms, the way enforcement occurs, the norms of behavior, and the subjective models of the actors are not. Hence, both the real incentive structures and the perceived consequences of policies will differ as well. Thus, a common set of fundamental changes in relative prices or the common imposition of a set of rules will lead to widely divergent outcomes in societies with different institutional arrangements”. Douglass North (1990), *Institutional Change and Economic Performance*, Cambridge University Press, page 101

<sup>11</sup> In December 2001, the European Council established the Convention on the Future of Europe. The role of the Convention was a consultative one and its draft, published in December 2003, was discussed at two meetings of the Council. Agreement was not reached immediately, and the final text was agreed upon at the summit meeting on 18-19 June 2004. Ratification of the treaty will differ according to the different internal political rules of each country.

only if the individual action of the member countries would be insufficient. This implies a bounded sharing of political powers, under democratic rules. The so-called “subsidiary principle,” again, is based on the same limited transference of powers: governmental decisions should be taken as close to the people as possible while still remaining effective. Nevertheless, it is clear that these powers conferred to the EU operate to exactly the extent that is needed to achieve specific objectives.

On the other hand, the EU law has primacy over the laws of member-states in the areas where they allow it to legislate. Consequently, no member state may pass a national law that is incompatible with an agreement made at European level. This important provision is the principle from which the sentences dictated by the European Court of Justice derive their legitimacy. This is a case of a blurring frontier line between the political powers transferred to the EU and the sovereign powers retained by member-states. With the widening of qualified majority voting envisaged in the Constitution, the number of areas in which laws can be passed by majority vote has increased. Consequently, it is possible for an individual country to vote unsuccessfully against a proposal and subsequently find its national legislature to be bound by it.

It is interesting to notice that, the “lack of democracy” frequently attributed to the EU institutions is not applicable – under the same terms - to MERCOSUR. A point can be made that the EU has supranational rules that are less “democratic” in their enforcement than the intergovernmental rules created under the legal patterns of MERCOSUR. The rules of MERCOSUR need to be ratified by the national parliaments of the member-countries. This process has been slow and conflicting, but in spite of these inconveniences, when the law is included in the national legal system, it has the democratic legitimacy of parliamentary ratification.

Additionally, in the terminology adopted by MERCOSUR, many regimes and policies can be coordinated and/or harmonized. The harmonization process, or even the unification of the laws, is in certain cases easier in MERCOSUR as a consequence of the common tradition that is shared in many legal fields by all Latin American countries<sup>12</sup>.

The enforcement of MERCOSUR laws through parliamentary ratification implies that political

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<sup>12</sup> Luis Olavo Baptista suggests a provocative and interesting interpretation of the harmonization process applicable to LAC sub-regional agreements: “In fact, notion of harmony lies in conciliations, in the well-ordered disposition of the parties, in agreement, in conformity. Just as in music, there can be no harmony when there is opposition and lack of concordance: there may be chords, but they will not be harmonious. Legal systems are no doubt harmonious if they have spontaneous or induced similarities, if there is parallelism in their material and essential aspects, even though they may be dissimilar in other respect, just as in music “do” differs from “mi” although the two together make for a harmonious chord.

In the case of harmonization what we have are laws, the principles of which are harmonious, i.e., consonant, although the nature of their rules may not be the same. In this manner, we might say that the laws of MERCOSUR countries are generally speaking harmonious, since they differ only in certain details, even though their norms are formally different.” Luis Olavo Baptista: Mercosur, its institutions and juridical structure, on [www.sice.oas.org](http://www.sice.oas.org), part II, Title II, Chapter I.

parties, through their legislative representation, can exert a more direct influence over the institutional shaping of sub-regional integration.

It is important finally to notice that political parties, through their transnational connections and their direct reliance on public opinion and electoral options, can give a decisive boost to the political dimension of regional integration.

The Latin American Parliament, generally known by its Spanish acronym PARLATINO, was created at Lima, Peru in 1994. Currently, 22 Congressional Houses and Legislative Assemblies are members of PARLATINO. Its fundamental principles are: a) Defense of Democracy; b) Latin American integration; c) Non intervention; d) Self-determination of people to adopt freely their political, economic and social institutions; e) Political and ideological plurality as the basis of democratic regimes for the Latin American community; f) International juridical equality of States; g) Rejection to the menace or effective use of force against political independence and territorial integrity of States; h) Fair, peaceful, and negotiated solution of international controversies; i) Prevalence of International Law Principles related with friendship and cooperation among States. The main goals of PARLATINO include, in the first place, the promotion of economic and social development of the Latin American community, and its full economic, political and cultural integration.

Returning to our main and last point of this section, the enforcement of the common rules of MERCOSUR, through the legislative ratification process, imply proceedings that are more complex, but have the advantage of including the direct participation of parliaments. The consolidation of democracy and of the political parties at a regional level implies, also, the foundation of new forms of regional integration in LAC<sup>13</sup>.

## **ECONOMIC BENEFITS OF MULTIDIMENSIONAL INTEGRATION**

This section deals with two different issues: First, it suggests that deeper economic integration necessarily implies a multidimensional integration process. And, secondly, it maintains that deeper economic integration seems to be a necessary condition to attain faster and better development processes for all the member countries of LA agreements. Let us examine these two issues departing from the concrete case of South American countries and placing MERCOSUR at the focal point of the argument.

### *Multidimensional impacts of deep economic integration*

The first issue deals with the multidimensional consequences of a deeper economic integration. The different stages generally accepted by economists in their analysis of regional economic integration agreements are: a) Trade Preferences Zones; b) Free Trade Agreements; c) Customs Unions; d) Common Markets; e) Economic and Monetary Communities; f) Political Unions. The steps a) and b) do not imply important involvement of political, social or cultural dimensions. The step c) implies the necessary sharing of political power in order to run a unified common customs and a unified trade regime. The step d) implies the necessary sharing of a common citizenry for the populations of the member countries,

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<sup>13</sup> “The political system of Latin American countries, for the first time in history, shows a high level of homogeneity in its basic characteristics. Among them can be mentioned five: the principle of formal democracy, the partisan way of articulating the representation, a presidential form of government with strong prevalence of the executive power, a strong tendency to political centralism that coexists with shy administrative decentralization attempts and supranational regionalization, and, an enormous difficulty at the hour of constructing citizenship as the sphere of coincidence for the fields of the market and the political society”. Manuel Alcántara Sáez, Universidad de Salamanca, en Estudios Interdisciplinarios de America Latina y el Caribe, [www.tau.ac.il](http://www.tau.ac.il) page 1.

which is needed to effectively create a common labor market. Additionally the mobility of the other productive factors – especially technology and capital - imply important common regulatory reforms far beyond those connected with the building of the common external tariff (i.e. foreign investment, intellectual property, environmental issues, etc). The step e) implies the coordination, harmonization, and, eventually, unification of regulatory regimes, at least in monetary and fiscal areas, in order to create a completely unified market under conditions of reasonable competitiveness. This level of economic integration implies necessarily the creation of a Supreme Tribunal of Justice invested with supranational powers, in charge of addressing the controversial issues that can emerge from the growing interdependence among the members of the agreement. Finally, the step f), must not necessarily be understood as the reaching of a political unification similar to the established at the level of a nation-state, but giving a special place to the principle of subsidiarity among the local, state/provincial, national and supranational levels: i.e. decisions about policy should be taken at the most decentralized level consistent with making them effective.

South American countries are advancing in the process of deeper, but also, wider integration. MERCOSUR and CAN have reached a level of very imperfect and incomplete customs unions among their respective members, but, in a parallel way, they also have reached improvements in the building of free trade agreements *between* both blocks. The issue of building a customs union today, no longer implies the closing of the block vis-à-vis the rest of the world. The conditions of open regionalism prevalent in all Latin American agreements imply the fulfillment of the condition imposed by the WTO - that a new customs union cannot have a common average tariff at a higher level than the previous national tariffs of the member countries. In fact, the external common tariffs of MERCOSUR and CAN are much lower than their historically recorded average national tariffs.

Taking into account that all South American countries are complying with the rules of open regionalism, the importance of a customs union is now based on the possibility of developing a *common trade policy*. For example, MERCOSUR and CAN are acting as a block for the negotiation of FTAA. This is perhaps a better and simpler way to negotiate and reach agreements that address the common interest of all the parties. One of the advantages of this procedure –collective negotiation- is the better allocation of negotiating capabilities among the countries of the block (i.e. enjoying “scale” economies in the use of certain scarce experts whose advice is of common interest to all the member countries).

The step d) might be analyzed making a distinction among the non-human productive factors (capital and technology) on the one hand and the labor force on the other. The present 21<sup>st</sup> century consolidated preferential market agreements (also called comprehensive free trade agreements) include provisions relating to capital and intellectual-property transactions. In a certain sense, they are a hybrid between free-trade-agreements in the area of goods and services, and common markets in the area of financial and productive capital and intellectual-property transactions. This is, of course, a direct consequence, at sub-regional levels, of the globalization process characterized precisely by the global mobility of capital and technology under the new options and patterns of the present information, communication and knowledge technologies. In order to comply with the global rules propounded by the IMF, the WTO, and the WB, the regulatory reforms in these fields have been very profound not only in South American, but also in Central American and Caribbean countries.

On the other hand, the issue of a labor-common-market opens the door to the most conflicted aspects of multidimensional regional integration linked to social and cultural rights of a communitarian citizenry. This is also the most difficult point in terms of reaching general conclusions reasonably applicable to different historical situations. The point to be stressed here is that the building of a labor common market implies necessarily the sharing of multiple rights, liberties and guarantees in the civil and political spheres

for migrant laborers coming from another member country. Labor, social security, health, education, housing, and many other regimes directly connected with the living conditions of migrant workers are implied in the effective construction of a common labor market. In other words it implies a decisive strengthening of the social dimension of regional integration. The migratory issue implied in the construction of a labor common market calls for the harmonization of migratory regimes, through multilateral agreements based on careful recognition and consideration of the rights both of migrants and residents in migratory areas. A further and deeper step can be the unification of migratory regimes. The point here is to avoid the unilateral and arbitrary application of migratory laws by each country and to take into consideration the needs and interests of the other member countries. In conclusion the main strategic idea in this sphere calls not for a system of free migration but for a harmonized set of rules accorded among the member countries.

An important distinction concerns the macroeconomic and macro-social impact of migratory movements on one hand (which call for harmonized regulations) and on the other, the set of civil, political, economic and social rights of the migrants and their families that ought to comply with the standards of democratic regimes (that call for a minimal social platform). The worst of both worlds is a situation where the migrants are allowed to enter and to work without granting them the basic rights, liberties and guarantees of the native citizens. In short, the feasibility of constructing a common labor market does not imply completely free migratory movements but harmonized regulations among countries aiming to preserve reciprocal national interests and individual human rights. In any event, these regimes and policies imply the gradual construction of a common citizenry.

Step e) -economic and monetary community- implies a decisive transition from harmonized to unified economic regimes, with substantial impacts over the sharing of political powers among the member countries. The unification of fiscal and monetary policies might include taxes and public spending systems that affect competitiveness among the single market and, even, the adoption of a single common currency. There is no need to argue about the obvious impact of these measures on the political integration of the member countries. Step e) corresponds to the stage now reached by the EU members in their integrative evolution. Step e) also implies the sharing of political powers by governmental authorities in order to introduce convergent regulatory provisions that go beyond the movement of productive factors and include other areas (environmental issues, sanitary provisions, government purchases, etc). Some comprehensive free trade agreements are frequently called “WTO plus,” when they extend the multilateral provisions emanating from global negotiations.

Finally, we can argue about the meaning of the step f). Under the rules of the present global order we are contemplating three different shifts of sovereign power for South American countries: first, through the acceptance of the global rules emanating from the (global) philosophy of the Washington consensus; secondly, from shared regional and sub-regional rules that bind the discretionary capabilities of national authorities to devise their own policies, as a consequence of their membership in these agreements; and, thirdly, to local sub-national levels as a consequence of the decentralization processes that have occurred, especially in the larger South American countries. Under the present circumstances, the issue of political integration is not a simple choice between national sovereignty and shared sub-regional sovereignty but it involves a much deeper and more complex redefinition of the nation-state under the global rules of the game. For representative democratic regimes the principle of subsidiarity is essential in this political redefinition.

#### *Linking multidimensional agreements to economic development*

The second issue of this section deals with the beneficial impacts of deep economic integration on the development prospects of South American countries. We can focus mainly on scale economies, new

productive investment, and transaction costs under different levels of economic integration. The increasing benefits of scale are not the direct consequence of quantitative additions of larger amounts of consumers and producers to each market, but derive from the profound economic, political and social structural changes needed to create a new integrated market that departs from the original national ones. The building of a larger market in order to capture scale benefits, increased investments, and reduced transaction costs is not only a matter of eliminating economic barriers but of creating new institutions. It is a matter of regulatory reforms.<sup>14</sup>

When cross-border barriers are eliminated among trading countries, internal regulations can distort trade by increasing transaction costs or creating artificial barriers. So the elimination of cross-border barriers is only a first step in the process of building integrated markets. These processes are presently taking place at a global level through the regulations propagated by global intergovernmental organizations, but the pace of the feasible reforms depends highly on political issues that, under favorable conditions, can be more easily solved among a smaller set of countries that share common political goals. Again, if one accepts the idea that common regulatory reforms are needed in a world with falling cross-border economic barriers, then certain amounts of political integration will be directly correlated with the progress of those regulations. At a global level, this implies the sharing of sovereign decision-making with global intergovernmental organizations, and at a regional level it implies the sharing of those political strategies and policies with the partners of the integration agreements.

The scale economies of an enlarged customs union/common market,<sup>15</sup> as in the case of MERCOSUR, are especially enhanced by the transnational corporations that create an environment for increased foreign direct investment in order to foster economic development. But the negotiating power of these enormous firms is so great that clear property and market rules are required within the integrated economic space. Strong competition rules and authoritative organizations endowed with legal faculties will be needed to regulate and enforce the economic relations between those firms and the governments. The experience of the EU, where the competition rules are communitarian issues, directly judged and enforced by the highest Tribunal, can be noted here.

A customs union ready to build a common trade policy not only has to negotiate with intergovernmental organizations and foreign countries but also with powerful transnational firms located within their borders. Taking into account the intra-firm transactions and the transfer prices that can be determined by different subsidiaries of these corporations within the borders of the customs union, the need for unified rules seems all the more necessary. Under those conditions a strong supranational communitarian judiciary power is needed to enforce the rules of competition. This rule of law on competition issues is convenient not only for the interests of the member countries of the agreement but

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<sup>14</sup> Roger Noll has stated this idea very clearly: "...internationalization of regulatory reform is inevitable, and not just because the social and economic problems that give rise to regulation cross borders, as is emphasized by advocates of international environmental regulation. Even without these cross-border problems, regulation inevitably is an international issue because, when other forms of trade barriers are low, regulations can distort trade. Second, internationalizing regulatory reform is not likely to produce either disaster scenario: widespread over-regulation or massive under-regulation. Instead, internationalization of regulatory reform is a healthy development that is likely to improve the efficiency of regulation while removing trade distortions that arise from inefficient regulation". Roger Noll, Regulatory Reform and International Trade Policy, Prepared for the Competition Policy in the Asia Pacific Region, Edited by Takatoshi Ito and Anne Krueger, National Bureau of Economic Research. Page 3.

<sup>15</sup> The fact that the present conditions for increasing cross-border mobility of capital and technology are accepted and regulated at global levels (WTO, IMF, WB) implies that the conditions for the construction of common markets are already fulfilled even at global levels. In that sense MERCOSUR has important elements of a common market for capital and technology, but not for labor movements.

also for the transnational and big local firms that can rely on clear and stable signals in order to develop their long-term strategic planning. Especially in the South American case, the strategy of transnational firms is not connected to export processing areas offering low labor and environmental costs, but rather to rich natural resources and local market opportunities. Recent evidence suggests that, even in countries where low wages are a decisive international competitive weapon, the institutional environment can be more important than short-term economic incentives<sup>16</sup> (Hope et al, 2003).

The main “developmentalist” reason that, within MERCOSUR, justifies the intention of building an economic and monetary community is the adoption of a single currency. The adoption of a single currency requires very high levels of discipline and harmonization of fiscal and monetary policies of member countries. In fact, the adoption of a single currency implies the necessary unification of the monetary system under a single Central Bank. One economic justification for the adoption of a single currency is linked to dramatic increases in the intra- regional (or intra-sub-regional) trade flows.<sup>17</sup> It is also linked to equally intense reductions of transaction costs and exchange rate risks derived from different exchange rate policies. These processes of harmonization and (eventually in the long term) unification of monetary regimes seem a necessary condition for the sustained increase of intra-sub-regional trade in the case of MERCOSUR. The collapse of the Argentine economy at the beginning of the 21<sup>st</sup> century was partially due to the different exchange rate systems adopted by Brazil and its negative impact over Argentine competitiveness in its bilateral trade with its principal partner of MERCOSUR.

The adoption of a single currency has, at least, one important social impact through the ease with which potential migrants can compare the nominal and real levels of average wages among the countries that share the same currency. If differences in living standards are very large, the migration incentives for the poorer member countries can easily rise, as was the case in Eastern Germany after the German unification. The consequences of this social impact can be very important if the economic space under a single currency includes a labor common market with free movements of migrants within the member

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<sup>16</sup> “In analyzing China’s involvement with the international capital markets, Shang-Jin Wei takes an innovative approach in Chapter Seven. By the mid-1990s, China, although still a relatively modest borrower from the banks and bond markets, had become the dominant host among developing nations for FDI. China was second only to the United States as a magnet for FDI; direct investment inflows have now surpassed U.S.\$55 billion a year. Instead of analyzing how China had become such a star performer, Wei emphasizes that China receive much less investment than it might have received had it offered a more attractive climate to investors, especially to those from countries other than Hong Kong and Taiwan. He advances the proposition that good governance can be a more important factor in attracting foreign direct investment than the cheap labor or tax holidays that are often thought to be primary determinants of FDI flows. The implication drawn from his analysis is that China will attract more FDI in coming years if it concentrates on improving the institutional environment in which foreign investors operate rather than granting short-term economic incentives.” Hope, Yang and Li (2003), *How Far Across the River?: Chinese Policy Reform at the Millennium*, Stanford University Press, California, page 15.

<sup>17</sup> “The economic effects of monetary institutions and policy have always been a central area of economic interest and research. Yet, the recent Economic and Monetary Union of Europe (EMU) has focused much attention on the potential consequences of common currencies (e.g., the Euro). Economists widely believe that monetary unions lower inflation and promote trade. Still, many are surprised that the magnitude of the observed trade effects is so large. Although estimates vary greatly, studies often find that currency union doubles, or even triples, bilateral trade.

“It is the purpose of this review to use meta-analysis to summarize, investigate, and more accurately estimate the common-currency trade effect. Meta-analysis can improve the assessment of this important economic parameter by combining all of the estimates investigating the sensitivity of the overall estimate to variations in underlying assumptions, identifying and filtering out publication bias, and by explaining variations among reported estimates through meta-regression analysis. Our meta-analysis confirms a robust, economically important, positive trade effect from monetary union”. Rose and Stanley (2005); *A Meta-Analysis of the Effect of Common Currencies on International Trade*. <http://faculty.haas.berkeley.edu/arose>.



countries. This migratory impact is positively correlated with the different levels of wages and job opportunities. In the case of the Economic Community, countervailing measures against this type of migratory pressure were adopted through the structural funds devoted precisely to attack the acute inequalities in the levels of living. The socially cohesive outcome of these funds in the case of the EU has been successful, but very expensive for the more developed member countries. In the case of MERCOSUR, the adoption of structural funds devoted to the convergence of living standards would be too costly to the other members. That is one of the reasons why, in the medium and long term, complete freedom of migratory movements does not seem a feasible outcome. The conditions to reach a labor common market must include, first, a greater harmonization of social and labor policies and, second, a difficult negotiation aimed at creating cohesive funds for the help of the less developed members of the agreements.

## **CONCLUSIONS:**

To conclude:

1) The driving force behind LA integration has shifted from the “economic developmentalism” of the 1960s, to the “multidimensional developmentalism” of the 21<sup>st</sup> century. The multidimensionality of the present developmentalism derives from the challenges of the globalization process that is changing the nature and role of nation states, and profoundly affecting the cultural patterns of LA societies. The original developmentalist arguments in favor of the creation of a common market (scale economies, promotion of private foreign and local investment, complementarities among national industrial sectors, promotion of shared public goods among member countries, etc) still remain strong, but under a completely different global and regional scenario. The economic model of the 1950s (interventionist state, high protectionist economic barriers, strong governmental productive firms) has been replaced by another model fully integrated to the economic global order (limited regulatory and promotional functions of the states, closely monitored by intergovernmental organizations like IMF, WTO, and WB).

2) The willingness of LA governments engaged in multidimensional regional integration agreements to share sovereign powers is now greater than in the past. The central governments under the present re-instatement of democratic regimes have been ceding sovereignty first to global intergovernmental organizations in accordance with the well-known Washington Consensus rules of the game. They have also been ceding sovereignty to sub-national governments (states and communities) as a consequence of the increasing complex and sizable impact of sociopolitical issues on many sub-national territories. Under these new circumstances, LA central governments have found out that the sustenance of national democratic regimes is now a common goal of all member countries, and the sharing of national political powers at regional level is a price worth paying in order to preserve democratic rules, and to strengthen the functions of central governments. There is, then, a feedback between new democratic rules in the global era, and the sharing of political powers at regional levels.

3) The consolidation and generalization of democratic regimes in LA coincided with the consolidation and generalization of the new economic model that determines the rules of the global economy. Both events simultaneously emerged at the beginning of the 1990s. Both processes also coincided with the end of the communist regimes and the centrally planned economies of Eastern Europe. These new outcomes lead to a redesign of the geo-political and geo-economic positions of major players in the global order. The traditional excuse for military coups was the need to repress violent leftist movements backed or financed by the communist world. This excuse no longer applied to the new international situation, for local authoritarian militaristic strategies. Again, from this point of view civilian democratic governments have reduced the ancient border frictions that allowed Latin American armies to

expand their equipment and budgets in the name of national security. At least inside MERCOSUR, new programs aimed to rationalize military spending are promoting greater transparency in the preparation of national military budgets. The new security issues now relate to other types of violence linked to narcotics-traffic, local mafias, and terrorist fundamentalism. For these security purposes, the strategies of national armed forces change from conflict-hypothesis with the neighbors to cooperative efforts to defend common borders. In short, representative democracies, and integration to the capitalist global world are countervailing powers that introduce equidistant equilibrium between two dangers: first the return to politically authoritarian models (Pinochet style) coexisting with the economic rules of the Washington Consensus, and secondly the return to strong centralized demagogic regimes of a redistributive-populist-inflationist economic nature that openly conflicts with the spirit of the Washington Consensus.

4) How deep should economic integration be? This issue has been discussed in the preceding section of this paper. The vulnerability of LA economies to the enormous bargaining power of some transnational firms or to the volatility of financial capital flows implies the need to harmonize (environmental, investment, commercial, fiscal monetary, etc) systems and policies. The issue is: to what extent? If LA governments decide to firmly address the deep harmonization of monetary policies until the point of creating (or accepting) a single currency, the deepness of economic integration will call for a deep political integration of LA countries. Nevertheless, this type of shared sovereignty (political integration) does not necessarily mean an easy or fast shared citizenry (social integration for the setting of a labor common market) understood as free migratory movements among member countries; rather it will call for a patient and prudent process of harmonization of migratory laws. The situation of Peruvian or Bolivian migrants to Argentina or Chile faces the same type of problems (on a smaller scale) as those faced by Mexican migrants to the US. The aim in this matter is to use the multidimensional integration agreements (MERCOSUR and CAN) to build this harmonization of migratory systems.

5) Do LA governments really want multidimensional integration? Some of the most successful in terms of recent development (Mexico, Panama and Chile) are choosing to act under the rules of one-dimensional agreements. But all of them represent, in one way or the other, specific situations. Mexico benefits from a highly preferential treatment from its powerful neighbor that absorbs an overwhelmingly large proportion of Mexican total exports and provides a substantial amount of Mexican FDI inflows. During the Tequila Crisis, Mexico benefited from the financial assistance of the US, and the northern industrial processing zones are part of a complex interaction of commodities, capital and labor movements across the frontier. It is easy to understand that the geo-political, geo-economic, and social interactions between Mexico and US avoid any possibility for Mexico to become a full member of any of the customs unions currently running in LA.

Panama also has special connections with the US. The global nature of the Canal exporting services and the dollarization of its economy create close links with the US economy that are incompatible with Panama's association with any customs union.

The most interesting case for the analysis of South American (SA) Integration is Chile. This country profits from the best outcomes of both types of agreements: on the one hand, the signing of a FTA with the United States and the EU gives special meaning to the other, parallel FTAs signed with its SA neighbors. Chile is betting it can become an investment platform for the developed countries interested in accessing MERCOSUR and CAN, while minimizing the risks of the frequent instabilities and volatile economic situations that bedevil MERCOSUR members. In spite of the fact that Chile is only an associated and not a full member of MERCOSUR, it has very deep common interests with this bloc. The tourist industry of Chile depends heavily on migrants coming from (or through) Argentina. The amount of Chilean FDI investment located in Argentina is very important in absolute and relative terms. Chile is,

jointly with Peru, the geographical bridge that connects MERCOSUR with the countries of the Asian Basin. All Chilean interests related with investment and infrastructural connections are contemplated in the FTAA signed with MERCOSUR. Under these circumstances, the fact that Chile is not a full member of the customs union is not the most significant datum with which to measure the economic links between Chile and MERCOSUR. Additionally, Chile is a full member of all the other socio-political mechanisms and agreements derived from the annual ministerial meetings of MERCOSUR, comprising such varied issues as education, health, social security, migration, labor, justice, etc. Finally, Chile is a subscriber to the democratic clause of MERCOSUR. The fact that Chile has been largely enjoying tolerant and patient treatment from MERCOSUR proves that trade itself is not the most important issue in linking Chile to MERCOSUR. That also explains Chile's full membership in the recently founded South American Community of Nations.

6) Allow me to conclude this paper by repeating the main conclusion anticipated in the introductory remarks. The process of re-democratization of Latin American Societies, coupled with the increasing interdependence of their economies in the framework of the global capitalist rules is a new historical outcome that has included all Latin American and Caribbean (LAC) countries from the beginning of the 1990s. This new economic and political scenario is the fundamental reference-point to suggest that the feedback between democracy and regional integration can initiate a historically unprecedented virtuous circle capable of reinforcing both processes in the long term. *In order to take advantage of this unique historical opportunity, LAC societies need to understand clearly the typological differences between one-dimensional and multidimensional regional integration agreements, and to evaluate their historical consequences.*

**TABLE 1**  
**LATIN AMERICA AND THE CARIBBEAN: EXPORTS IN TOTAL AND BY**  
**SUB-REGIONAL INTEGRATION SCHEME (1960-2003)**

*(In billions of dollars, f.o.b. and percentages)*

	1960	1970	1980	1990	2000	2002	2003
							(prelim)
<b>LAIA</b>							
1. Total exports <sup>a</sup>	7.3	12.8	80.3	112.7	328.2	319.8	346.1
2. Exports to LAIA	0.6	1.3	10.9	12.2	42.8	35.4	39.8
3. Percentage of exports within LAIA (2:1) (%)	7.7	9.9	13.6	10.8	13.0	11.1	11.5
<b>Andean Community</b>							
1. Total exports	3.6	5.4	30.6	30.8	60.7	52.1	54.7
2. Exports to Andean Group	0.0	0.1	1.1	1.3	5.2	5.3	4.9
3. Percentage of exports within Andean Group (2:1) (%)	0.7	1.8	3.7	4.1	8.5	10.1	9.1
<b>Mercosur</b>							
1. Total exports			29.5	46.4	85.7	89.5	106.6
2. Exports to Mercosur			3.4	4.1	17.7	10.2	12.7
3. Percentage of exports within Mercosur (2:1) (%)			11.6	8.9	20.7	11.4	11.9
<b>Central American Common Market</b>							
1. Total exports	0.4	1.1	4.5	4.0	11.5	10.0	11.1
2. Exports to CACM	0.0	0.3	1.1	0.7	2.6	2.8	3.0
3. Percentage of exports within CACM (2:1) (%)	7.0	26.2	25.4	17.3	22.7	28.1	26.9
<b>CARICOM <sup>c</sup></b>							
1. Total exports			5.9	4.1	6.3	5.7	6.5
2. Exports to CARICOM <sup>d</sup>			0.5	0.5	1.2	1.1	1.2
3. Percentage of exports within CARICOM (2:1) (%)			8.3	12.4	19.4	18.9	18.8
<b>Latin America and the Caribbean <sup>e</sup></b>							
1. Total exports <sup>f</sup>	8.6	15.3	95.1	121.7	359.4	347.4	376.2
2. Exports to Latin America and the Caribbean	0.8	2.0	15.6	16.2	62.5	52.8	60.0
3. Intraregional percentage/Total (2:1) (%)	8.8	13.3	16.4	13.3	17.4	15.2	16.0

**Source:** ECLAC, on the basis of official information.

<sup>a</sup> From 1992 onwards, includes assembly plant exports from Mexico. From 1997 on, includes maquila exports from Mexico.

<sup>b</sup> Includes estimated figures for the years and countries indicated: 1982, Haiti; 1983, Haiti; 1984, Haiti; 1985, Haiti.

<sup>c</sup> Does not include exports within CARICOM from Guyana or from Antigua and Barbuda. For 2000 and later, gives the total intra-group trade (Andean Community, MERCOSUR, CACM, CARICOM, and that carried out between Mexico and LAIA), as well as trade between groups plus the flow of exports from Cuba, Dominican Republic, and Panama to the other countries in the region.

<sup>d</sup> Before 1990, includes 11 countries from LAIA, 5 from CACM, 4 from CARICOM (Barbados, Guyana, Jamaica and Trinidad and Tobago), plus Bahamas, Belize, Dominican Republic, Haiti, Panama and Suriname. After 1990, includes LAIA, CACM, CARICOM, Haiti, Dominican Republic and Panama.

<sup>e</sup> For 2000 and after, includes LAIA, CACM, the set of CARICOM countries, Panama, Cuba, and the Dominican Republic.

**TABLE 2**  
**KEY INDICATORS FOR HEMISPHERIC ECONOMIES**

COUNTRY	POPULATION (MILLIONS)	GNI \$ BILLIONS	PER CAPITA GNI (PPP)\$
1. ARGENTINA	36	154	10.190
2. BOLIVIA	9	8	2.390
3. BRAZIL	174	495	7.450
4. CHILE	16	66	9.420
5. COLOMBIA	44	80	6.150
6. COSTA RICA	4	16	8.560
7. DOMINICAN REP.	9	20*	6.270
8. ECUADOR	13	19	3.340
9. EL SALVADOR	6	14	4.790
10. GUATEMALA	12	21	4.030
11. HAITI	8	4	1.610
12. HONDURAS	7	6	2.540
13. MEXICO	101	597	8.800
14. NICARAGUA	5	4	2.350
15. PANAMA	3	12	6.060
16. PARAGUAY	6	6	4.590
17. PERU	27	54	4.880
18. URUGUAY	3	15	7.710
19. VENEZUELA	25	102	5.220
20. USA	288	10.207	36.110
21. CANADA	31	702	28.930
LATIN AMERICA & CARIB.	525	1.721	6.950
ANDEAN COMMUN.	120	263	5.000
CARICOM (13 COUNTRIES)	6	24*	5.800
CACM	34	61	4.200
MERCOSUR	220	670	7.900
MEXICO	101	597	8.800
CHILE	16	66	9.420

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WORLD BANK, WORLD DEVELOPMENT INDICATORS (2004).

**CHART 1  
TYPES OF REGIONAL AGREEMENTS**

TYPES OF AGREEMENTS	COMMITMENTS	GOALS THAT ARE PURSUED
<p><b>ONE-DIMENSIONAL</b></p> <p><b>THE BEST OVERALL HEMISPHERIC EXAMPLES ARE THE FREE TRADE AGREEMENT OF THE AMERICAS (FTAA), AND THE NORTH AMERICAN FREE TRADE AGREEMENT.</b></p>	<p><b>1. IN THE ECONOMIC SPHERE:</b> Preferences conceded for the markets of goods, services and (non human) productive factors. Trade liberalization at a faster and deeper pace that the one performed at a global level.</p> <p><b>2. IN THE SOCIO-POLITICAL SPHERE:</b> The prerequisite of democracy is not explicitly included in the treaty but is considered under other cooperative regionalism agreements (Hemispheric Summits, OAS). Defense of citizens' rights and liberties. Emphasis on individual rights.</p> <p><b>3. IN THE SOCIOECONOMIC SPHERE:</b> Labor agreements aimed to enforce the internal legislation (NAFTA). They are limited to the field of cooperation (for example on Santiago Summit linked to the launching of the FTAA).</p>	<p><b>1. IN THE ECONOMIC SPHERE:</b> Creation of Free Trade Areas (open regionalism) as stepping-stones aimed to go deeper and faster on the disciplines of global multilateralism promoted from WTO, IMF and WB.</p> <p><b>2. IN THE SOCIO-POLITICAL SPHERE:</b> Strengthening of the hemispherical alliance in the framework of national sovereignties. Protagonist role of hemispheric intergovernmental organizations (OAS, IDB) fully compatible with the global role of the intergovernmental organisms mentioned on 1.</p> <p><b>3. IN THE SOCIOECONOMIC SPHERE:</b> Compatibility of cooperation agreements on social policies with the acceptance and compliance of the full liberalization on market relations in the north-south axis. Convergence towards a minimal social platform on cultural and socioeconomic rights, but without binding juridical commitments.</p>
<p><b>MULTIDIMENSIONAL:</b> Can be exemplified by Andean Community (AC), Caribbean Community (CARICOM), Mercado Comun del Sur (MERCOSUR), and Central American Common Market (CACM).</p> <p>Agreements type B are the way to achieve, for Latin American Nations the construction of multidimensional and deep regional integration agreements. They are also a negotiating tool vis a vis external blocs at the global, hemispheric, or regional levels. Until this point their ways and means of action have been fully compatible with the principles and disciplines of global multilateralism.</p>	<p><b>1. IN THE ECONOMIC SPHERE:</b> Coordination, harmonization, and, even, unification of regimes and policies with binding juridical impact. For example external common tariffs and unified trade policies. Search for the gradual harmonization of macroeconomic policies.</p> <p><b>2. IN THE POLITICAL SPHERE:</b> Prerequisite of democracy for the membership. Willingness to share sovereignties in order to implement the coordination, harmonization and unification of regimes and policies. Search of incipient modalities of formal participation for the civil society.</p> <p><b>3. IN THE SOCIO-ECONOMIC SPHERE:</b> Defense of individual and social rights and liberties of migrants required for effective participation of integrated labor markets. Exploration of the gradual building of a shared citizenship in some restricted areas needed to build integrated labor markets. Search for incipient modalities of representation for corporative interests (entrepreneurs, laborers, liberal professions, consumers, etc).</p>	<p><b>1. IN THE ECONOMIC SPHERE:</b> Willingness to advance towards forms of deep multidimensional integration agreements: customs unions, common markets, and monetary and economic unions.</p> <p><b>2. IN THE POLITICAL SPHERE:</b> Within the members, the willingness to overcome the borders frictions and conflicts promoting a full physical integration across borders. Regarding the rest of the world, concerted common political positions in order to negotiate in the regional, hemispherical and global for a.</p> <p><b>3. IN THE SOCIO ECONOMIC SPHERE:</b> To advance towards the constitution of common markets with free migration possibilities inside the integrated area. Increasing integration of labor markets. Addressing the consequences of that integration on the field of individual, [political, and social rights. Creation of new opportunities of coordination, harmonization and unification, of social policies</p>

**CHART 2**  
**MULTIDIMENSIONAL AGREEMENTS SOCIAL AND POLITICAL CONTENTS**  
**(SOME EXAMPLES)**

<b>RULES, AGENCIES, MECHANISMS</b>	<b>EUROPEAN UNION</b>	<b>ANDEAN COMMUNITY</b>	<b>CARICOM</b>	<b>CENTRAL AMERICAN COMMON MARKET</b>	<b>MERCOSUR</b>
1. Consultive agencies and mechanisms on social issues, specially educational and cultural ones.	Socrates and Leonardo Programs.  European Center for the development of Educational Training. Titles and Certificates that are valid at a Communitarian Level.	Simon Rodriguez agreement on Socio-labor policies. Andres Bello Agreement on Culture and Education. Hipolito Unanue Agreement on Health. Simon Bolivar Andean University.	Councils at Ministerial Level on Health, Education, Labor, etc.  Guyana University.  Western Antillas University	Council for Social Integrations.  Ministerial Council for Social Affairs.  Social Integration Secretariat.	Ministerial Meetings on Health, Education, Labor, Social Welfare, etc.  Triennial Plan for Educational Sector.  Working Sub-Group on Labor Relations.
2. Consultive, representative agencies on economic and social issues.	Economic and Social Committee.	Entrepreneurial, Consulting, council. (ECC)  Labor consulting council (LCC)		Consulting Committee of SICA, with representation of entrepreneurs, peasants, laborers, and academics.	Economic and Social Consultive Forum.
3. Consulting agencies on legislative matters.		Andean Parliament.	Assembly of Caribbean Community Parliamentarians.	Central American Parliament. (PARLACEN)	Parliamentary Joint Commission.
4. Individual, social and political rights, with different levels of enforcing effects.	Social Chart and Social Protocol. Freedom of migration. Multiple binding rules, recognizing the social rights of migrants coming from member countries.	Andean Instrument of Social Security (Decision 113). Norms about migrant laborers (Decision 116).	Charter of Civil Society.  Agreement on Social Security.	Central American Social Integration Treaty (SICA, Spanish acronym).  Treaty on Democratic Security.	Educational Integration Protocol. Mutual acceptance of education titles and certificates. Multilateral Agreement on Social Security. Protocol on Democratic Commitment (Democratic Clause)
5. Agencies, mechanisms and resources of a supranational (communitarian level).	Commission, European Parliament, Court of Justice, European Social Fund.	Court of Justice.	Ad Hoc Courts for the solutions of controversies.	Court of Justice.	Brasilia's Protocol for the Solution of Controversies.

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