The Divide between New and Old Regionalisms: An Analytical Framework

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Ⅰ. Introduction

The proliferation of trade and integration agreements over the last 20 years has become one of the distinct features of Latin American regional policy. Most countries adhere to at least one of the 41 agreements in force in 2009, some of them evolving from an inward-looking model to a form of integration based on globalization. To date, this set of policies, termed new regionalism and open regionalism, embraces complex situations as well as conceptual shortcomings. It is perceived as a confused strategy (Kuwayama 1999, 7), a reflection of domestic

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processes (Phillips 2003, 217), or just “a slogan” (Schiff and Winters 2004, 262). Parallel with this, its contrast with the ‘old’ regionalism, in force between the 1960s and 1970s, stimulates an intense debate over the deepness of their disparities. Some analysts see the opposition as exaggerated and recommend defining the conceptual implications of the “non-difference” (Warleigh-Lack 2006, 750). For other authors, to the contrary, new regionalism represents a different paradigm of integration (Söderbaum 2003, 1-20).

This paper studies the divide between new and old regionalisms taking into consideration six levels of analysis: a) the conceptual background; b) the criteria of association; c) the rapport between regionalism and the economic model in force; d) the World Trade Organization’s (WTO) reforms regarding trade agreements; e) the emergence of free trade areas as a dominant form of integration, and f) institutional relapsing. The paper’s objective is not to demonstrate causations or to establish absolute relationships; it is to compare the old and new regionalism, and to build up more-comprehensive elements for an analytical framework.

Ⅱ. A variety of definitions

Reynolds et al. and the influential United Nations Economic Commission for Latin America and the Caribbean (ECLAC) first suggested the concept of open regionalism in Latin America. In the first case, it represents a “group of dynamic markets fully integrated into the international economy by means of the progressive elimination of trade barriers in conjunction with vigorous measures oriented towards increasing of social access to the market” (Reynolds et al. 1993, 7). The second study builds up the concept in opposition to the so-called “closed regionalism”, i.e. the previous import-substitution and protectionist industrial strategy. In this perspective, open regionalism represents a set of policies driven by the search to harmonize the interdependence generated by preferential agreements, and the flows of trade resulting from the general tariff liberalization (ECLAC 1994, 12, 78).

ECLAC's doctrine also specifies concrete policies, such as: a) a closer relationship between de facto integration and formal interdependence; b) economic stability, reinforced by regional financial institutions; c) liberalization of national markets and sectors; d) adoption of clear rules and standards compatible with the WTO; and e) institutional rationalization, promoting organizational flexibility (Fuentes 1996, 132 et s.). These measures seek to facilitate regional commercial transactions without generating trade or investment deviations (Kuwayama 1999, 9). Narrower definitions of open regionalism consider it like a way of achieving "compatibility between the explosion of regional trading arrangements" (Bergsten 1997, 545), and as a set of policies undertaken by the countries with the scope of improving industrial competitiveness (Bulmer-Thomas 1998a, 313-322).

Soon analysts coined another term, new regionalism. For them, this not-too-new strategy represents a system of measures that combines the liberalization of goods, services, capital and labor, with the harmonization of trade regimes among the member countries (Primo 1994, 3-5; Palacios 1995, 295-302). These policies include specific initiatives, such as the enlargement of agreements, the convergence among the regional and hemispheric initiatives, and the implementation of North-South agreements linking developing countries to industrialized nations.

A third term, deep integration, is also defined in contrast with the "superficial" integration prevailing in the 1960s and 1970s. According to Lawrence (1996, 17), the old regionalism increased international trade without affecting national autonomies, while deep integration searches to raise the interdependence driven by the forces of globalization and the lessening of national policy gaps. In order to qualify as deep integrating schemes, agreements must attain four objectives: a) smaller differences in regional standards; b) stability in governance; c) eradication of tariff and non-tariff barriers, and d) suppressing obstacles to the trade in services.

Recent studies associate new regionalism with the “virtual explosion” in the number of accords (Baier et al. 2007, 9-30), and seek to establish its originality (Devlin and Estevadeordal 2001, 21; Warleigh-Lack 2006, 750-771). Other authors refer to traditional polarities, such as the stumbling-building block, and creation-deviation effects (Baldwin 2009, 17-95, Ornelas 2008, 202). A no less important group of researchers is attracted by the Spaghetti Bowl issue (Baldwin 2006, 1-44), including the call for a network approach to economic integration (Kali and Reyes 2007, 595-620). The last group is interested above all in measuring the pro-competitive effects of regionalism (Martin and Jaramillo 2008, 1-5).[1)]

The rather small differences between these definitions do not conceal their -overall- contrast with the old strategy of integration. Let us look in more detail at the characteristics and implications of this rupture.

Ⅲ. New criteria of association

Until the late 1970s, the main criterion of association (the best country to integrate with) recommended the formation of agreements with partners of similar size. This argument, sustained at the beginning by the Neofunctionalist School (Haas and Schmmitter 1964, 705-737; Nye 1971, 27), promoted convergence policies in the Central American Common Market (CACM) and the Andean Group. Later, the new regionalism replaced this criterion by the search of integration with “natural partners”: the most important trade partners. Given the fact that such levels of interdependence are not very common in Latin America, ECLAC suggests the creation of free trade areas with the largest

1) See also Rivera and Rojas (2007, 1-28), and Trejos (2009, 13-28).

possible number of members, hoping to decrease the risks of trade deviation. In case this was not feasible in the short term, this organization proposes to wait until unilateral liberalization generates enough interdependence for creating trade agreements based on the logic of natural partnership (ECLAC 1994, 78). The biggest regional markets in the Americas –the Southern Common Market (MERCOSUR) and the North American Free Trade Agreement (NAFTA), and a number of bilateral free trade areas- illustrate this approach.

Yet, putting this into practice led to a rather predictable phenomenon: the hierarchical integration. Latin American interdependence with the United States, stimulated by several framework-of-agreements, and reinforced by NAFTA, the negotiations of the Free Trade Agreement of the Americas (FTAA), and the creation of bilateral agreements, establishes a concentric form of integration. Likewise, hierarchical structuring around the Argentinean and Brazilian economies (97 per cent of MERCOSUR 2009's regional income) guides the progress from the Argentina-Brazil Treaty of Integration of 1988 to the MERCOSUR and the network of bilateral agreements concluded with the Andean Community of Nations (ACN). Although this phenomenon was prepared for by the 1990s structural adjustment, the Uruguay Round and the FTAA Action Plan have contributed to the propagation of the same legislations and standards in fields such as, intellectual property, trade remedy laws, government procurement, agriculture, competition policy, and foreign investment.

Within this context, small customs unions, such as the CACM and the ACN, combine their adaptation to the new economic policies with the relapse of supranational institutions. The absence of strong core countries also favors the multiple perforations of their common external tariff by the entangled search for associations with the biggest economies. The substitution of relative parity by economic leaders stimulates the proliferation of free trade areas between pairs of countries.

To be sure, these factors also contribute to the underestimation of the risks in freeing trade among unequal partners.

Ⅳ. An extension of economic restructuring

In many ways, new regionalism represents an extension of the so-called Washington Consensus, the set of structural reforms intended "to propel the integration process in the Western Hemisphere" (Schott 2001, 5). The restructuring begun in Latin America in the aftermath of the 1980s debt crises includes fiscal discipline, national treatment accorded to Foreign Direct Investment (FDI), public sector privatization, trade and domestic capital liberalization, and competitive rates of change. These policies have created a series of interconnections often difficult to analyze separately. Two of them deserve special attention for their contradiction with any form of regionalism.

Overall, fiscal discipline consists of controlling public expenses in order to restrain foreign debt pressures as well as the risks of inflation. However, due to scarce fiscal collection, most governments use the revenues coming from privatization and foreign investment flows. The relationship between investment and macroeconomic stability under the conditions of widespread indebtedness does not leave any other choice than that of mobilizing external resources to supplement –often to substitute- the lack of domestic savings (Moran 2008, 12). In this context, tariff liberalization tends to exacerbate fiscal shortcomings, counteracting the prosecution of regional policies.

FDI is important in explaining the connection between the outward-looking model and the initiatives to free trade. In most countries, FDI has a similar path. In a first phase, it is associated with the acquisition of public companies and, in a second, to the establishment of manufacturing industries, in particular through passive transformation.

The preponderance of *maquiladoras* in the external sector, including the growing participation of intra-firm trade and intra-firm credit in national output, is stimulated by the perception that exports represent the most important source of economic growth (Krüeger 1978; 1998). In this context, foreign capital acts as a dynamic variable for the creation of free trade agreements, in particular among North-South trade partners. Thus, trade agreements represent a stepping-stone for global (not regional) interdependence, as well as a lever for implementing the outward-looking model.

Ⅴ. WTO compliance

One of the traditional topics within the literature on integration is the relationship between regionalism and multilateralism; in particular, the conditions that determine whether regional agreements represent a step or an obstacle for the WTO objectives. New regionalism analysts discuss this relationship from different points of view. One stresses that the essential feature of regionalism is the discrimination of third countries, a non-optimal option compared to multilateralism (Bhagwati 1998, 13-19). Thus, if an agreement does not want to lower its trade with outside countries, it has "to engage in a dramatic reduction of trade barriers against non-member countries" (Frankel and Wei 1998, 1-17). This position assumes the identity between regional integration and trade deviation, a relation that contradicts the evidence that free trade areas and customs unions can also create trade and investment (Carlo and Perroni 1996, 57-61).

Other studies support the idea that regionalism constitutes a positive answer to globalization. For them free trade areas are WTO-compatible (Freud 1998), and facilitate multilateral negotiations on matters that require high levels of commitment (Krugman 1993, 23-42). Another argument sees regionalism as a way of increasing the quality of multilateral commitments (López and Soler 1998, 253-272). A further approach, relying on the old Latin American model, observes that freeing multilateral trade might have negative effects on less developed countries, while regional trade deviation could favor learning processes and the adaptation to the international levels of competitiveness (ECLAC 2009; Ffrench-Davis 1998).

This debate and its contradictions are not entirely ideological; they depend on the integration type we are talking about or, with similar implications, on the analytic framework chosen by the author. If we consider a regional agreement exclusively from a trade-deviation perspective, the possible effects can be measured with relative ease through the comparison of an external tariff average before and after its formation. Nevertheless, not all regional agreements bind their action to trade commitments; others progressively enlarge their competences, including supranational tribunals, executive organs, common credit (the Central American Bank and the Andean Development Corporation), and regional parliaments, among others. Synergetic effects are important, surpassing the issue of trade deviation (Michalak and Gibb 1997, 264). The capacity to respond to globalization operates at non-quantifiable levels, and its incidence grows as a free trade area turns into a community of nations (Reza 2005, 613-628).

However, the main objective of the new regionalists on this question seems to be the search for compatibility with the WTO. The organization completes this approach with a series of reforms supporting Article XXIV of the General Agreement.[2] In theory, the working group charged with establishing the compatibility of regional agreements under Article XXIV has the capacity to determine whether the

2) Article XXIV includes three important norms: a) in custom unions, tariffs and other restrictions imposed on third countries should not be greater or more restrictive than the general incidence of those applied before the definition of the common external tariff; b) in free trade areas, tariffs and restrictions are eliminated from the trade of goods originating in the region; and c) in both schemes, liberalization programs should be carried out within a *reasonable* period of time (Hudec and Southwick 1999).

agreement can start functioning or needs to carry out modifications. In fact, the GATT never released any verdict of inconsistency, which explains why the Uruguay Round established a more strict regulation, titled "Understanding on the Interpretation of Article XXIV". The main objectives of this agreement are precision in norms and granting new competences to the special groups in charge of determining WTO consistency. The most significant new jurisdiction is that the groups cannot only examine the compatibility of the agreement, but can also inspect policies derived from its implementation.

Another support to Article XXIV's principles is the Committee on Regional Trade Agreements (CRTA). This focuses on the preparation, and the systemic implications of the agreement. Between the Ministerial Meeting at Doha in 2001 and the Geneva Conference in 2009, the WTO repeatedly demanded the Committee to examine the contradictions or violations to the dispositions of the world system.

Ⅵ. The pre-eminence of free trade areas

During the first years of the integration theory, customs unions benefited from theoretical concentration, offsetting any concern about free trade areas (Tovias 1995). The "economic effects of the formation of a free trade area" were considered "similar to the creation of a customs union" (Shibata 1967, 78). Later on, influential analysts stated that customs union formation is Pareto improving for the World economy (Kemp and Wan 1976, 95-97). These positions did not neglect the regional specificities. Specialized economies, generally oriented towards the international market, were expected not to require common external protection (an essential feature of a customs union) since they could be affected by increased import prices. A highly diversified country, in turn, needed to protect a certain number of products, making more profitable the adoption of a customs union. A considerable level of competition among the country members in a free trade area, in another case, may generate instability in regional commitments due to price changes, the formation of a customs union being preferable. For the same reason, a complementary group of economies benefited from the setting-up of the free trade area.

The last twenty years, free trade areas have proliferated and, together with their theoretical individualization, have become the principal mode of economic integration in the Americas. One of the main reasons is the perception that they are more liberal and compatible with the multilateral system (Kozolchyk 1996, 24). Another argument alleges that, contrary to the customs unions, free trade areas do not stimulate the equalization of prices for imported goods, but rather promote a dynamic of competitiveness that pushes down the external tariffs of the more protected country. A complement of this idea is that the country with the highest barriers tends to reduce its tariffs toward third countries once the political influence of import industries decays because of the formation of the area (Richardson 1998). Another argument observes that free trade areas do not increase the reprisal capacities of their members (Kennan and Riezman 1990, 70-83). The enlargement of customs unions, on the contrary, stimulates more protectionism and hinders multilateral trade concessions (Krugman 1991; Limão 2007). In new regionalism, the underlying idea is that free trade areas tend to reduce trade deviation caused by the agreement; in the old strategy, a customs union has the capacity "to coordinate […] trade policies of the associate countries" (Wioncsek 1964, XXV).

To date, there is not enough evidence to validate these hypotheses, since the formation of trade blocks creates new balances in the international economy. Another problem of the validation is that the differences between free trade areas and customs unions are today less definitive than in the past because of the pressure to increase compatibility with the WTO. This explains the existence of agreements that fluctuate between both forms of integration. Although the CACM, the ACN and the MERCOSUR present themselves as customs unions, the setbacks in defining the common external tariff (CET), drive them into a mixed position.

The MERCOSUR illustrates this phenomenon every time it tries to perfection its CET. Alone in January 1995, Brazil, included 150 new exceptions to the list of more than 300 already accepted. In late 2007, the MERCOSUR's Common Market Council (CMC) established new deadlines and limits for the exception lists. Following the new schedules, Argentinean and Brazilian lists may contain at most 100 items in 2010, in the cases of Paraguay and Uruguay at most, 100 in 2015 (INTAL 2009, 79). A significant aspect of this issue is the growing use of rules of origin, the main instrument of free trade areas.

Ⅶ. Coping with flexible institutions

Finally, the dense institutionalism that characterized the Latin American agreements in the framework of spillover logic was replaced in the 1990s by flexible decision-making mechanisms based on intergovernmental summits. Within this process, the new differences between free trade areas and the so-called 'superior' stages of integration (customs union, common market, economic union) were detached from the principle of upward supranational integration. From then onwards, intergovernmental rule appears to be challenging supranational governance in the Americas. This trend springs from a series of seemingly unrelated facts: a) the relative abandonment of mechanisms for controlling the disparities; b) the relapse of the supranational institutions, with the significant exception of the credit organs; c) a proliferation of bilateral agreements with broad thematic coverage; and d) the narrow relationship between the new regionalism and the consolidation of the outward-looking economic model (an aspect that impedes the definition of regional objectives in the long term).

In this way, some analysts expect the competing influences of the European and North American models to be successive by some analysts (Bhagwati 1993), which is less significant than the synchronous contention. Nevertheless, the strengthening of new regionalism in Latin America is not uniform, since the intergovernmental dimension of the MERCOSUR, and the partial dismantling of supranational institutions in the CACM and ACN have not eliminated their attachment to the European model.

<Table 1> presents the features of 21 free trade and integration agreements considered in this paper. It excludes the Latin American Integration Association (LAIA) ―a preferential scheme that serves as a regional WTO- but it lists the agreements achieved within the 1980' Montevideo Treaty. The features of the old regionalism survive only in the CACM and the ACN; the rest of the agreements, including the MERCOSUR, illustrate the growing prominence of the new strategy. More important, the features of the latter constitute a *volte-face* in the history of Latin American integration, a rupture with significant consequences.

One of the corollaries is that a sense of a regional integration is lacking. With few exceptions, agreements reflecting the new regionalism strategy do not include the scope of a community of nations, but a horizontal regionalism of continuous enlargement and convergence with the WTO. Hence, the quasi-federal ambitions of the older projects are replaced by an "inclusive" approach, which sacrifices -in theory and practice- a deepening of commitments in favor of broader geographical coverage. Another implication is the disappearance of economic disparities as a central topic for theoretical reflection. Recently, analysts have returned to this subject, although they focus on market size and avoid the more complex and uncertain issues of economic underdevelopment.

<Table 1> Agreements involving Latin American Countries

Year	Name	Member Countries	Form of Integration1	Criteria of Association	WTO Compliance2	Governance
1960	CACM	Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua	CU	P → NP	Medium	Supranational (partial)
1969	ACN	Bolivia, Colombia, Ecuador, Peru, Venezuela (until 2007)	CU	P → NP	Medium	Supranational (partial)
1991	MERCOSUR	Argentina, Brazil, Paraguay, Uruguay	CU	NP	Medium	Intergovernmental
1994	NAFTA	United States, Canada, Mexico	FTA	NP	Strong	Intergovernmental
1994	FTA M-CR	Mexico, Costa Rica	FTA	-	-	-
1994	ECA 31	Mexico, Bolivia	FTA	-	-	-
1994	ECA 33	Mexico, Colombia, Venezuela (until 2004)	FTA	-	-	Intergovernmental
1995	ECA M-N	Mexico, Nicaragua	FTA	-	-	-
1995	ECA 41	Mexico, Chile	FTA	-	-	-
1995	ECA 38	Chile, Peru	FTA	NP	-	-
1996	C-CFTA	Canada, Chile	FTA	-	Strong	-
1996	ECA 35	MERCOSUR, Chile	FTA	NP	Medium	Intergovernmental (partial)
1996	ECA 36	MERCOSUR, Bolivia	FTA	NP	Medium	Intergovernmental (partial)
1997	ECA 23	Chile, Venezuela	FTA	-	-	-
1997	ECA 32	Chile, Ecuador	FTA	-	-	-
1998	ECA 24	Chile, Colombia	FTA	-	-	-
1999	FTA CA-C	CACM, Chile	FTA	-	-	Intergovernmental (partial)
2000	FTA M-TN	Mexico, El Salvador, Guatemala, Honduras	FTA	NP	-	Inter-governmental
2001	C-CRFTA	Canada, Costa Rica	FTA	-	Strong	-
2004	US-CFTA	United States, Chile	FTA	NP	Strong	-
2007	CAFTA-DR	Unites States, Central America, Dominican Republic	FTA	NP	Strong	Intergovernmental

1 As stipulated in the founding treaty.

2 Medium compliance means a degree of subordination to the internal objectives of the agreement.

(P) Parity, (NP) Natural partner, (→) Trend, (-) Not a relevant issue, (FTA) Free trade agreement, (CU) Customs union, (ECA) Economic Complementation Agreement within the LAIA.

Ⅷ. Conclusions

The direct correspondence between the new regionalism and the outward looking domestic model suggests that the implementation of the former depends on the necessities and objectives of the latter. This aspect outlines the lack of autonomy that regional policies show when it comes to elaborating their own objectives for a better administration of common markets. In any event, this problem helps to respond to the question that presides over this paper: new regionalism is different from old integration in as much as the outward looking model constitutes a change vis-à-vis the import-substitution strategy. In both cases, they involve a drastic change from their immediate antecedents, a fact that has interrupted the accumulation of knowledge and, with it, the rationality of the process. In consequence, most of the studies on new regionalism exclude historical factors or the wealth of experiences accumulated during the 1960s and 1970s. Twenty years after the emergence of new regionalism, the rupture with the past still highlights the necessity of a comprehensive theory able to settle long-term policies, and to define their analytical challenges.

Abstract

This paper seeks to establish a comparative framework for defining the new regionalism vis-à-vis the old strategy of integration in Latin America. With that end, it applies six levels of analysis: the conceptual background; the criteria of association; the economic model in force; WTO compliance; the preeminence of free trade areas; and institutional relapsing. The objective is to build up more-comprehensive elements for an analytical agenda.

Key Words: Latin American Integration, New Regionalism, NAFTA, Mercosur, Open Regionalism / 라틴아메리카통합, 신지역주의, 북미자유무역협정, 남미공동시장, 개방적 지역주의

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