Economic Integration in the Western Hemisphere:

Trends and Conditions Fostering Interstate Cooperation

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Introduction

While economic integration has had a major impact upon politics and interstate relations in Latin America, the conditions that have led to the current wave of economic integration are largely contested**.** Starting in the late 1980's and early 1990's, a new wave of economic integration swept through the region and redefined the regional political and economic landscape. This paper seeks to garner a greater understanding of the causes and conditions that led to this trend and will review regional trade data, regional trade agreements, state actions, and statements by state leaders. It will argue that the contemporary wave of economic integration has been the result of the combination of the decline of United States hegemony and the rise of charismatic, like-minded leftist leaders throughout Latin America.

As a developing region with a complicated political and economic history, Latin America provides an intriguing case in which to examine the influences of not only the aforementioned factors but also those that others argue are relevant to the rise of economic integration. One such factor is the relatively new democratization of the region and the search for a means to consolidate it. Further, some argue democratization in the region has created "like-minded nations-" which is seen as a prerequisite for integration. Scholars have argued that poor economic conditions and low levels of foreign investment are other conditions fostering economic integration, and the use of integration as a means to stabilize regions after international crises is yet another theory that attempts to explain its development. This paper will analyze these arguments and conclude that their ability to explain the rise of economic integration in Latin America is constrained, and that rather declining US hegemony and the rise of the left have been the key facilitators of integration.

Literature Review

Literature in the field of economic integration, and specifically on that of the Western Hemisphere, includes a broad range of hypotheses as to what conditions have fostered integration. Some are economic in nature, some are political, and many contain elements of both. If the theories and explanations for integration could be funneled into several broad classifications, then six can be identified. The first set of theories argues that economic integration occurs as a result of the process of democratization, largely because it is seen by states as a way to consolidate democratic institutions and development. The second set of theories suggests that economic integration occurs as a result of political elite and state governments striving to achieve domestic goals. The third classification consists of arguments that economic integration is seen as a vehicle for increasing trade and thus facilitating the growth and development that Latin America is desperately seeking after the failure of neoliberal models of development to create equitable growth. The fourth set explains the contemporary wave of economic integration as resulting from the decline of United States hegemony in the international system and the failure of US-led multilateral efforts, such as the WTO, to increase international trade. The use of economic integration as a strategic means to advance states' interests is the fifth category of theories addressing the increase in economic integration. Lastly the sixth explanation, known as the "Big Bang Theory," claims that decisions by states to pursue economic integration are reactions to shifts in the IR system and relies on the example of the formation of the European Union after World War II, among others. This review of the literature will lay out these arguments in detail so that the basis for their conclusions may be examined.

Democratization as Facilitator of Economic Integration

The shock wave of democratization in Latin America during the 1980's had profound effects on the region and interactions between states. The aftermath of the debt crisis and the reforms that were applied in the region facilitated this wave of democratization and decreased intraregional military tensions and domestic armed conflicts.[1] In the place of military dictatorships, popularly elected presidents pursued reforms and programs to rebuild and stabilize Latin American economies and governments. Some of these involved reaching out to other states in the region to increase regional cooperation.[2]

Remmer argues that this desire to increase regional interstate cooperation came out of the need to solidify democracy in Latin America and cement the political reforms applied after the debt crisis.[3] In most countries the military was still present and an economic crisis could have undermined the public's faith in democracy and the elected leader. Leaders looked to consolidate democracy through economic integration by pursuing alternative means to jumpstart development, as well as to establish closer ties with other democracies in the region. This move was often made with the hope of marginalizing the role of the military in the state by making economics and peaceful diplomacy the new currency of power.[4]

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[1] Gian L. Gardini. *The Origins of Mercosur,* 1st ed. (New York, NY: Palgrave MacMillan, 2010), 53.
[2] Francesco Duina. *The Social Construction of Free Trade: The European Union, NAFTA, and Mercosur,* 1st ed. (Princeton, NJ: Princeton University Press, 2006), 32.
[3] Karen Remmer. "Does Democracy Promote Interstate Cooperation? Lessons from the Mercosur Region," *International Studies Quarterly,* 42 (Mar. 1998), 47.
[4] Gardini, 44

In addition, by forming closer ties with other democracies and strengthening existing or creating new frameworks for regional cooperation, Van Klaveren argues states hoped to create relationships in which outside partners would intervene if necessary to save the democratically elected regime from overthrow.[5] In Paraguay in 1996, Army Chief General Lino Oviedo attempted to overthrow President Wasmosy in a coup, but was unsuccessful partly because other states in the region intervened through international frameworks such as the Organization of American States and Mercosur to prevent General Oviedo from succeeding. This example supports Van Klaveren's claim by showing that states have enabled themselves to ensure democracy remains strong through the mechanisms of integration. Further proving the relationship between integration and democratization, Thery argues that some organizations, such as Mercosur and the Organization of American States (OAS), have made democracy a requirement for membership and addressing threats to it as part of their framework.[6]

Scholars such as Remmer and Mols argue that based on previous examples of successful integration in the world, integration has been easiest to implement among democratic regimes and much more difficult to implement in authoritarian regimes.[7] They point to the success of current integration projects such as Mercosur and NAFTA, in comparison to past attempts such as the Latin American Free Trade Organization (LAFTA) in the 1960's. Their argument is based on the premise that the transfer of sovereignty is easier for democratic regimes due to their

[5] Alberto Van Klaveren. "Why Integration Now? Options for Latin America," in *The Challenge of Integration: Europe and the Americas,* ed. Peter Smith (New Brunswick, NJ: Transaction Publishers, 2003), 119.
[6] Jane L. Thery "New Trends in the Americas," in *Building The Americas,* ed. Michele Rioux (Belgium: Bruylant, 2007), 300.
[7] Manfred Mols. "Regional Integration and the International System," in *Cooperation or Rivalry: Regional Integration in the Americas and the Pacific Rim,* eds. Shoji Nishijima & Peter Smith (Boulder, CO: Westview Press, 1996), 21.

increased openness and transparency, especially in regards to their decision making processes.[8] This openness leads to increased trust between states, reduced uncertainty, and thereby decreases the perceived potential risk by partner nations initiating or taking part in the integration process.[9]

Remmer has taken the argument that democracy facilitates integration further by arguing that cooperation between democracies occurs due to their shared norms and values which facilitate a greater understanding between "like-minded" nations.[10] Like-minded democracies have increased opportunities for integration because, based on the similar fundamental basis for their government, they will likely have a more similar world view, interests, and open channels of information-sharing. Also, they will see each other's intentions as credible and rooted in the interests of advancing the interests of their nation rather than the agenda of an individual or group in power working to maintain their rule.[11] In addition democracies in general, and especially in Latin America, face similar problems, such as fostering comprehensive economic growth, promoting the rule of law, and maintaining stability. Remmer argues that this common sense of identity and purpose helps to create sympathy between states and facilitate integration with the intent of pooling their resources and addressing their problems from a communal standpoint.

Another connection between democratization and the pursuit of economic integration is that new democracies often look for ways to receive international recognition of their status and legitimacy. By pursuing specific economic integration projects that are predicated on a

[8] Remmer, 30.
[9] Ibid, 31.
[10] Ibid, 45.
[11] Ibid, 47.

commitment to democracy, states look to raise their global profile and assert their status as legitimate actors able to take part in negotiations regarding transnational issues.[12]

One criticism voiced in the literature regarding theories arguing for a linkage between democratization and economic integration is that, for the most part, integration has been a top-down effort by state leaders with little input from legislatures and business sectors.[13] While there is no indication publics have been opposed to economic integration, scholars argue there is little evidence to say they have played an active role in the drive towards integration or deciding its direction or details.[14] Proponents of the linkage between democracy and economic integration answer this criticism by the reflecting upon the premise that democratic leaders act in consideration of the effects their actions may have upon their reelection, and thus act in accordance with the will of the majority of their constituents.[15]

A second critique looks to redefine the relationship between democratization and integration rather than disavowing it. Some scholars have considered the motivations of various states that have engaged in integration and have ruled that democratization processes indeed have played a part. However, they in turn argue that while democratization may influence the desire to initially integrate, economic motivations take precedence in maintaining integration and are responsible for the actions of member states once the partnership has been made.[16] This argument is based in the belief that intraregional trade will increase as a result of integration and

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[12]Supachai Panitchpakdi. "Introduction," in *Economic Integration in the Americas*, eds. Joseph A. McKinney and H. Stephen Gardner (New York, NY: Routledge, 2008), 7.
[13] Gardini, 159.
[14] Jeffrey Cason and Jennifer Burrell. "Turning the Tables: State and Society in South America's Economic Integration," *Polity*, 34 (Summer 2002), 458.
[15] Malcolm Fairbrother. "Trade Policymaking in the Real World: Elites' Conflicting Worldviews and North American Integration," *Review of International Political Economy*, 17 (2010), 322.
[16] Pedro Da Motta Vega, "Brazil in Mercosur: Reciprocal Influence," in *Mercosur: Regional Integration, World Markets*, ed. Riorden Roett (Boulder, CO: Lynne Rienner Publishers, 1999), 30.

the lowering of trade barriers and thus will represent a larger percentage of a state's total trade. Scholars cite data regarding trade levels in Mercosur to provide an example of this increase: Brazilian trade to Mercosur countries rose from 4.2% of overall trade in 1990 to 20.6% in 1996.[17] In light of this data and the claim that Brazilian motivations for pursuing integration were primarily political at first, scholars suggest that as the levels of Brazilian intraregional trade rose, so did the importance economic considerations had in its decisions regarding regional integration.[18]

The arguments presented in this section show the existence and plausibility of arguments that stress a connection between democracy and democratization and regional or subregional integration. If anything however, these arguments show that while democratization influences integration, it is by no means a stand-alone cause and that it is deeply intertwined with other economic and political motivations.

Elite Interests as Facilitators of Integration

The second major line of thought within the literature on explanations for integration is that integration has been a tool of elites in pursuance of domestic goals. These goals vary, though they tend to fit under the umbrella of increasing a government's domestic power and control. Integration has been viewed as an indirect means of increasing the government's power because it gives the government greater influence over the direction of trade policy and a more active role in pursuing the economic security of the state at the international level. The political elite can then use this influence to pursue domestic goals, such as increasing presidential or state power by increasing the sectors controlled or influenced by government actions.

[17] Da Motta Vega, 30.
[18] Ibid, 30

One factor that has led scholars to call integration an elite-driven movement is that in most cases integration has been initiated by state leaders and been implemented top-down.[19] Cason points out that the crucial decisions regarding integration, such as how deep integration will be and what side issues are included in agreements, have depended highly on the beliefs and positions of the state leaders hammering out the agreements. For example, in NAFTA President Clinton included side issues regarding labor and the environment, largely because he wished to appeal to certain parts of his constituency.

President Clinton's position on NAFTA also shows that leaders' primary concerns are generally election or reelection to office and that integration can be a tool used by politicians in their pursuit of these objectives. Building off this belief, Duima argues that ambitious leaders have viewed economic integration as a way to achieve rapid, short-term economic success that will boost their popularity.[20]

Baker and Miller cite NAFTA as a prime example of how the choice to pursue integration can be based on the positions and background of the leaders involved. In Mexico, the traditional stance towards the United States has been characterized by a need to distance itself from its powerful neighbor due to past interference and invasions by the United States.[21] Considering this view, it might be judged ironic that it was the Mexican government which approached the United States with the idea for NAFTA. Baker and Miller explain this by citing the fact that Mexican Presidents de la Madrid and Salinas (it was the de la Madrid administration

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[19] Jeffrey Cason. "On the Road to Southern Cone Economic Integration," *Journal of Interamerican Studies and World Affairs,* 42 (Spring 2000), 24.
[20] Duina, 32.
[21] Robert Baker & Joseph Miller. "Canada, the United States, and Mexico: An Advocacy Case for a North American Community," in *Toward a North American Common Market: Problems and Prospects for a New Economic Community,* ed. Charles F. Bonser (Boulder, CO: Westview Press, Inc, 1991), 32.

that initiated the structural adjustment reforms and President Salinas who approached the US about NAFTA) both were educated in the United States and were less bound to traditional Mexican sentiments and had fostered greater pro-US sentiments in the Mexican federal government.[22] Both of these men also were aware of the United States' interest in obtaining better access to oil, and saw the opportunity to strike a deal.

Also in this category of explanations for economic integration, Smith has argued that integration can also be used by leaders to ease domestic tensions, such as social unrest resulting from poor economic conditions.[23] Since the debt crisis, Latin American states have struggled to implement all of the structural adjustment reforms advocated by neoliberal models of development because they have often resulted in a cutback of social programs and in an advancement of the business elite while the average citizen continues to suffer in the short term. Leadership in these states, Smith argues, has seen economic integration as a means to boost the economy without directly addressing the massive inequality found within their countries.[24]

Political elite in governments with a weak federal government, such as Canada or Mexico, also may use economic integration as a way to increase the government's domestic power by ensuring economic policy falls under federal auspices rather than that of state or provincial governments.[25] For example, Hufbauer and Schott point out that it is likely not a coincidence that Canada engaged in bilateral trade talks with the United States and later in

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[22] Baker and Miller, 33

[23] Peter Smith. "The United States, Regional Integration, and the Reshaping of the International Order," in *Cooperation or Rivalry: Regional Integration in the Americas and the Pacific Rim,*eds. Shoji Nishijima & Peter Smith (Boulder, CO: Westview Press, 1996), 38.

[24] Ibid, 197

[25] Gary C. Hufbauer & Jeffrey Schott. "The Realities of a North American Economic Alliance," in *Toward a North American Common Market: Problems and Prospects for a New Economic Community,* ed. Charles F. Bonser (Boulder, CO: Westview Press, Inc, 1991), 90.

NAFTA directly after the failure of the Meech Lake Accords and the perceived gradual increase of provincial power.[26]

Scholars also point out that economic integration can be used as a means for elites to spread their ideology.[27] Integration and the construction of international frameworks based on specific ideals can institutionalize such beliefs and link leaders in different states with the same ideology. An example of this is the Bolivarian Alliance for the Peoples of Our America (ALBA), which is an effort to pursue integration among leftist governments in Latin America with the goal of institutionalizing its leftist ideology and opposition to US dominance and neoliberalism.

The arguments presented in this section have attempted to layout and explain the arguments concerning integration as an elite-driven process in the Western Hemisphere. Actions and statements by various leaders in the Americas have given credence to these arguments, and they also tend to highlight the importance of the worldview and interests of leaders in deciding to pursue integration.

Goals of Increasing Trade and Development as Facilitators of Integration

Increasing trade and incurring growth and development has been an incredible hardship for Latin America and states have pursued method after method to achieve better results. Growth in Latin America has largely been limited to certain sectors of certain states, and has resulted in Latin America being the most unequal region in the world. Scholars argue that economic integration has been one option among many that desperate states have turned to in an

[26] Hufbauer and Schott, 91.
[27] Richard A. Dello Buono. and Jose Bell Lara. *Imperialism, Neoliberalism and Social Struggles in Latin America*, 1st ed. (Brill: The Netherlands, 2007), 319.

effort to increase exports and trade to incur greater growth rates and comprehensive development.

The model of development used in Latin America after the debt crisis is based on an open economy, liberalization of trade, and export-based growth. One condition needed for this model to be successful is high levels of exports and trade to generate capital that can be used to develop industry, infrastructure, and other sectors. After the debt crisis, intraregional trade in Latin America was low, and the US and other major economic powers were reluctant to invest in the region.[28] Scholars have suggested these states turned to economic integration to make conditions more favorable for foreign investment and trade in an effort to grab the attention of North American and European investors.[29]

Latin American leaders believed that integration would increase trade and entice foreign investment, particularly from the United States, based on the assumption that foreign investors from developed countries seek raw goods at low prices, markets to sell their products to, and cheap labor. Latin American states could provide each of these at better conditions and lower costs than could be found elsewhere.[30] In fact, scholars such as Pastori cite the fact that Brazil, Argentina, and Mexico all experienced almost ten times the amount of foreign investment after pursuing integration through Mercosur and NAFTA, respectively.[31] This investment would bring in capital that would encourage development of manufacturing and other sectors, thus resulting in eventual overall development through dissemination of capital through employment

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[28] Van Klaveren, 118.
[29] Gardini, 44.
[30] Van R. Whitting, "The Dynamics of Regionalization: Roadmap to an Open Future?" in *The Challenge of Integration: Europe and the Americas,* ed. Peter Smith (New Brunswick, NJ: Transaction Publishers, 2003), 27.
[31] Alejandro Pastori. "Strategies Toward Integration: Argentina and Uruguay," in *Cooperation or Rivalry: Regional Integration in the Americas and the Pacific Rim,*eds. Shoji Nishijima & Peter Smith (Boulder, CO: Westview Press, 1996), 126.

of locals and taxes reaped by the government. The results, however, have been dismal for most states, as evident by the massive income gap in the region.

Milner argues that using economic integration to increase the hopes of incurring growth in Latin America has been pursued because development and alleviation of the economic woes faced by Latin Americans would help cement the economic reforms put in place after the debt crisis.[32] These reforms were carried out in the name of long-term prosperity, but they carried heavy short-term costs, including an elimination of social programs and currency devaluation. On top of this burden, faith in Latin American governments to manage the economy was low after the debt crisis and the people of these states needed to see positive results from these new policies if they were to reelect the leaders who implemented them or elect those who advocated for their continuance.[33]

While the reasons for developing markets to pursue economic integration may seem clear from an economic standpoint, Smith argues developed nations also have purely economic motivations for pursuing economic integration. As mentioned before, developed countries seek increased access to developing markets with raw goods at low prices, markets to sell their products to, and cheap labor. Smith claims that by pursuing integration, states such as the United States and Canada aimed to boost their economies by increasing trade and access to cheap raw materials and labor that do not exist within their own states.[34]

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[32] Helen Milner. "Regional Economic Cooperation, Global Markets and Domestic Politics: A Comparison of NAFTA and The Maastricht Treaty," in *Regionalism and Global Economic Integration: Europe, Asia, and the Americas*, eds. William D. Coleman & Geoffrey R.D. Underhill (New York, NY: Routledge, 2008), 29.
[33] Gardini, 54.
[34] Smith, 34.

This section has presented the arguments in the literature that claim a desire to increase trade and development is one of the main impetuses for engaging in economic integration. Past examples of integration show that trade levels tend to increase after integration with other markets, though an increase in growth rates as a result of integration is still unclear.

Declining United States Hegemony as a Facilitator of Integration

One global trend scholars argue that has greatly affected economic integration around the globe is the decline of United States hegemony in the international system.[35] This decrease in power has resulted from the decrease in the US global market share and technological advantage, partly due to the rise of developing states such as India and China. Because of this decrease in power, scholars argue the approach of the United States in economic diplomacy has become less assertive and more collaborative.[36] The United States in the past has sought to use multilateralism to impose its economic system on the rest of the world to ensure its primacy.[37] The halt in progress in the current round of the World Trade Organization, however, has forced the United States to pursue other means such as bilateral agreements to indirectly shore-up its position as economic leader and rule-maker.[38] Currently the United States has arranged bilateral trade deals with Peru, Colombia, Panama and Chile.

Scholars have argued this slow-down in multilateral progress stemming from declining US power has pushed states toward regional or sub-regional integration. States have turned to integration as a means to procure more favorable trade conditions and make up for issues left

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[35] Diego Sanchez-Ancochea & Kenneth C. Shadlen. "Introduction: Globalization, Integration, and Economic Development in the Americas," in *The Political Economy of Hemispheric Integration*, eds. Diego Sanchez-Ancochea & Kenneth C. Shadlen (New York, NY: Palgrave MacMillan, 2008), 16.
[36] Bouzas and Ros, 2
[37] Tussie, 82.
[38] Sanchez-Ancochea and Shadlen, 16.

unaddressed through multilateral efforts, such as lowering remaining international trade barriers, and out of frustration with the inflexibility of the United States in the Doha Round of the WTO.[39]

Scholars, including Gardini, Roett, and Cason, have argued that United States decline and the shift from a unipolar to a more multipolar international system has led to the rise of new regional powers which are pursuing economic integration as a new way to assert their dominance over what they wish to deem their sphere of influence.[40] They point to the example of Brazil in Latin America, which has pursued integration in projects such as Mercosur and the Union of South American Nations (UNASUR) to establish its position as regional hegemon and assert its autonomy from the United States. The rise of new regional leaders and an increase of economic activity in Third World markets has contributed to the decentralization of global economic power, partially explaining the new wave of economic integration.[41]

The literature is robust in the charge that changes in the IR system stemming from a decrease in United States hegemonic power have been important facilitators of economic integration in all regions of the world. The decrease in US economic prowess has resulted in the failure of US led-multilateral efforts thus prompting states to consider regional integration instead.

Geo-Political State Interests as Facilitators of Integration

Considering the previous section and the current state of the IR system, scholars have claimed that many states have found it in their strategic interest to pursue economic integration because they believe it to be better suited to address their needs. For example, economic

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[39] Panitchpakdi, 8
[40] Gardini, 51.
[41] Tussie, 83.

integration can make states more economically competitive if they act together as a bloc. Also it can be used as a defense mechanism against threats of other states or regions raising tariffs or increasing protectionist economic policies.

Bouzas and Ros report that states have looked to regional or sub-regional agreements to procure more favorable conditions and increase their nation's levels of trade because they can be tailored to be more specific to the needs of states within a specific region. They argue this is so because of their smaller size and greater flexibility to adjust to changing conditions. Regional and sub-regional agreements are thus being used by states to compliment and make up for the failures and issues left unaddressed by multilateralism, such as the failure to decrease the protectionist agricultural policies of the United States and European Union.[42]

McCleery points out that the United States has not been shy in using regional and sub-regional agreements as alternatives to multilateralism in advancing US interests, as exemplified in its involvement in NAFTA and the Dominican Republic-Central American Free Trade Agreement (DR-CAFTA). Further, scholars argue the United States has used bliateral trade deals with states such Colombia, Panama, Peru, and Chile, to attempt to hedge competing sub-regional organizations, such as Mercosur and ALBA. In essence, scholars have argued that the United States has given up on relying on multilateralism and free trade alone, and is instead relying on strategic trade agreements to ensure its primacy.[43]

This shift in strategic preference towards joining regional groupings has led scholars to project that the international economy is moving towards one that is dominated by global trading

[42] Bouzas and Ros, 2.
[43] Robert K. McCleery. "US Promotion of Regional Integration: Interests and Perceptions," in *Cooperation or Rivalry: Regional Integration in the Americas and the Pacific Rim,*eds. Shoji Nishijima & Peter Smith (Boulder, CO: Westview Press, 1996), 59.

blocs.[44] Indeed, over the past half-century regional and sub-regional groups have risen in every region of the world. States integrate with the rationale that to compensate for the small size of their economies vis-a-vis the United States they must join together in common markets. By doing so, states can increase the size of their economies thereby enabling greater prosperity though greater trade diversification and a more efficient division of labor.[45]

Scholars, including Coffey and Nishijima and Smith, argue that the prospect of being more competitive in the global economy by pursuing economic integration and membership in a larger trade bloc creates an incentive for small states to join integration projects with larger states even if it may result in the direction of their economy by the larger partner.[46] For example in Mercosur, Uruguay and Paraguay have little say over the economic direction and policies of the common market due to their small size relative to Brazil and Argentina, but the increased global competitiveness and trade provide enough incentive to offset the costs of giving up some control. Some states, such as Mexico, have gone even further than the smaller states in South-South organizations and have joined a North-South integration project in which their say in economic decisions of the group is even more marginalized by their developing status.

Hart argues the linkage of trade policy with foreign policy and security has also led to the shift towards integration in today's international system.[47] The currency of the contemporary arms race no longer has to do solely with how many weapons your state possesses, but also how strong your currency and position in the global economy are. Thus states act to increase their

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[44] Mols, 12.
[45] Bouzas and Ros, 8.
[46] Peter Coffey. "The Historical Background to Integration in Latin America," in *Latin America-Mercosur*, ed. Peter Coffey (Minneapolis, MN: Kluwer Academic Publishers, 1998), 9.
[47] Michael Hart. "The Past 20 Years of Trade Policy: What Have We Learned So Far and What Are the Lessons for Latin America," in *Economic Integration in the Americas*, eds. Joseph A. McKinney and H. Stephen Gardner (New York, NY: Routledge, 2008), 26.

power or further their economic domination by extending their economic rules and regulatory systems through integration, providing their state with a favorable vantage point in the system.[48]

Sanchez-Ancochea and Shadlen put forth the idea that economic integration can also be pursued as a defensive mechanism, out of the fear of exclusion from markets and that other states will raise their tariffs.[49] Another defensive motivation is to integrate with primary trading partners or neighbors to keep competing states out, such as the United States did in NAFTA to keep Asian investors out of Mexico. Lastly, integration can also be used within regions to end geopolitical rivalries and ensure that relations remain stable, such as in Mercosur with the end of the longtime Argentine-Brazilian rivalry.[50]

Scholars point to the existence of other benefits of economic integration that have appealed to states when considering it. Firstly, integration can provide an alternative framework for addressing transnational issues.[51] NAFTA included side agreements concerning labor and the environment, and CAN have attempted to address the drug trade and crime in the Andean region. The United States has also looked to integration as a method for expanding intellectual property laws to protect US patents and technology in the face of the decrease in its global technological advantage.[52]

This section has presented the arguments explaining how the composition of the contemporary IR system is such that states often pursue economic integration as a strategic means to increase their power or better their position in the global economy. Developing states,

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[48] Sanchez-Ancochea and Shadlen, 2.
[49] Ibid, 14.
[50] Winston Fritsch & Alexandre Tombini. "The Mercosur: An Overview," in *Economic Integration in the Western Hemisphere,* eds. Robert Bouzas & Jaime Ros (Notre Dame: Notre Dame University Press, 1994), 82.
[51] Duina, 33.
[52] Sanchez-Ancochea and Shadlen, 11.

such as Brazil and Mexico, have seen economic integration as a means for increasing their power and advancing their interests, while developed states such as the United States have pursued strategic economic integration to retain their primacy in the IR system.

The "Big-Bang Theory" of Economic Integration

One additional theory regarding the decision to integrate, the "Big-Bang Theory," describes integration as a reaction to a global crisis or part of the aftermath of a global event.[53] This theory cites the development of the European Union as caused by the crisis and aftermath of from World War II. It also describes the motivations to create NAFTA as resulting from the end of the Cold War and bipolar IR system and the rise of Asia and the US-Japanese trade imbalance. Further, it argues NAFTA's creation spurred new economic projects such as Mercosur, and the revitalization of old attempts such as CAN.[54] This theory claims that economic integration is a reaction of states to large shifts in the international system in which they look to secure or advance their economic position through economic integration and also form international governance organizations or regimes that may help to prevent the previous conflict from recurring.

This review of the literature has examined contemporary trends found in academia regarding economic integration and has attempted to group them in broad classifications to better define their features. While they have been grouped into separate sections, these classifications are by no means mutually exclusively when it comes to explaining the rise of economic integration in the Western Hemisphere and in fact the next section will present an analysis of the

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[53] Hufbauer and Schott, 132.
[54] Bouzas and Ros, 5.

interplay of factors and conditions that have fostered economic integration in the Western Hemisphere.

Economic integration's development in the Western Hemisphere has occurred as a result of the interplay of several global and domestic trends and conditions within the international system and states of the region. The shift of the international system towards a more multipolar power structure, the rise of the left in Latin America, and the use of economic integration as a means to strategically advance state interests all are factors that have led to economic integration in the Western Hemisphere. International trade data, regional trade agreements, state actions, and statements by state leaders in Latin America all provide evidence of the important roles these factors have played in the decisions of states and state leaders to pursue economic integration.

Declining US Hegemony and the Shift Towards Multipolarity in the IR System

One of the conditions that have led to regional economic integration is the decentralization of power in the international system caused by the decline of US hegemony and rise of the Third World. The decline of the economic supremacy of the United States is evident in several ways. Firstly, the US share of the global GDP has decreased over the second half of the twentieth century and into the twenty-first century. In 1960, the United States GDP as a percentage of the global GDP was approximately 38%, but by 1980 had decreased to less than 30% and as of 2009 hovers at about 27%.[55] Secondly, in regards to the US share of global exports, the amount of US exports as a percentage of total global exports has decreased from about 15.8% in 1960 to 11.1% in 1980, and to only 8.5% in 2009.[56] These decreases in US economic activity as a percentage of global economic activity are compounded by a rise in trade

[55] The World Bank (2010). *World Development Indicators 2010*. Washington, DC: The World Bank.
[56] Ibid.

and growth in the developing world, specifically by growth poles such as Brazil, India, and China. In 1998, 45% of foreign direct investment (FDI) in the world went to developing countries, compared to 25% in 1960.[57] The rise of the level of economic activity in the Third World has led to a shift in the international system towards a more multipolar structure.

The decreased economic power of the United States and shift towards multipolarity has fostered economic integration in the Western Hemisphere because one result has been the inability of the United State to bring the Doha Round to a conclusion. During the Doha Round, negotiations stalled out because leaders in the developing world, notably Brazil, demanded the United States end the exclusion of its agricultural subsidies and antidumping policies from negotiations. The failure of the United States to subvert these demands and resulting stall in negotiations has led to economic integration because regional groupings since have looked to create new regional forums to address international or intraregional trade. In these forums, such as Mercosur, CAN, and ALBA, states can help decrease intraregional trade barriers and assert their leadership. For example, regional economic integration has allowed Brazil, a rising power, to showcase its willingness to lead and its ability to challenge US leadership. During the Cold War, states such as Brazil developed a regional system of sub-hegemony under US control and as they developed they have sought greater roles in international politics. Brazil's leaders have taken much stronger stances against US initiatives, such as the FTAA, and been much more assertive in their demands on the United States and other developed states. Rising powers such as Brazil also have alleged to speak on behalf of others in their region and other members of the Global South and have built coalitions to support their claims. Brazil has championed UNASUR as a means to integrate all of the South American markets, and Venezuela has done the same with ALBA. Pursuing economic integration has allowed these states, most notably Brazil, to

[57] Tussie, "In the Whirlwind…" 83.

institutionalize their leadership. In addition to Brazil, Venezuela and Argentina have also attempted to act as sub-regional leaders and have worked to facilitate the development of the region as a whole. These new leaders have presented a new challenge to US dominance and led to various integration projects, such as Mercosur and ALBA. For example, Mercosur currently consists of four full members, Brazil, Argentina, Paraguay, and Uruguay, and is in the process of admitting Venezuela, thus increasing the number of states in its orbit.

Another condition related to this shift in the international system that has led to the increase of economic integration in the Western Hemisphere is the increased intraregional trade in Latin America since the debt crisis of the 1980s. The total value of the exports of the region increased from \$580.6 million (in US dollars) 1992 to \$801.7 million in 1995. The total value further increased from \$1.04 billion in 2000 to \$1.96 billion in 2008.[58] This increased intraregional trade has made economic cooperation a much higher priority to Latin American governments because it has made the region more economically interdependent than ever before. Due to this greater interconnectivity, states have a much larger incentive to pursue cooperation to maximize their benefits by working out policy discrepancies between trade partners. Also, states with highly interdependent economies will have a greater propensity for working out disputes rather than simply withdrawing from agreements. For example, the integration processes of CAN struggled to take hold during its beginning years in the 1960's and 1970's partly because less than 5% of the region's exports were going to other member states of the community. In fact several states including Venezuela, Peru, and Colombia each withdrew or suspended their membership as a result of disputes within the organization. By 1996 however intraregional trade within CAN increased and upwards of 10-14% of each nation's exports were being traded with

[58] The Institute for the Integration of Latin America and the Caribbean (2010). *Dataintel*. Washington, DC: The Inter-American Development Bank.

other CAN members. It is not a coincidence that these higher levels of intraregional trade coincided with the Trujillo Protocol in 1996 which revitalized CAN and restarted some of the integration processes that had stalled decades before.

Similar trends are noted in the Southern Cone, where current members of Mercosur experienced increases in intraregional trade during the early 1990's. In 1991, the percentage of Mercosur countries' intraregional exports were 11.3%, but by 1995 was 20.6% and has held between roughly 20% and 25% ever since.[59] Given these trends, economic cooperation through integration has served as means for these countries to ensure the continuation of the expansion of trade by decreasing remaining trade barriers.

The increase in the intraregional trade of Latin America further led to the consolidation and recognition of trade partners within the region. Brazil and Argentina provide an example of this trend and Argentine policymakers seemed to recognize the importance of their trade relationship with Brazil in 1994 when they chose to decline the US invitation to NAFTA and continue pursuing integration with Brazil through Mercosur.

Along with the increase of trade since the debt crisis, the entrenchment of democracy in the region has increased stability and helped facilitate the development of a fledgling middle class in Latin America. The development of a small business class and more transparent democratic governments have increased the willingness of states to cooperate with each other in the region and mitigated the risk of losing investments in sudden regime changes.

Another effect of the shift in the international system towards multipolarity and increased amounts of economic integration has been the development of numerous trade blocs in every

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[59] Thomas A. O'Keefe. "A Resurgent Mercosur: Confronting Economic Crises and Negotiating Trade Agreements," *The North-South Agenda*, 60 (Jan 2003), 6.

region of the world. The rise of global trade blocs and the advances made and successes enjoyed by the European Union spurred integration projects in other regions, such as the Americas. NAFTA was formed by the United States, Mexico and Canada partly to help correct the trade imbalance between themselves and Asia and to ensure they were not eclipsed by the European Union. In turn the integration processes of Mercosur were expedited and attributed a greater importance by Brazilian policymakers in reaction to NAFTA's formation, as evidenced by their efforts in 1994 to ensure Argentine participation continued in Mercosur.

Yet another dynamic of the current international political environment that has contributed to economic integration's rise in Latin America is the neglect of the region by US policymakers. Since the end of the Cold War, the United States has decreased the attention it has givenn to Latin America and has instead directed its efforts towards influencing politics in other regions such as the Middle East and Central Asia. In fact, Latin American neglect extends beyond the United States and for the most part includes the rest of the developed world, with Spain and a few others being small exceptions. European states have been preoccupied in recent years with the development and incorporation of Eastern Europe into the European Union and still retain some distrust from the Falklands War in the late 1980's. Thus, economic integration has become an avenue through which Latin American governments can band together, remain relevant and retain some sense of importance on the global stage. This desire to remain relevant is attributed a vast amount of importance by Latin American leaders because with importance and significance on the global stage they believe will also come increased levels of FDI.

Dynamics and trends of the contemporary international system and the shifts it is undergoing give some explanation for the rise of economic integration in the Western Hemisphere and particularly in Latin America. Trends in the IR system however contain only half of the explanation for the rise of economic integration as important domestic factors, such as the rise of the left, must be considered.

Strong Executives and the Rise of the Left

According to the literature, economic integration almost always requires strong state executives or federal governments to lead it. In the case of the Western Hemisphere and Latin America in particular, economic integration has been led almost exclusively by strong executives and has involved little interaction by state legislatures or even business sectors. In addition to a strong core group of state executives, efforts to integrate generally work best among leaders who share a similar worldview and perceive economic integration as a means to achieve their goals. In the case of Latin America, the rise of leftist leaders throughout the region has led to economic cooperation with the goal of thwarting United States influence in the region by developing alliances to oppose US efforts to impose the Free Trade Agreement of the Americas (FTAA) on the region.

Integration processes in the cases of Mercosur, CAN, and even NAFTA to some extent were each led by strong executives using executive decrees and executive diplomacy to work towards interstate cooperation rather than relying on action from legislative bodies. Mercosur provides the most vibrant example of this, as the details regarding its formation were largely decided by the Alfonsin and Sarney Administrations of Argentina and Brazil, respectively. In fact, at a conference hosted by Presidents Alfonsin and Sarney in Brasilia in 1986 for 600 important businesspeople from Argentina and Brazil, the president of the Brazilian National Confederation of Labor gave a speech which included language that indicated the business sector recognized it had not been included in the development of the integration process (and that it was not too pleased about its exclusion).[60]

The case of the integration of Mercosur helps show the extent to which executives have been the forces behind integration and the primary decision makers in its formation. Mercosur was conceived in the late-1980's resulting from the convergence of the interests of the Sarney and Alfonsin administrations in Brazil and Argentina. Integration became a top priority for both administrations because their shared executive interests included facilitating the end of the historic Argentine-Brazilian rivalry, putting up a unified front towards the United States, consolidating democracy in the region, developing regional infrastructure and recovering from the debt crisis, and staying relevant on the global stage. Sarney and Alfonsin met roughly every six months to plan a coordinated approach to achieve these goals and they believed integration afforded them the best method for doing so. It was their executive agreements and annual executive meetings where the foundations and guidelines for economic integration in the region were created.

While it is generally accepted that a strong executive or strong group of executives is crucial to integration, what has made economic integration particularly notable and strong in Latin America is the shared ideology of the group of leftist executives that rule over two-thirds of the region's population. Regime similarity often leads to trust and cooperation among states but in the case of the Latin American leftists, their opposition to the United States and its neoliberal model of development for the region that failed to create equitable growth has further united them. In fact, referring to Venezuela and Bolivia's applications to join Mercosur,

[60] Cason and Burrell, 458.

President Lula of Brazil even has gone as far as to say that all "our Bolivarian Brothers… are welcome."[61] Today, Venezuela's application to join Mercosur has been approved and Venezuela's membership is only awaiting ratification by the Uruguayan Parliament. Also, the inclusion and glorification of the presence of longtime US enemy Fidel Castro and his anti-US rhetoric at meetings of Mercosur executives further demonstrates the embrace of economic integration by Latin America's leftist leaders as a means to oppose the United States.

Opposition to the FTAA initiative of the United States has been the primary rallying cry for the leftists in their attempts to integrate the region's economies. Leftists have framed the FTAA as an attempt by the United States to dominate the region and have proposed integration within Latin America as a means to offset the influence of the United States. While leftist leaders such as Chavez may use fiery rhetoric and dramatic proclamations to rally their followers, their main objective is completely rational and shared by all leaders of Latin America on the left: to avoid being a spoke to United States trade policy through any trading agreement. Leaders not aligned with Chavez or Lula tend to pursue different means to achieve this goal such as joining the United States, like Mexico did in NAFTA. The leftists however believe joining with the United States or playing by its rules to be a mistake and point to Mexico's economic and political instability as resulting from bowing to the United States and as vindication of their claims.

Economic integration fits so well in leftist ideology not only because it provides them with a means to organize in opposition to the United States, but also because it calls for a large role of the state in the economy and has allowed state leaders to direct their state's economy. As

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[61] Monica Ciarelle and Adriana Chiarini. "Brazil's Lula Defends Integration, Bolivia's Full Membership in Mercosur," *O Estado de Sao Paulo*. (20 January 2007), 1.

leftist leaders are as a rule opposed to allowing the free market alone to decide important dynamics such as the growth rate and direction of the economy, a model that would enable them to use government direction to increase trade and in turn development appeals to their ideologies. It also must be said that in regards to these Latin American states with strong executives, increasing the power of the government in the economy is, in reality, increasing the power of the executive overall.

Lastly, the charisma and popularity of leftist leaders in the region has enhanced integration because by being associated with extremely popular leaders such as Chavez, Lula, and Kirchner, integration has been largely spared domestic criticism and opposition. Lula in particular has used his popularity and charismatic personality to boost Mercosur's profile in the region and even led to praise for his proposal of UNASUR. Important to note however is the sensitivity of popularity, which often vanishes swiftly during economic downturns.

Strategic Integration and State Interests

In an age where economic policy has become synonymous with foreign policy, economic integration has been viewed by state leaders as a means to further state interests in the international arena. Raising the global profile of the region, asserting state leadership within the region, and ensuring access to foreign economies are all strategic objectives leaders have used economic integration as a tool to achieve. In addition however, leaders also have used economic integration as a tool to achieve domestic goals such as increasing foreign direct investment, consolidating democracy, and increasing the efficiency of domestic markets by enlarging them through integration and thus enabling the diversification of trade and a better division of labor.

Raising the geo-political profile of the region has been one motivator of integration among Latin American states, and in particular the small markets of the region. Before the 1990's, the region failed to attract sufficient levels of foreign investment from investor countries because of their low importance as individual states on the global stage. Creating a bloc of states and common market however increased the importance of the region, as the bloc would represent a much larger market and population. This was particularly important to the decisions of Uruguay and Paraguay to join Mercosur, because they needed a way to expand their economy and attract investment. Economic integration would also raise the geopolitical profile of the region because the formation of a bloc would indicate the political and economic maturity of the region and create mechanisms to assure accountability of member governments.

States also aspired to integrate in the hopes that it would give them more leverage in multilateral forums such as the WTO. Once again by being able to speak for the combined population of the region and backed by the combined resources of all member states, members of integrated blocs would be able to profess to having a much greater importance than they would on their own in similar negotiations. In effect, viewing economic integration as a strategic economic alliance can help explain why so many smaller Latin American states such as Paraguay or Uruguay have integrated with much larger states like Brazil and Argentina and sacrificed a large amount of freedom in deciding the direction of their economies.

Uruguay's decision to become a member of Mercosur can help explain why it may be a strategic maneuver for states to pursue integration. For Uruguay, Mercosur represented an opportunity for it to expand its access to the Argentine market- its primary trading partner. Uruguay also was looking for funds for infrastructure projects, which Mercosur was planning to create an interstate fund to finance. Recently-elected President Jose Mujica of Uruguay renewed his country's recognition of the advantages to Uruguay of actively participating and cooperating with the other members of Mercosur in the withdrawal of his veto and acceptance of Nestor Kirchner's bid for the presidency of Mercosur's Parliament. While it may involve sacrificing some of Uruguay's ability to decide the direction of its economy, the prospect of improving and increasing ties with Argentina as a commercial ally was enough for the Uruguayan leadership to make the decision to further participate in integration and continue its membership today.

With the failure of the Doha Round of the WTO to meet the needs of many developing countries, states have also turned to regional integration to fill the void. States had previously looked to the WTO negotiations to gain better access to vital markets such as the United States and the European Union, as well as work out strategic trade deals with the representatives of those same countries. The halt of multilateral negotiations to decrease international trade barriers has led states to pursue regional integration as a means of securing entry and incorporation into neighboring markets rather than relying on the markets of the United States and Europe. Also, since integration in the Western Hemisphere has taken place between relatively small groups of states, leaders are willing to work out compromises in order to achieve integration. This is exemplified in the exclusion of the Mexican oil industry from NAFTA negotiation because of the Mexican Constitution's stipulation that oil resources fall under the direct control of the government rather than the private sector. In Mercosur, most of the public utility sector was excluded from the agreement. Additionally, the United States had sought to cover new ground in the Doha Round, such as international recognition of its intellectual property laws. As the Doha Round stalled and failed to allow the United States to accomplish this goal however, it instead has pursued the inclusion of intellectual property laws in its integration with Mexico and Canada in NAFTA.

Promoting regional stability and the consolidation of democracy has been another strategic goal of states in their decision to pursue integration. The age-old rivalry between Argentina and Brazil was lessened considerably by their cooperation in Mercosur, and even tensions between the often opposed Mexican and United States governments were eased through their mutual understanding developed in the creation of NAFTA.

Democracy's protection has also been a motivator for integration, and proved to be warranted after a coup attempted to depose democratically-elected President Wasmosy's government in Paraguay in 1998. Intervention through the mechanisms of Mercosur and the Organization of American States won the day however and democracy was preserved. Additionally, the United States' decision to pursue economic integration in NAFTA was influenced by the prospect of securing stability and democracy's survival in its southern neighbor.

Economic integration as a means to assert the leadership of emerging regional powers has been a key component of the contemporary wave of integration in the Western Hemisphere. Lula's visits to Chile and Argentina even before his inauguration show his intention of drawing other states into Brazil's orbit. Mercosur in effect has provided the vehicle for the institutionalization of Brazilian leadership within the region. Ascension to Mercosur by less powerful members such as Uruguay and Paraguay has signified their acceptance of Brazil's leadership- or at least their tacit approval. Venezuela has also attempted to rally the region around its efforts to fight US domination by pursuing integration through ALBA and has managed to persuade seven other Latin American, including Bolivia, Ecuador, Cuba, Nicaragua, Dominica, Antigua and Barbuda, and St. Vincent and the Grenadines, to join. To some extent

Mexico also attempted to act as a regional leader by entering into NAFTA and serving as an entrepot between the United States and Latin America.

Lastly, in regards to strategic integration, states may pursue it as a defensive mechanism. As the world aligns into different trade blocs, the fear of exclusion has proved a powerful motivator of states to integrate with their primary trade partners, as evidenced by Canada's request for a free trade agreement with the United States in 1987. Also, in the 1980's both the European Union and United States increased their economic protectionist policies, particularly in their agricultural sectors, and states saw integration with them as a means to overcome these barriers or integration with others as a means to secure new markets for their exports. The institutionalization of integration has thus provided a means for states to hold vital trade partners accountable, as evidenced by Mexico's pursuit of integration with the United States.

Conclusion

While the future of economic integration in the Western Hemisphere is unclear, this paper has aimed to assess and expose what conditions and factors have led to its development and which arguments in the literature are most valid. Based on the previous analysis, we can make several conclusions.

Abundantly clear in this analysis of contemporary integration in the Western Hemisphere is the important role played by the decline of US hegemony and shift towards greater multipolarity in the IR system. The decentralization of global economic power and corresponding rise in the economic activity of the Third World has facilitated the development of new trade patterns and partnerships within Latin America. These new partnerships have led to the pursuit of economic integration as a means to further decrease trade barriers between these new trade partners. With the failure of US leadership to bring the current Doha Round of the WTO to a conclusion, the developing world has looked to regional partnerships to attain better access to other markets and facilitate trade expansion rather than through multilateral cooperation with the United States and Europe.

Based on the actions of Argentina and Brazil in Mercosur and Venezuela in ALBA we can also conclude that states have used economic integration as a means to assert and institutionalize their regional leadership in this more decentralized IR system. Brazil in particular has acted as a regional leader, speaking upon behalf of Latin America when dealing with the United States. While led by Lula, Brazil looked to further consolidate its regional leadership through the integration of all of the markets of South America in UNASUR.

This analysis has also shown that motivations for pursuing economic integration can be geopolitical because of the practical advantages it provides in dealing with other states, such as increasing a state's bargaining power and ensuring access to vital markets. This observation can lead us to conclude that economic integration is most likely to be pursued by developing states with lesser power because it can afford them a means to compensate for their nation's structural disadvantages, such as a small population, small market size, or a lack of diversity in their market. This is not to say that hegemons will not pursue integration, but rather that those states will pursue integration selectively as they have less to gain from it. As shown by the United States, the only time a hegemon will pursue integration is when their dominance is threatened and they need a way to maintain their control over other states and the global market.

This analysis also leads us to conclude that the leftist leaders of Latin America have played a key role in fostering the development of economic integration in the region. The similar ideology and close bonds between past and current leftist leaders such as Lula, Chavez, Kirchner, Sarney and Alfonsin have enhanced integration efforts and given economic integration in the region a leftist tone. The influence of the left is even more clearly seen when one considers the actions of states led by those on the right or center currently or in the past. These countries, such as Colombia, Panama, Peru and Chile, have all pursued bilateral agreements with the United States rather than integrating with their leftist-led neighbors.

These conclusions lead us to disregard to some extent other conditions scholars cite as important in the development of economic integration in Latin America. Firstly, this analysis has shown that the need for the consolidation of democracy has not been a key condition because integration has allowed leaders, rather than legislative bodies, to accumulate greater amounts of power. Further, the argument that "like-minded nations" is a prerequisite for integration is flawed because rather "like-minded leaders" are more important. This is so because, as shown by the examples of Mercosur and ALBA, economic integration has been a top-down process pursued by its leaders with little input from other parts of the government or private sector. Poor economic conditions and low levels of investment are other conditions that have factored into the drive towards economic integration, but are inadequate to fully explain the rise of integration. While all of the states in Latin America have suffered from these conditions, they all have not pursued economic integration leading us to believe that there is another factor at work that accounts for the difference in methods pursued by governments- which is in fact the rise of the left in parts of Latin America.

This analysis has presented findings and conclusions regarding the fascinating phenomenon that is economic integration. Its existence in Latin America has been made particularly significant as it has corresponded with the rise of leftist leaders and at a time when some predict the IR system to be shifting. Future research and events may shed further light on economic integration, which will no doubt change in the politically dynamic region that is Latin America.

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