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### **THE NEW REGIONALISM IN LATIN AMERICA AND THE ROLE OF THE US<sup>1</sup>**

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## Abstract

In this article, the authors analyse the characteristics of the new regionalism in Latin America since the late eighties. It is shown that, on the one hand, it is related to the considerable multiplication of the number of regional agreements (the so-called *spaghetti bowl*), and on the other hand, with the qualitative changes in these agreements. The authors further emphasise the important role played by the US in the region, the interaction between the economic and political integration schemes, the complexity of Latin American regionalism and its uncertain future trajectory. They conclude with some suggestions for the research agenda for the Latin American research community.

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## **1. Introduction**

At the beginning of the XXI century, Latin American regionalism finds itself in a critical moment from which it is difficult to predict its future. Different scenarios seem possible. Several negotiations, at different levels and involving sets of overlapping countries, are ongoing. The changing composition of coalitions of power and the lack of social consensus within the different countries contribute to the uncertainty. External forces such as US politics, the inter-regionalism of the European Union (EU) or the dynamics of negotiations at the multilateral level, also play an important role.

It is probable, however, that in Latin America, as well as in the rest of the world, the macro-regional<sup>4</sup> level will increase its importance as a level of government and governance. The experiences in different parts of the world also indicate that regionalism has not only gained and is still gaining importance, but that it has also acquired new characteristics. In this context, it has been referred to as “new regionalism”.

The purpose of this article is to present an outline of current Latin American regionalism, in the light of the new regionalism literature. After referring to the new regionalism and its attributes in the next section, we will identify the particular

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<sup>4</sup> The macro-regional level is referred to in order to distinguish it from the sub-national (micro-regional) level. In the rest of the text, macro-regional and regional will be used as synonyms.

characteristics of Latin American regionalism in the third section, and analyse the role of the US in the fourth. Section five reflects on complexity and uncertainty surrounding the regional integration processes in Latin America. Section six concludes.

## **2. The “new regionalism”**

There is no need to say that the adjective “new” refers to a temporal dimension. That is, that the “new” regionalism is different from the “old” regionalism because it manifests itself in a different (posterior) period of time compared to the old regionalism. It is generally accepted that the new regionalism emerged in the mid eighties and took a greater impulse from the events around 1989, with the changes in East Europe and the end of the Cold War. Within this logic, the new regionalism is referred to as a “new wave” of regionalism, a “new generation” of regional agreements, etc. However, according to Hettne (1999, 8-9), the identification of new patterns of regionalisation (coexisting with pre-existent forms) is more relevant than the identification of a new age of regionalisation.

Following Hettne (1999, 7-8), the new regionalism can be defined by contrasting it with the old regionalism, as follows:

- While the old regionalism was formed within the context of the bipolar Cold War, the new regionalism has been shaped in a multipolar world order.

- While the old regionalism was created “from above” (by the super powers), the new regionalism is a more autonomous process where the nation States and other actors play an important role.
- While the old regionalism was characterised by an economic integration process with a protectionist and inward orientation, economic integration in the new regionalism is generally seen as open and compatible with a global interdependent economy, although there is a certain ambiguity between the open and closed regionalism.
- While the old regionalism is specific as far as the objectives are concerned (some schemes with objectives linked to security and others with economic objectives), the new regionalism is a more comprehensive multidimensional process.
- While the old regionalism was the exclusive concern of sovereign States, the new regionalism is part of a global structural transformation in which the non-state actors are active participants, present at different levels of the global system. The new regionalism is defined as a “world order” concept.

In the same vein some authors argue that the new wave of regionalization is linked to the transnationalisation or globalization of the world economy. In particular, it is related to a number of transformations occurred during the eighties and nineties like: the end of the Cold War and the rise of multipolarity (in particular, competition between three poles: Europe, United States and Asia); transnationalisation of trade and production associated with technological change and the information revolution;

the growth and volatility of financial flows around the world; and the progressive adoption of neo-liberal policies, especially in relation to macroeconomic stabilization, the opening of markets, the increasing role of the private sector and competition (Axline, 1994; Stallings, 1995; Sideri, 1996).

Furthermore, the new regionalism goes beyond trade liberalization of goods, services and productive factors. It prescribes the type of institutions and policies, as well as the rules and norms, necessary for the functioning of the integrated market under the so called neo-liberal postulates. The new regionalism corresponds to a neo-liberal model of market integration between countries with different levels of development. At the same time, the political dimension acquires relevance as much as the market liberalization dimension, in response to a precautionary-defensive strategy to reinforce the level of hegemony or relative power and influence of the dominant country(ies) in the corresponding region. This(ese) country(ies) play(s) the role of a hub for the spectrum of trade agreements in the region. the so-called “hub-and-spoke” system of agreements.

Regionalism is not just an international economic phenomenon, it is also, and perhaps more decisively, political. As the World Bank (2000) stresses: “Security, bargaining power, cooperation, and lock-in are probably the main political motors for regional integration. Sometimes these motives receive a veneer of economic rationalization”.

Initially, the approach to the new regionalism has been primarily empirical. The subsequent development of the so-called “new regionalism approach”, constitutes an intent to translate the conclusions of the empirical studies into new theoretical concepts and a new method (approach) for the study of regionalism (Hettne 2003, 3)<sup>5</sup>. The changes include: the consideration of multiple actors, the primacy of the “real” processes (and regions) over “formal” ones, the recognition of regionalism as a multidimensional phenomenon and the explicit consideration of the global context.

The new regionalism approach differentiates itself from the approach of the liberal “mainstream” economists and the multilateral institutions such as the International Monetary Fund (IMF) or the World Bank. The latter refer basically to the quantitative aspect and to the incorporation of a series of new regulatory topics in the free trade agreements (FTAs) when they refer to new regionalism, and assume that the phenomenon can be studied by standard economic theory.

Although we can accept Hettne’s argument, according to which, for an emerging phenomenon such as new regionalism, a precise definition is perhaps not necessary or not even useful, the existing conceptual confusion is not without a cost. A glance at the recent literature about new regionalism reveals that the concept has at least

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<sup>5</sup> See also, Mittelman (1999)

four different meanings (even if they are not necessarily mutually exclusive) (De Lombaerde, 2003):

Firstly, the new regionalism refers to the quantitative increase in the number of regional integration agreements signed at the end of the eighties and beginning of the nineties, generally explained by the uncertainty that surrounded the conclusion of the Uruguay Round.

Secondly, it refers to the qualitative differences in the regional integration agreements signed in the same period (with a greater emphasis on non-trade issues, less formal and more diverse integration agreements in cross-border areas, etc.)

Thirdly, the new regionalism refers to the development of new theories of regional integration (explaining, for example, the links between regionalism and globalisation).

Finally, the new regionalism also covers new methodological approaches regarding the phenomenon of regional integration (re-discovering comparative studies, emphasising the need for interdisciplinary approximations, showing a preference for real problem-oriented research)<sup>6</sup>.

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<sup>6</sup> See also, Bekemans et al. (2000), Breslin et al. (2002)



In the next section, we will show how the new regionalism has manifested itself in the Latin American context and highlight its particular characteristics.

### **3. The new regionalism in Latin America**

#### **3.1. Emergence of the concept**

At the end of the eighties and the beginning of the nineties, the academic and political community in Latin America started to realise that the process of regional integration began to have different characteristics and was experiencing a transformation. Several discourses and writings refer to the “new integration”, the “new regionalism”, the “second regionalism” or the “new wave” of trade agreements<sup>7</sup>.

Carvajal employs the term “neo-integration”. With it, the author refers to: “(1) [...] a type of renovated integration that differs from the traditional integrationist scheme, in its strategic elements, in the actors that it privileges as catalysts of the process, and in the short and mid- term objectives; thus in this sense, the prefix *neo*, pretends to denote the *new* character of the integration that begins in 1990. (2) In a second sense which complements but does not exclude the former, the prefix *neo* refers to the integration that “takes off”, encouraged by and within the framework of the neo-

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<sup>7</sup> See, Pardo (1992), Garay (1994), Mattli (1999) and Rosas (2003) among others. For a revision of (the first) bibliographic sources about “new” regional integration processes in Latin America in 1985-1988, see González (1989). In the proceedings of the seminar about “Experiences, conditions and perspectives of economic regional and sub-regional integration”, organised in Mexico in 1987 by El Colegio de México and supported by the European Commission, an awareness of the new regionalism cannot be observed yet. The agreement between Brazil and Argentina subscribed in 1986 is considered as innovative, compared to the existing schemes in crisis. The “new” aspects consist of its bilateral character, gradualism, flexibility, specific inter-sector integration, and the business support to the process (Urquidí and Vega Cánovas 1991)

liberal development model, generalised in Latin America in 1990 with the election of a series of presidents with such governmental plans” (Carvajal 1993, 107-108).

Rosas (2003, 149) uses the set of circumstances surrounding the trade agreements subscribed by Mexico, as an illustration of the new regionalism. She mentions the contribution of Hettne and Inotai (1994), but develops a quite restricted definition of new regionalism: “a new set of rules and conditions governing FTAs and customs unions (CUs) established after the Cold War”.

The multifaceted character of the new regionalism phenomenon gives rise to the use of different (although related) concepts with different contents, also in Latin America.

### **3.2. A new wave of regional agreements: the quantitative aspect**

Without any doubt, in the new Latin American regionalism, the quantitative aspect is present. Since the second half of the eighties, even if the number of agreements was already relatively significant<sup>8</sup>, it witnessed further increases. Initially, the increase was related to new economic complementation agreements in the framework of the Latin American Integration Association (LAIA), and then followed by the US-Canada FTA (1989), the new impulse of the Central American Common Market (CACM) (1990), the creation of the Common Market of the

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<sup>8</sup> See, for example, De Lombaerde (2001).

Southern Cone (MERCOSUR) (1991), the North America Free Trade Agreement (NAFTA) (1994), the progress towards a customs union in the Andean Community (AC) (1995) and an important number of new bilateral or interregional agreements.<sup>9</sup>

The outcome is known as the *spaghetti bowl* (Bhagwati 1995): the complex co-existence of partly overlapping bilateral and regional agreements, resulting in an important administrative cost for the different economic agents.

### **3.3. The contents of the new agreements: The qualitative aspect**

The regional integration processes of the new wave in Latin America are qualitatively different from those of the first wave and are therefore worth contrasting. The characteristics of the old regionalism can be summarised in five points:

Firstly, the central objective of the agreements under old regionalism was to support the existing model of industrialisation based on import substitution and directed by the state, reflecting export pessimism.

Secondly, given the general objective, the old regionalism created regional markets to overcome the size limitations of domestic markets (causing trade diversion while favouring intra-regional production).

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<sup>9</sup> For an inventory of the treaties of this new wave, see for example, Devlin and Estevadeordal (2002)

Thirdly, regional integration followed an inward oriented model, little constrained by the WTO commitments, and it went hand and hand with the development of controls on foreign direct investment (FDI) flows.

Fourthly, effective trade liberalisation has been relatively limited, with the exception of the CACM (Devlin and Estevadeordal 2001).

Fifthly, going beyond the industrial and trade policy strategies, the objectives of old regionalism included, internally, an equilibrated and harmonic development of the countries involved, and externally, a non-dependent development (Garay 1994, 69). The objective of an equilibrated and harmonic development resulted in policies of distribution and programming of industrial activities as well as their restructuring.

The evaluation of old regionalism in Latin America is, in general, quite negative. It is associated with limited 'real' trade liberalisation, a fairly small progress towards common external tariffs, a failure of industrial cooperation and a lack of progress regarding production factor mobility (migration, capital flows).

Nevertheless, these negative aspects should not be exaggerated. In the CACM for instance, fast intra-regional trade growth was attained, and a common external tariff, that covers more than 98% of extra-regional trade, was achieved. CARICOM was

quite successful in generating common policies as well as in strengthening its external negotiating position. The Andean Pact accomplished a common regime for FDI.

The new regionalism in Latin America has internal and external dimensions as well as political and geo-political ones. In general, we can say that it seeks to match deeper regional integration with the insertion into the global economy, guided by market economy principles and multilateral institutions and agreements.

The new regionalism in Latin America can be seen as part of the structural reform plans implemented since the mid-eighties. It is important to observe the political use that has been made of regional integration. The agreements at the regional level must be understood as a means to implement locally (domestically) the structural reforms defended by some factions in the domestic political arena and spurred by international financial institutions. In this sense, regional agreements fulfil two functions: first, politically they make it easier to take certain measures because the governments can refer to responsibilities created by an external authority or obligation; and second, they incorporate an irreversible element in the policies (Devlin and Estevadeordal 2001).

In accordance with these developments, since the eighties, a dramatic change has been observed in FDI policies. The new agreements show a new strategy to mobilise

capital at the regional level, but also to attract FDI from third countries (Devlin and Estevadeordal 2001; De Lombaerde and Pedraza 2005).

Regarding trade agreements, a trend has developed which incorporates new policy areas such as non-tariff barriers (NTB), intellectual property rights, regulation of the service sector, public procurement, etc. This trend was spurred by the Canada-US agreement as well as by North American Free Trade Agreement (NAFTA). On the other hand, the special and differential treatment has been relatively limited.

Beyond the static effects of trade liberalisation, the new regionalism also aimed at creating dynamic effects through trade interconnectedness and investment: transformation of production structures, economies of scale, greater levels of competition, changes in company performance, etc.

The most outstanding project of new regionalism in the Americas is undoubtedly the Free Trade Area for the Americas (FTAA) launched in December 1994. The materialization of an FTAA requires, on the one hand, the consolidation of the opening and reform process started in LAC countries at the late eighties, the pre-eminence of the neo-liberal model in the Hemisphere, and, on the other, the adoption of a coherent trajectory for the construction of the hemispheric market and a great degree of convergence between the free trade agreements in course in the Hemisphere.

The choice of a trajectory is burdensome in particular given the ample variety of agreements in vigour in the Hemisphere: some “first generation” free trade areas as LAIA; imperfect custom unions as the Andean Community and MERCOSUR; adherence of Chile, Bolivia and Venezuela as member countries of MERCOSUR; “first generation” free trade areas between MERCOSUR and the Andean Community; “new generation” free trade areas as those concerted by US with North and Central American countries and Chile (and just negotiated with some South American countries like Colombia and Peru, and in process with Ecuador) as well as those signed by Mexico with many Latin countries following the NAFTA pattern.

In the selection of the FTA model resides the principal obstacle to negotiate an FTAA. In effect, this was precisely the reason why it was not possible to accomplish the objective of reaching an agreement on an FTAA by 2005 and why in the late nineties the US decided to move into sequential negotiations of several NAFTA-type FTAs with LAC countries: first with Chile, then with Central America in two stages and currently with some Andean countries (Colombia, Ecuador and Peru).

The US strategy has been twofold: firstly, to sign strict NAFTA-type agreements with as many countries in the Hemisphere as possible as a precondition to obtain enough predominance in possible negotiations of the FTAA in the future (specifically, for the adoption of a new generation type of agreement in contrast with the MERCOSUR model, for example) and, hence, to reinforce its hegemony in the Americas and to gain

influence in the world arena (while at the same time having been involved in negotiations with countries of other continents), and secondly, to play an active role in the definition of the negotiating agenda at the multilateral and regional levels.

As a consequence, a new development has been the negotiation and signature of agreements with a North-South dimension like NAFTA, Canada-Chile FTA, CAFTA, FTAA, Andean and Central American bilateral FTAs with the US, etc. It is in this context that NAFTA has become a “model” for other agreements. This model consists of a gradual programmed and quasi-universal tariff reduction, combined with an alignment with US standards for non-tariff barriers, services, investment, intellectual property rights, state purchases, rules of origin, etc., within the framework of an inter-governmental process.<sup>10</sup> The importance of reciprocal agreements with the US is not only based on the economic weight of the US *per se*, but also on the anchorage and signalling effects for the implementation of structural reforms. The debate concerning the relative potential benefits of North-South *versus* South-South integration is becoming a central theme of a wider debate surrounding the optimal strategies for Latin American countries facing different options of insertion into the global economy. The World Bank (Schiff and Winters 2003) and the Inter-American Development Bank (IDB) presented with insistence the arguments in favour of prioritising North-South agreements. The critics of this position refer to the unsatisfactory balance of Mexico’s integration in NAFTA, and

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<sup>10</sup> With minimal inter-governmental structures.



they conclude that for countries without a border with the US, deeper integration, following the existing model, is even less convincing.<sup>11</sup>

Apparently, the agreements of the new wave of regional integration gained greater credibility than the former agreements. Using the methodology proposed by Freund and McLare (1999), which is based on the analysis of “S” curves of trade flows, Devlin and Estevadeordal (2001, 37-39) estimate that the anticipating behaviour of economic agents has become more visible in the new regionalism. This is interpreted as a demonstration of greater levels of credibility of the agreements.

In the political sphere, the new regionalism has contributed to the pacification of the borders within Central America (with positive effects on cross-border trade flows) and to the consolidation of democratic institutions. In some cases, democratic clauses have been incorporated into the agreements, like for example, in the EU-Mexico agreement.

Likewise, a multiplication of negotiations and inter-regional agreements has been witnessed. In this context, MERCOSUR and Mexico have played a very active role, up to the point that at a second level, below the US, they can be identified as “sub-

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<sup>11</sup> For critical evaluations of Mexico’s participation in NAFTA, see for example, Domínguez (2000) and Audrey et al. (2003). However, recent studies such as Tornell et al. (2004) and Kose et al. (2004) argue that the lack of growth in the Mexican economy cannot be attributed to signing the NAFTA agreement, but that it is in the first place due to the lack of institutional and structural reforms since 1995, and also, in the short term, to the combined effect of the slowdown of the US economy and the greater dependency of the Mexican economy towards the economic cycle in the US.

hubs” in two different systems of agreements with other Latin American and Caribbean countries: Mexico as a “sub-hub” of new generation NAFTA-type FTAs with Central America and some other countries like Chile, Colombia and Venezuela (G-3), and Peru; MERCOSUR as a “sub-hub” of “first generation” MERCOSUR-type FTAs with the rest of South America (Garay 1997). In this sense, the new regionalism reflects strategies to participate more actively in the hemispheric and global arena.

With regard to the actors involved in the processes, Latin America shows a certain particularity. The regional technocracy plays a relatively important role, not only as technical support to the processes, but also as a mobilising force, establishing direct connections between technical-administrative spheres and political spheres. Historically, UN-ECLAC had played an important role during the old regionalism period. Nowadays, the Inter-American Development Bank (IDB) seems to have assumed a leadership role in association with OAS, ECLAC, ALADI, and SELA.

Regional integration processes have benefited from the creation and operation of political scenarios of dialogue and cooperation. These scenarios include the OAS (created in 1948), the Rio Group (created in 1986), and the Summits of the Americas (since 1994). These political frameworks have played an important role during the new regionalism period and continue to be spaces where the political feasibility of new directions and new scenarios for regional integration are assessed. It is still too

early to estimate the real significance and costs of this multiplicity of regional integration *fora*. It seems that they are useful instruments that allow for flexible country participation in international *fora* according to the topic discussed and in a diplomatic manner (with or without the US, with or without the EU, with or without Cuba).

Later than in other regions, civil society in Latin America has become interested in regional integration processes. In this respect the FTAA negotiations have been a catalyst although there has been a considerable delay (of several years) between the beginning of the process and the effective participation of civil society in the debate. In the meantime, trade unions, business groups and NGOs have achieved considerable political weight and have effectively influenced their government's negotiating positions, in particular in some countries. This has been helped by the electoral successes of leftist coalitions in several countries in recent years. The participation of civil society has generally been limited to the context of regional trade negotiations, in opposition to FTAA and in favour of different strategies more centred on the South American sub-continent.<sup>12</sup> It is not clear, however, whether Latin American civil society (in the broadest sense of the word) is contributing more now than 20 or 30 years ago to the *de facto* construction of cross-border micro and macro regions, to the recognition of the importance of regional integration

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<sup>12</sup> In this context, the creation in 1990 of the Sao Paulo Forum is relevant

processes, to the construction of regional identities, to the generation of leadership at the regional level, etc.

#### **4. The role of the US in Latin American Regionalism**

##### **4.1. The regionalist move in US external policy**

The rise of new regionalism in Latin America is well related to a change in US foreign policy, consisting of the acceptance and adscription to regionalism. This strategic change is explained by a lack of progress in multilateral negotiations, the progress towards multipolarity, the end of the Cold War, the relative loss of predominance in the world with the consolidation of the European Union and the importance of Japan and the rise of some countries of Asia, and a tendency to opt for some unilateral measures that operate in the “blind zones” of GATT, such as the Voluntary Export Restraints, Anti-Dumping regulation, or other non-tariff barriers (De Melo, 1993).

With its adherence to regionalism, the US breaks with its traditional foreign policy, although without leaving aside multilateralism and unilateralism. For precautionary reasons and strategic purposes, the US adopted a three track political and commercial policy: a pragmatic and strategic combination of multilateralism, regionalism and unilateralism.

The policies of the US towards regionalism have been variable, but the regional (and global) hegemonic power has positioned itself in the centre of the new regionalism development on the American continent (Yamada 2003, 119). Thus, while regionalism has become an important characteristic of US hegemonic geopolitics, its regionalist strategy is not necessarily easy to understand.<sup>13</sup> In Mittelman and Falk's words: "the relation between regionalism and US external policy has been eclectic, uneven, and difficult to understand in the course of the previous years" (2000, 174).

There are different opinions about contents and orientations of the economic regionalism spurred by the US. Leftist sectors emphasise the neo-liberal (deregulating) character of the integration processes, while other analysts see the processes as a purpose of the US to re-establish control over transnational companies.

While US regionalism in security matters (North Atlantic Treaty Organisation – NATO) has possibly lost relative importance, economic regionalism gained prominence. According to Mittelman and Falk (2000, 174,182), this phenomenon is not contrary to the globalisation process; it rather reflects the same logic.

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<sup>13</sup> There are earlier examples of using regionalism to build US hemispheric hegemony. In 1982, for example, Reagan's administration took the Initiative for the Caribbean Basin, with mostly geopolitical objectives, anticipating the regional aspirations of the Sandinista and Castro's regimes (Mittleman and Falk 2000, 182-183).

The result is a complex network of agreements where the US appears as the central node. Taking into account that the relations between Canada and Mexico are not very important, NAFTA is not really in contradiction with the “hub-and-spoke” model which has been proven to redistribute the regional integration benefits in favour of the hub country (Wonnacott and Wonnacott 1996).

Perhaps the first move taken by the US was the “Enterprise of the Americas Initiative” launched by the Bush Administration in June 1990 as a cooperation strategy to support to the opening and structural reform of the Latin American and Caribbean (LAC) economies implemented since mid-eighties during the debt crisis process observed in most of the countries of the region. This was the first comprehensive framework of cooperation with Latin America after the “Alliance for Progress” promoted by President Kennedy in the sixties.

The Enterprise of the Americas Initiative embodied a change in the US attitude towards the regionalisation processes in Latin America. Until that moment, the attitude had been passive or even obstructing (Carvajal 1993, 110-111). The initiative was considered the most important US government declaration on regional integration since President Lyndon Johnson’s pronouncement in Punta del Este,

where he admitted the validity of regional integration as a strategy of regional development (Carvajal 1993, 115).<sup>14</sup>

Contrary to the Alliance, the Initiative emphasized the promotion of trade and investment, instead of the concession of financial official assistance to the LAC countries. The main components of the Initiative were: trade cooperation towards the final goal of signing free trade agreements with hemispheric countries and the final goal of having a free trade area for the Hemisphere, financing of projects and programs that promote policy reforms in investment, official bilateral debt reduction to support market reforms and the modernization of their economies. Strict prerequisites applied to countries to be eligible to the facilities: basically, their degree of progress on structural reform, business facilitation and investment and on debt resolution (Garay, 1994).

In order to understand the US position towards regionalism, it is important to look at it not only from the perspective of the economic interests of its companies or its geopolitical interests (NAFTA and FTAA as strategic answers to the progress in European integration), but also from the perspective of its geo-strategy at the world level and of the domestic political economy of its external trade policy.

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<sup>14</sup> About the motivations of the Bush administration to propose the Initiative, see Gitli and Ryd (1992) and Garay (1992).

According to analysts like Phillips (2002), the US regional and global strategies cannot simply be understood in economic terms: “US interests in the region are defined far more robustly by the security agenda and concerns about democracy. The key issues in the security agenda: drugs, immigration, the environment, terrorism and insurgency, oil and energy, are thus seen to call for an approach which increases the leverage of the US in the areas of particular concern, and the vehicle through which this objective is pursued is precisely the hemispheric project. [...] Indeed, it is important to recognise that the trade and investment components of the Summitry process were initially the second order issues, and became central to the project largely as a result of pressure and interest from Latin American countries. There is some (unconfirmed) evidence that trade was incorporated into the agenda for the first Summit of the Americas only a couple of months before that meeting, but much stronger evidence for this argument in the dominance of non-trade issues in the presidential rhetoric surrounding the hemispheric process”.

## **4.2. NAFTA**

Within the context of the Initiative for the Americas, the US decided to move forward towards the signing of an ambitious free trade agreement with the other North American countries: Canada and Mexico, known as North American Free Trade Agreement (NAFTA).



As Pizarro (1999) argues: “NAFTA reflects a shift towards regionalism ... is the result of the convergence of a heterogeneous group of interests. These include: internal pressure to quickly reverse trade deficits, the presence of non-economic objectives linked to the issue of illegal immigration and drug trafficking from the Mexican border, and a need to promote a global policy towards Latin America that would extend beyond the immediate handling of its external debt crisis (as was reflected in President Bush’s Initiative for the Americas)”. And at the same time, “free trade agreements (like NAFTA) became a strategy to exert pressure on GATT progress, while the United States regionally advanced its policy of trade liberalization. In this way, the NAFTA experience proves that it is possible to regionally implement those issues in which GATT fails to make progress”.

At this point it is worth remembering that NAFTA goes beyond GATT negotiations by harmonizing national policies through side agreements on environmental and labour issues; by granting national treatment to investments (pre- and post-establishment) from other member countries; by including specific intellectual property rights and by incorporating the openness of financial sectors; by universally liberalizing trade in goods and services but under complex, strategic and discriminatory rules of origin (Garay, 2002); by establishing novel mechanisms like those of dispute settlement (in particular, investor-state dispute settlement) (Sideri, 1996; Grugel, 1996). Its scope, deepness and integrity are without precedent in relation to previous free trade agreements in the world. This is why NAFTA is

classified as the first “new generation” free trade area. Furthermore, it is considered as the first “symmetric integration” scheme between developed and developing countries (Di Filippo, 1998).

The private sector companies and large financial groups were particularly supportive of the NAFTA project. Regarding the negotiations with Canada, the corporate sector’s interest consisted essentially of facilitating direct and financial investment in the Canadian economy. The US government offered in exchange basically market access. In the negotiations with Mexico, the US sought to contribute to building up an economy guided by (neo-) liberal principles and to initiate (to some extent, irreversible) structural and institutional changes. In this way, the US private sector obtained guarantees for capital mobility, access to low-cost labour, and in many sectors, more export possibilities. Additionally, it sought to contribute to political stability in the region and to the reduction of immigration.<sup>15</sup> According to Krugman (1993), the US government’s principal objective was to support the economic and political reforms and stability in Mexico, the expected effects of NAFTA for the US being marginal.<sup>16</sup>

NAFTA’s negotiations meant a change in the orientation of the domestic political economy of US trade policy (Roet 2001, 213). The choice of a new generation treaty (deep integration), along with labour and environmental agreements was the result

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<sup>15</sup> On the economic policy of the Mexican negotiating position, see Pastor and Wise (1994).

<sup>16</sup> See also, Weintraub (1990) and Pastor (1993).

of negotiations with domestic interest groups. The Bush government (1988-1992) obtained Congress support in 1992 to negotiate with Mexico in spite of initial opposition from the trade unions, thanks to its commitments in the environmental and labour fields. In 1992, Clinton's campaign took those commitments further and obtained the endorsement of the Congress in 1993 to negotiate NAFTA.<sup>17</sup> The final result was a treaty under the neo-liberal orientation, with complementary agreements in labour and environmental matters, reflecting the pressure of the corresponding interest groups. In fact, since the NAFTA debate, unions and environmentalists have attained more political weight.<sup>18</sup> Other groups opposed to the treaty were human rights groups and ultra-nationalist groups.

Again internal factors explain, at least partially, the hesitation of the Clinton administration to request the *fast track* to enlarge NAFTA in 1995-96 (Roet 2001, 215).<sup>19</sup> However, there are indications showing that, following Clinton's presidency, the Unions lost political weight, to the benefit of the private sector. This is partially attributed to a *de facto* ideological convergence of the neo-liberal type, to which the social democracy adhered (Mittelman and Falk 2000, 178).

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<sup>17</sup> However, it must be said that there was relatively more support from the ecologist side than from the trade union side.

<sup>18</sup> About the role of interest groups in NAFTA negotiations see, for example, Grinspun and Cameron (1993); Roet (2001) and De Lombaerde (2002).

<sup>19</sup> Only in September 1997, the administration proposed the *fast track* again to the Congress. In September 1998 was finally rejected.

Finally, there are clear linkages between the dynamics of US economic policy and the electoral and political cycles. The proactive position of the Bush administration towards NAFTA, for instance, is partially explained by his attempt to win an important fraction of the hispanic electorate by showing a serious commitment towards the integration with Mexico.

#### **4.3. US Regionalism in the Americas**

After the signing of NAFTA, the Plan of Action for the Americas was formally launched at the Miami Summit held in December 1994, signed by the 34 heads of state and under the leadership of the US. One of its objectives was the negotiation of a Free Trade Area for the Americas by 2005. Although the US was not so convinced at that time, it adopted the leadership of the process afterwards. The Plan encompassed not only the traditional issues of trade agreements but also new issues such as services, investment, intellectual property rights, competition policy (Garay, 1997).

A distinctive issue of the Plan of Action for the Americas (agreed at the Miami Summit) resided in the explicit recognition of the importance of some extra-economic objectives for the US cooperation with the LAC countries like the combat against drug trafficking, the fight against corruption, the preservation of the environment, the commitment to regional security and the consolidation of democracy in the Hemisphere.

It is noticeable that these extra-economic objectives coincided with the most important topics that concerned the US citizens at that time and consequently were priorities for the domestic policy agenda in the US. In spite of this, following Phillips (2002): “[...] while hemispheric regionalism is clearly a mechanism by which US hegemony, WTO disciplines and neoliberalism are entrenched and advanced, the project is not dictated solely by US interests”. Indeed, there has been an outstanding variety of conflicts and coincidences at different levels among diverse actors who go beyond the sole states in the Hemisphere. Here resides at least part of the explanation of the complexity and uncertainty, antagonism and the contrasting types and scope of FTAs that have characterized the regionalism in the Hemisphere since the mid-eighties.

It is worth mentioning that US governments took advantage of the domestic political cycle in favour of the negotiation of various free trade areas since the end of the nineties, at a time when there was no progress in negotiations of neither FTAA nor a multilateral round, signing new generation NAFTA-type FTAs with Chile, Singapore, Central America, Colombia and Peru, consolidating the role of the US as a nuclear hub of the Hemispheric “hub-and-spoke” system of new generation FTAs. But, certainly, over time the political momentum for free trade negotiations has been weakening to the point that the Congressional approval of the FTA with Central America was extremely difficult and just by a precarious margin, and hence it

serious obstacles to the approval of the eventual FTA with some Andean countries can be foreseen, aggravated by the proximity of the coming elections to Congress at the end of 2006. At least for some time, the negotiation and approval of additional FTAs by US is unlikely.

Up to now the US has reinforced its hegemony in the Hemisphere in terms of being the central hub of new generation FTAs with all American countries except MERCOSUR, Bolivia and Venezuela, gaining enough power to have decisive influence in the negotiation of an eventual FTAA.

#### **4.4. US Regionalism and the WTO**

As already mentioned, US regionalism must be seen in relation to negotiations at the multilateral level. FTAs spurred by US and characterised by a wide scope, reveal a strategy to include high-priority topics of the WTO negotiation agenda into regional agreements. It is a strategy of the hegemonic power to turn its standards into regional standards, and subsequently, into global standards. In the US, the bilateral, regional and multilateral processes were seen as mutually reinforcing processes<sup>20</sup>. In this way, NAFTA had a visible impact on the Uruguay Round, both regarding the issues treated and the conclusion of the Round. In the words of US negotiator Zoellick: “[o]ur idea is to create a web of mutually reinforcing trade agreements in which success in one can be translated into progress elsewhere. Working on multiple

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<sup>20</sup> On the official US position towards the FTAA, see State Departement (2002).

fronts enables us to create a competition in liberalisation, with the United States as a nucleus for the network” (Zoellick 2002, 9).

However, apparently this strategy has been counterproductive to some extent. The frustration with the development of the Uruguay Round and the resistance provoked by FTAs, hindered the progress on the multilateral level and contributed to strengthening regional integration processes and to develop more substantial negotiation positions at the regional level.

US ambiguity towards Latin American regionalism (sometimes encouraging it, and sometimes preferring the bilateral or multilateral instruments) contrasts with recent EU policy where “inter-regionalism” has become an explicit strategy towards the rest of the world and particularly the South.<sup>21</sup>

## **5. Complexity, spill-over effects and uncertainty**

From a static perspective, the complexity of the map of bilateral, regional and inter-regional commitments is evident in the Latin American case. We have already mentioned the so-called “spaghetti bowl effect”. Although from a functional integration viewpoint, the arrangements at different levels can reflect political and/or economical rationality, it is a fact that complexity implies an administrative cost for the economic agents, without necessarily resulting in more growth or export

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<sup>21</sup> See, for example, Kennes (2003) and Farrell (2004).

diversification.<sup>22</sup> There is also the risk that the commitments of the overlapping agreements might not be mutually compatible (Rojas Aravena 1998; Rosas 2003, 161). Thus, Brazil, for instance, accused Mexico of not respecting the provisions contained in the Treaty of Montevideo of ALADI, when signing the NAFTA treaty. Questions were also raised concerning the compatibility between CAN rules, on the one hand, and certain provisions of the US-Colombia and US-Peru FTAs, on the other. It could also be said that the dispersion of efforts and commitments, weakens the regional organisations. From the perspective of monitoring and analysing integration processes, complexity is also an important difficulty.

However, it should be clarified that this “complexity” encloses different elements: (i) the growing number of agreements, (ii) the existence of overlapping agreements, (iii) the diverse content of the agreements and their compatibility. The *de facto* convergence of the regulatory models followed in the different agreements could at least partially compensate the quantitative effect.<sup>23</sup>

In effect, there has been important progress towards convergence in the Hemisphere in terms of a relatively limited number of reference models of FTA and CU in vigour. Firstly, US economic and commercial relationships with North and Central America, some Andean countries and Chile are regulated by a “hub-and-spoke”

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<sup>22</sup> For an analysis of the effects in the Mexican case, see, Ibarra-Yuniz (2003).

<sup>23</sup> On the emergence of regulatory models through new generation FTAs, see Sampson and Woolcock (2003) and Woolcock (2006).



system of “new generation” NAFTA-type of FTAs with the US as a “central hub” of this system. A similar situation has been created around Mexico, as a second-order hub.

Secondly, MERCOSUR has a first generation-type FTA with the rest of South American countries, playing the role of a sub-regional hub in a “hub-and-spoke” system in South America.

Thirdly, there is a system of partial and imperfect custom unions in three sub-regions in Latin America: Central America, the Andean Community and MERCOSUR.

From a dynamic perspective, and independently of structural determinants of the geo-political type, the effective course of the processes and their interactions, are difficult to predict. The regionalisation processes are, for example, quite sensitive to electoral outcomes, probably more sensitive than is the case in Europe or Southeast Asia. The continental integration process could have been different with a victory of Al Gore.<sup>24</sup> And similar reasonings could be put forward concerning electoral results in some key countries in Latin America.

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<sup>24</sup> In fact, presidential candidate Gore was very committed with the American Labour Federation – Congress of Industrial Organisations (ALF-CIO), due to the economical and political support that he received (Roet 2001, 212).

The uncertain character of the integration processes is also related to the ambivalent relation between regionalism and globalisation within a broader dialectic process of global structural change (Hettne 1999, 2).

The uncertainty of the processes is even more pronounced if combined with “spillover” effects and reactive strategic behaviour (for example, reactions to possible trade diversion), or prospective strategic behaviour (for instance, when a treaty with the US is the final objective of a trade negotiation with another country). This kind of effects has been clearly present in the integration processes on the American continent. Thus, the creation of MERCOSUR and the resurgence of CAN, could be seen as reactions to NAFTA; the recent restoration of bilateral negotiations with the US is a consequence of the difficulties found at the FTAA negotiations, etc. Examples of “strategic behaviour” are the cases of the Chile-Canada treaties, the bilateral treaties involving Mexico, and the G-3, where the subjacent objective of the non-NAFTA partners was to seek and protect access to the US market.

## **6. Conclusions and agenda for research**

Although the “new regionalism” concept is not generally accepted in academic and political discourses in Latin America, there seems to be a consensus in that region that regionalism (regionalisation) displays new characteristics since the end of the eighties or the beginning of the nineties. Latin American regionalism also seems to

have proper characteristics even though it is inserted in the course taken by regionalism in other parts of the world.

The novelty in Latin American new regionalism is, on the one hand, related to the considerable multiplication of the number of agreements (which is even more important in Latin America than in other continents: the so-called *spaghetti bowl*), and on the other hand, with the qualitative changes in regional agreements. In Latin America the close relationship between economic and politic reform processes, the radical changes in the FDI regimes, and the diffusion of the NAFTA model of economic regulation are important features.

From a trade angle, we could say that, at this point of time, regionalism in the Hemisphere is characterized by the coexistence and relationship between three basic models of integration: “new generation” NAFTA-type FTAs between the US (and to a lesser extent Mexico) and North and Central America, some Andean countries and Chile; “first generation” FTAs in South America, especially between MERCOSUR and the Andean Community; and partial and imperfect CUs in Central America (Central American Common Market), South America (Andean Community and MERCOSUR) and the Caribbean (CARICOM).

However, Latin America is also characterised by the co-existence and interaction between the various economic integration schemes in vigour, and the schemes and

*fora* of a more political nature (OAS, Rio Group, Ibero-American Summits, Summits of the Americas).

In sum, the current Latin American regionalism seems to show a greater complexity compared to other regions, and a more uncertain future trajectory.

On the basis of our analysis, a few points can be suggested for the research agenda on Latin American regionalism: (i) there is a need for multi-disciplinary approaches; (ii) it is timely to study the degree of *regionness* of the regions and the degree of societal participation in Latin America's integration processes; not only from an academic viewpoint but also because different degrees of *regionness* among the regions, could help to explain the different performance levels of the regional organisations and the different directions (existing and future) of regional integration processes on the sub-continent;<sup>25</sup> (iii) more consideration of the political and economical aspects of the dynamics of cross-border micro regions is required, be it as spontaneous, formal or semi-formal phenomena; (iv) more attention should be paid to analysing physical integration and mobility; (v) additional analysis is required of the needs and opportunities regarding regional public goods and the optimality of their provision at the regional level. Not only in the economical field but also, in security, infrastructure, health and migration, there seem to be opportunities; (vi) more work is needed on the relation between economic

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<sup>25</sup> On the *regionness* concept, see Hettne (1999, 10-11). See also Sunkel (2000) on the importance of including the geographic and historical dimension in Latin American integration studies.

cooperation and integration, on the one hand, and regional stability and conflict, on the other; (vii) more attention should be given to inter-regionalism and (in)compatibilities of US and EU regulatory models.

In synthesis, a better understanding of the political economy of regionalism in the Americas (and the rest of the world) is needed. In particular, it should be analysed which of the alternative modes of sub-regionalism in the Hemisphere reflects more appropriately the Latin American and Caribbean geopolitical interests and dilutes, to some extent, the US hegemonic interests. For this purpose, the various dimensions of regionalism should be considered: the scope and deepness of multi-thematic regionalism and sub-regionalism; the time-path for the attainment of a sequence of individual objectives *versus* a simultaneous advocacy of integrated economic, political and strategic objectives; the expected benefits and costs and their distribution between different sectors, countries and sub-regions; the relative autonomy, accountability, particularities and priorities of the sub-regional actors involved in the definition of the common regional and sub-regional agenda.

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