

**International Economic Policy in the New  
Regional Integration of the Americas: The Andean  
Community Case**

*Angel María Casas Gragea*

*Integration & Trade*



INTER-AMERICAN DEVELOPMENT BANK  
INTEGRATION AND REGIONAL PROGRAMS DEPARTMENT  
INSTITUTE FOR THE INTEGRATION OF LATIN AMERICA AND THE CARIBBEAN

Volume 6, Nº 16  
January - June 2002

# International Economic Policy in the New Regional Integration of the Americas: The Andean Community Case

*Angel María Casas Gragea*

*Master in International Relations and Doctoral Candidate at the Faculty of Economic Sciences and Business Administration (ETEA) of the Universidad de Córdoba (Spain)*

## *Summary*

*The author analyzes the new Latin American regionalism from an international economic policy perspective (EPI) with a particular focus on the Andean Community case study. This comprehensive and flexible approach allows for a diversity of lines of analysis, (from the theoretical perspectives of regionalism, regional institutions, international context and domestic structures). From this standpoint, the author intends to show the way in which two different conceptions of regionalism live together in an integration process such as the Andean Community at the beginnings of the Twenty First Century, namely: the “old regionalism”, of great influence during the sixties and seventies, and the current “new regionalism”. In practice, this coexistence appears to be an obstacle for the Andean countries to define their subregional integration model and to advance to their main goal: the balanced and harmonious development of their member countries.*

*An earlier version of this research was submitted in June 2001, in partial fulfillment of the requirements leading to the Master’s degree at the Universidad Andina Simón Bolívar (Ecuador).*

*The author wishes to thank Pedro Caldentey del Pozo, Fernando Mateo, Elisa Moyano, Marco Romero, and two anonymous referees of the Institute for the Integration of Latin America and the Caribbean of the Inter-American Development Bank (IDB-INTAL); and the help and support received from the Mutis Program of the Spanish Agencia Española de Cooperación Internacional (AECI) in Madrid, from the Universidad Andina Simón Bolívar, the General Secretariat of the Andean Community in Lima, from IDB-INTAL in Buenos Aires, and from the Faculty of Economic Sciences and Business Administration (ETEA) of the Universidad de Córdoba.*

## *I. INTRODUCTION*

Regionalism is not a new phenomenon - in Latin America or in the Andean subregion - as Latin American regionalism has thus far manifested two phases or waves.

The first, early regionalist, phase, dates from the 1950s and 1960s, when Europe was taking its first steps toward what is now known as the European Union (EU) and when, in Latin America, the Economic Commission for Latin America and the Caribbean (ECLAC) was at the vanguard of regional economic development thought, basing its approach on the import substitution-industrialization model (ISI). In those days, regional integration was viewed as a mechanism that would overcome the obstacles to the success of ISI, obstacles related essentially to market size. Integration initiatives also sought some degree of protection

from abroad to spur the development of their regional economic structures, principally through industrialization. The establishment of Latin American Free Trade Association (LAFTA),<sup>1</sup> the Central American Common Market (CACM) in 1960 and, in 1969, today's Andean Community (CAN) date from that era.

The most recent wave of Latin American regionalism, referred to by some as the *new wave of regionalism, open regionalism, or new regionalism*, began to emerge at the end of the 1980s, and led to the renewal or establishment of regional integration agreements such as, in 1991, the Southern Common Market (MERCOSUR), whose roots lay in the 1986 Program for Integration and Economic Cooperation (PICE) between Argentina and Brazil, and the redesigned CACM and CAN. The proliferation of preferential trade agreements such as: the Asia-Pacific Economic Cooperation (APEC) forum, in 1989; the Enterprise for the Americas Initiative of 1990, which would evolve toward the proposed Free Trade Area of the Americas (FTAA), emerging from the Miami Summit of the Americas in December 1994; and the North American Free Trade Agreement of Canada, the United States, and Mexico (NAFTA), which entered into force in January 1994, may be considered part of this trend. There are three essential reasons why reference may be made to a "new regionalism" in Latin America: unilateral trade liberalization, foreign direct investment (FDI), and the profusion of trade and integration agreements seen by the region in recent years.

This new Latin American regionalism is characterized by its intensity (owing to the variety of characteristics and types of relationship covered by the term), as it ranges from commitments entered into solely with a view to trade deregulation, to economic, political, and social integration projects. This means that the new regionalism has become a multidimensional phenomenon (clear distinctions are difficult to draw between political, economic, and security issues); broad (because of the number of topics the term describes or may describe), and flexible as, at present, which countries are participating in one or another regionalization process varies, and it can, and in fact has, happened that a country participates in different regional process within Latin America and with other countries of other regions of the world (spaghetti bowl). In consequence, new regionalism may be described as a wide-ranging and disparate phenomenon of many hues, depending on the region in question.

To assist in understanding the phenomenon in the Latin American countries, the following terms are defined as used herein:

- "region" means Latin America as a whole; "subregion" means smaller blocs of countries comprising the region, such as the Andean, Central American, or Southern Cone countries.

- "regional or subregional integration" refers to agreements taking a *structuralist or Rhine [Rhenish or Central European] approach* (see Albert [1992] and Klein [2000]). Such agreements are based on an intergovernmental and supranational model; involve economic, political, and social integration objectives; and address economic issues (ranging from free trade in goods and services, to the "new issues" among member countries, to the formation of an economic and monetary union), political issues (such as democracy and political unification projects), and social issues (e.g., free movement of persons, education, etc.). It should be noted that, through such broad objectives, the *Rhine or structuralist paradigm*<sup>2</sup> proposes a community and supranational "regional or subregional integration" model gradually implemented by its members gradually, with the assistance of intergovernmental institutions during the transition process. This supranational structure for the attainment of economic, social, and political "regional or subregional integration" objectives is designed to generate benefits for the population through ever-increasing interdependence.

- In “regional or subregional trade preference and cooperation agreements,” the *Anglo-Saxon or liberal approach* predominates (*Ibidem*). Such agreements are based exclusively on an intergovernmental model. Their basic objective is trade integration (free trade in goods, services, and the “new issues” among member countries) and cooperation in specific areas (such as promotion of democracy). Under this paradigm, regional or subregional agreements are seen as resulting from a group of economies whose governments cooperate with one another in order to attain the end objective: world free trade. “Preferential trade and cooperation agreements” thus draw their inspiration from the *Anglo-Saxon or liberal paradigm*.

We make the above distinction because, for us, the concept of “regional or subregional integration” encompasses the concept “regional or subregional trade preference and cooperation agreement.” “Regional or subregional integration” is a concept of more wide-ranging implication, as it goes beyond mere trade and cooperation among two or more countries in specific areas, and involves measures to intensify the economic, political, or social relations of a group of countries. In turn, these two concepts form part of regionalism in its broadest conception.

As well as clarifying the scope of these terms, which constitute a synopsis of the reality of the current regionalist phenomenon in Latin America (not to mention the complex network of bilateral agreements between different countries of the region, as well as with groups of countries), we must note that the nature of that reality makes it necessary to have a theoretical framework (see Boonekamp [2002]). In that connection, Fawcett and Hurrell indicate that theory of course is not everything. But it is crucial to the establishment of definitions, concepts, and categories to be used in the study of regionalism. It makes evident persistent assumptions, explanatory variables, and causal mechanisms; and provides a coherent framework for the systematic comparison of different parts of the world (Fawcett and Hurrell, [1995] p. 3).

The regionalist phenomenon has essentially been studied from either an economic or a political science perspective and, in studying developments in regionalism, the European experience has been the main focus. The economic sciences, specifically *customs union theory*, *optimal monetary theory*, and *fiscal theory*, have produced the most literature in this area. The political sciences have approached the topic from the *realist*, *neo-realist*, *functionalist*, *neo-functionalist*, *neo-liberal institutionalist*, and *constructivist* perspectives, among others.

Most studies of regionalism underscore the economic nature of regional integration and cooperation agreements, although some also study political (geopolitical and security) factors leading to the formation of regional or subregional blocs and the impact of such factors on national and international policy.

We will take an international economic policy (IEP) approach to the new wave of Latin American regionalism, and to a case study: the Andean Community. This approach seeks to study economic and political factors together that foster and sustain the new regionalism, which are the result of both economic and political variables, thereby avoiding the deficiencies of partial economic or political approaches stemming from the complexity of the regional phenomenon.

The CAN is a regional integration process emerging during the first wave of regionalism, which was revitalized in the 1990s and adapted itself and formed part of the new Latin American regionalism. Using the economic policy variables (national structures, regional institutions, and the international context) comprising the IEP approach, this work will seek to demonstrate how, at the dawn of the 21st century, in an integration process

such as that of the CAN, two different concepts of regionalism can coexist, the most influential “early regionalist” concept and the “new regionalist” concept, such coexistence becoming – from our perspective – an obstacle to the definition of an Andean subregional integration model and the achievement of its main objective: the balanced and harmonic development of the Member Countries.

Section II of this paper provides an overview of the new Latin American regionalism and discusses it as a geographic, non-geographic, voluntary, and non-voluntary phenomenon. This overview and the terms defined in this introduction will constitute the foundation for analysis of the three variables considered by our study to be key. Section III briefly discusses the significant influence, in attaining the objectives of a regional process, of national structures or realities of the member countries, and we discuss the theoretical developments used in the study of regional institutions based on an analysis of the dynamic intergovernmental and/or supranational nature of their organs and institutions. Section IV discusses theoretical studies of regionalism from the international perspective, essentially those discussing power relationships, economic and political interdependence, and the relationship between regionalism and the globalization phenomenon. Section V discusses the Andean (CAN) subregional integration process in the light of the three variables mentioned above. Lastly, Section VI draws conclusions regarding the Andean integration process in the early 21<sup>st</sup> century.

## *II. A GENERAL OVERVIEW OF THE NEW LATIN AMERICAN REGIONALISM*

Distinctions among different types of regionalism are usually drawn in terms of the geographic and non-geographic criteria on which it is based. These distinctions may be broken down further depending on whether the regionalism, geographic or non-geographic, is determined by natural dynamics, “involuntary regionalism” or the countries’ government political commitments, “voluntary regionalism.” The spheres and criteria underlying this new regionalism form a complex framework that it is difficult to define precisely. Nonetheless, based on the abovementioned parameters, in this section we will provide an overview of the new wave of regionalism enabling us to define “ideal types,” in Weber’s sense, of the new Latin American regionalism and its relationship with other countries and regions of the world (see Table 1).

1. “Geographic regionalism” refers to two or more physically proximate countries that cooperate with one another. This definition, the most traditional, has a markedly economic slant, as most authors pioneering the study of regionalization processes were economists. Today, however, a growing number of authors consider that demarcation of a geographic area should not be based solely on economic criteria (trade models, economic complementation, monetary area) but rather on cultural and functional criteria that produce regional cohesion: social (ethnicity, race, language, religion, culture, history, consciousness of common heritage), political (type of system, ideology) and organizational (the existence of formal regional institutions). “Non-geographic regionalism,” a more abstract concept as it is not territorially-based, and may be based indifferently on all of the above criteria that generate increases in levels of political and economic activity among two or more countries, even if not located in the same geographic area (Hurrel [1995], p. 38)<sup>3</sup>.

As mentioned above, “geographic regionalism” is determined by the geographic proximity of two or more countries. According to Mansfield and Milner ([1997], pp. 3-4), some scholars argue the “geographic regionalism” emanates naturally from the fact of

proximity, convergent politics and sources of income, and high levels of intra-company trade. According to these authors, other studies view such regionalism as the result political choices made on the basis of national decisions. For them, regionalism would stem from the political will of the leaders of countries forming a particular geographic region, so that natural determinants are only the initial reason encouraging and fostering leaders' intent to develop closer ties with the other countries in a geographic region. The CACM, CAN, and MERCOSUR have their origins in this type of regionalism, which combines political will and shared geographic area. For example, in the Andean Community, from the outset the will was present, with the signing of the Declaration of Bogotá<sup>4</sup> in 1966.

2. The elements of "non-geographic regionalism" are extremely broad and diverse (economic, social, political, cultural, or historical) and thus are more ambiguous than the geographic. Neither is this considered an entirely natural phenomenon, but rather one based on political will. This view of "non-geographic regionalism" that does not see it as the result of natural dynamics contrasts, for example, with the uncritical naturalization of the globalization process, a phenomenon considered to be "involuntary" rather than geographic.

A further distinction may be drawn between "geographic" and "non-geographic" regionalism by considering whether such processes are based on natural forces, "involuntary or informal regionalism," or on the countries' government political commitments, "formal or voluntary regionalism."

To summarize, despite deficiencies in the definition of "geographic regionalism," it remains the most common and evident way of defining a region. This definition of regionalism based on geographic area indicates little regarding a region's dynamics, but provides us with a less ambiguous and more manageable starting point by visualizing a specific space and by assuming that economic benefits accrue from proximity.

3. "Involuntary regionalism" involves a society's integration process resulting indirectly from economic and social interactions within a specific region. Such regionalism is of an informal and moderate nature as, usually, it is not based on government decisions but on natural dynamics taking place in specific geographic regions, even if such regions overlap the borders of different national territories. To summarize, there are specific territories, separated for political reasons (borders), whose natural geographic forces and historical, ethnic, cultural, and social factors generate significant economic and social interdependence, interdependence that perhaps was always present.

Many border areas would exemplify this. Trade in goods and cross-border movements of persons are very active between northern Ecuador and southern Colombia. This region corresponds to the Inca Empire's North Chinchasuyo and, in the colonial period, the Royal Audiencia of Quito (comprising Ecuador and southern Colombia). Other examples are: the border area between Bolivia and northwest Argentina, an area which was the Incan Collasuyo, part of the Viceroyalty of Peru known as the Audiencia of Charcas and, from the late 18th century until the time of independence, part of the Viceroyalty of Rio de la Plata; southern United States and northern Mexico were, in the colonial period, the Viceroyalty of New Spain; or the Rio de la Plata basin, which covers part of what is now the Argentine Republic and the Eastern Republic of Uruguay, a hydrographic ecosystem which, after independence from the Spanish Crown, was divided, but remains culturally and ethnically very homogeneous.

4. Geographic and non-geographic "voluntary regionalism" based on economic criteria involves special political decisions taken by governments mandated to reduce or eliminate barriers to trade between countries in goods, services, capital, and persons (Hurrel

[1995], p. 43). "Voluntary regionalism" revolves around the range of activities it comprises, the intensity of economic and political commitments, and effective centralization of decisions taken in the framework of a regional agreement. This regionalism ranges from bilateral, trilateral, or multilateral geographic (FTAA or the Group of Three, G3) and non-geographic (free trade area between the EU and Mexico) preferential trade agreements, each one at an extreme, based on economic and political criteria. These agreements need not include geographically proximate countries and would correspond to what we have called regional or subregional "preferential trade and cooperation agreements," as intergovernmental initiatives among states would be categorized, and whose institutional authorities essentially discuss specific areas of cooperation without supranational intent.

5. "Geographic regionalism" may also stem from entrepreneurial initiative. Transnational companies, as if by Adam Smith's invisible hand, weave a web of economic relations economically integrating different national territories. Such economic regionalism is informal and involuntary, as it is not based on government decisions, but on the economic dynamics of companies through intra-company trade and on mergers among a region's companies. In today's regionalism, this process is having great impact, with transnational companies playing the lead part (Kalher [1997], pp. 28-29).

"Regional or subregional integration" agreements such as the CACM, CAN, and MERCOSUR may be classified under "geographic regionalism," which is based on economic, cultural, and functional (social cohesion, political, and organizational) criteria, as a region involves more than mere physical proximity among constituted states (Mansfield and Milner [1999], p. 591). Thus far, we have seen that geographic proximity is viewed as a factor facilitating and benefiting voluntary regional initiatives. However, the geographic criterion may, in some areas of Latin America, be a relative one, owing to long distances and natural barriers. For example, the Andes Mountains constitute the backbone of the South American continent, and traverse the Andean countries, characterizing them. However, the great disparities in elevation mean that the distance between those countries is somewhat relative. For example, between cities such as Lima (Peru) and La Paz (Bolivia), in addition to kilometers of distance, is nearly 4000 meters of elevation. In that connection, Kevin Kearns went so far as to indicate that the vast differences in physical geography of the southwest of the Americas are the sharpest and most limiting in the world. The terrain is replete with barriers. The heights of the Andes Cordillera, the dense forests of the Amazonian flatlands, and the wide unpredictable rivers separate more than unite people and resources (Mattli [1999], p. 149). In addition to these natural barriers, land infrastructure (the Pan American highway) is inadequate, a road conceived in geopolitical rather than geo-economic terms; barriers are created by non-compliance with provisions on physical and transportation integration; and levels of inefficiency and corruption are high in Andean border areas. In short, at present, the benefits to the Andean countries of geographic proximity and the absence of barriers to trade are extremely limited.

To summarize the points made thus far, a "political-economic preferential trade and cooperation agreement" or "regional or subregional integration agreement" is not based solely on natural dynamics unifying different countries, but also on the political will on the part of the leaders and people. In short, regionalism is not based solely on geographic criteria, although these are important as geographic proximity has logical implications for transaction costs, economies of scale, market size, and sector complementation.

6. The proliferation of "preferential trade and cooperation agreements" would appear to be based on functional logic, that is, the belief that the opening of trade and

enhanced trade relations with the rest of the world will lead directly to greater welfare among the population. However, it must not be forgotten that regional cohesion factors (social, cultural, political, religious, and historical) exceed purely economic borders and help to ensure that the web of bilateral, trilateral, and multilateral trade agreements being concluded by the region's countries may become true generators of welfare. For Samuel Huntington, the principles of economic cooperation reside in the coincidence of cultures (Huntington [1997], p. 159). Regionalism based on such factors – regional consciousness and identity – is imprecise and subjective; such regions are defined by an “imagined community” (see Anderson [1991]), based on a single culture, language, and history, and common religious traditions.

Such regionalism would be “non-geographic” and voluntary, based on criteria that exceed the purely economic. Such regionalism would be constantly defined and redefined owing to the “identifying” and subjective nature of the subjects comprising it, in parallel with groupings based on nationality, nation, and fatherland, which also are constantly evolving. These are the factors on which, for example, the regionalism emanating from the Ibero-American Community of Nations is based.

### *III. NATIONAL STRUCTURES, REGIONAL INSTITUTIONS AND INTEGRATION*

#### SOCIAL FACTORS AND NATIONAL INSTITUTIONS

In the IEP framework, there is justification for introducing the national structures of each of the countries comprising one or more of the Latin American regional initiatives in that, as indicated by Mansfield and Milner, decisions taken to conclude a preferential trade agreement (or an integration agreement)<sup>5</sup> are based partially on the political power of different segments of society, the interest of state leaders, and the nature of national institutions. Such structures are the foundation of any integration process as they constantly interact with it through national pressure groups (entrepreneurs and civil society), political leaders, and national institutions.

Regional processes have traditionally been promoted by the countries' political and economic elites, based on their particular circumstances. In the 1970s, the Latin American presidents played a fundamental part in promoting integration processes within the region. That is, the initial Latin American regionalism was launched “from above,” where the need was recognized to form regional groups in order to promote development and satisfy certain cultural and political aspirations of countries in Latin America or, at least, of their leaders. Over time, this regional integration, whose progress has thus far remained heavily contingent upon the political will of Latin American leaders, did not meet with the anticipated success (the countries remain impoverished and are regularly plunged into crisis).

One example of such presidential support for integration processes in the early regionalist phase was, according to Felipe Herrera,<sup>6</sup> the “Document of the Four” of 1965, proposed by Eduardo Frei, then President of Chile, and drafted by Raúl Prebisch, José Antonio Mayobre, Carlos Sanz de Santamaría, and Felipe Herrera himself. This document proposed a plan of action to create a true, functional Latin American common market with participation by all countries south of the Rio Grande (Herrera [1973], p. 8). It was presented at the Meeting of American Chiefs of State of Punta del Este (Uruguay) of 1967, where it assisted in redefining inter-American relations among those who considered that the “Alliance for Progress” had not been the proper response. At that meeting, the Latin American presidents evidenced a strong integrationist spirit, which gradually waned at meetings held immediately afterwards (see Herrera [1973]).

In the most recent wave of regionalism, political leaders remain important players such regional processes of any type as may exist within the region. But the new regionalism, according to Miles Kalher, is receiving its greatest impetus from economic and business groups, at the expense of the political groups of earlier periods. However, distinctions among leaders are based on whether their activities are voluntary. While political leaders may be voluntary players, entrepreneurs and bankers are not necessarily so (see Kalher [1997], pp. 28-29).

Civil society would be another essential player in regional or subregional initiatives as it, in theory, is the end beneficiary of such initiatives. In all eras, it, paradoxically, has been absent from Latin American regionalism. Today, the importance of participation by civil society as "proposers" is frankly acknowledged and, in "profound" integration processes (economic, political, and social), it is said that, for democracy to be built, there must be "community of citizens." For example, in the CAN, Sebastián Alegrett<sup>7</sup> considers that the Andean Parliament ought to be the natural forum "for building the 'community of citizens' and contributing to active participation in the integration process by 'the ordinary Andean citizen.' It is impossible to conceive of integration that takes place behind the backs of the peoples who are, in the last analysis, its main beneficiaries" (Alegrett [2001 (b)]).

Other fundamental players are member country institutions which, in keeping with Douglas C. North's definition, constitute the set of a society's rules of the game (...) and create incentives to human changes in the political, social, or economic spheres. Institutional changes forge the paths along which society moves over time and provide the key to understanding historical changes (North [1990], p. 3). It would thus be essential for member countries of a regional process to have similar or homogenous institutional structures through which to attain the economic, political, and social integration objectives proposed in the most ambitious cases, such as the CACM or CAN. Underlying this institutionalist vision is the idea that it is costly – because transaction costs are high – to have inefficient institutions and that states are thus justified in seeking to develop them. "Institutional development may be understood as the transition from one set of rules to another, more efficient, set, thereby reducing transaction costs and better addressing the aspirations of an entire society" (Stark [2001], p. 6).

Today, it is essentially sought to promote, by means of Latin American development processes, the development of national institutions through initiatives that harmonize their macroeconomic policies (in the economic sphere), and develop, enhance, and consolidate democracy and the rule of law (in the political sphere).

#### THE INSTITUTIONAL STRUCTURE OF REGIONAL INTEGRATION AND ITS POLITICAL IMPLICATIONS

In keeping with the distinctions made in the Introduction, "regional integration" is built on supranational regional community institutions, in which member states gradually cede sovereignty in decision-making to community institutions of higher rank. In addition, "preferential trade and cooperation agreements" seek to advance via an intergovernmental institutional structure, where decision-making remains in the hands of the states and there is no cession of any type of sovereignty to institutions of higher rank than national institutions, nor is any envisaged.

The *neo-functional* theoretical approach seeks to study the *Rhenish or structuralist* institutional structure of "regional or subregional integration" processes and argues that supranational institutions are the only means available to the member states to achieve a regional or subregional agreement with a view to optimal welfare. On the other hand, the theoretical *neo-liberal institutionalist* approach discusses the *Anglo-Saxon or*

*liberal* intergovernmental institutional structure of “preferential trade or cooperation agreements.” This approach situates the national states at the center of the regional process, states which, through negotiations among their leaders, define the areas or fields where they wish to cooperate, without a need to create any permanent higher institutions to that end. In this approach, negotiations among countries are productive when the countries’ representatives agree to seek convergence of their respective national interests.

Our analysis of institutional structures in Latin American integration is based on two paradigms, *Rhine or structuralist* and *Anglo-Saxon or liberal*, and two theoretical approaches, *neo-functionalism* and *neo-liberal institutionalism*, which have studied the regional or subregional institutions of integration and cooperation agreements. At first glance, it might seem that such paradigms, characterizing regional practices still in use, and the theoretical approaches we have chosen, are two different things. But, in fact, our aim is for the former to be the focus of study of the latter and thus to systematize for purposes of our study the theoretical underpinnings of the institutional structure of regional or subregional integration processes.

### *Neo-functionalists or supranationalists*

*Neo-functionalism*, as the theoretical development of the *Rhine paradigm*, which is conceptualized as *structuralist*, draws its inspiration from the European integration process which, in turn, has been the institutional referent for many Latin American integration processes. Neo-functionalism authors are convinced that for “regional integration” to be successful and to benefit each member of a regional integration process, supranational institutions must be built to which the states cede part of their sovereignty in certain areas. In this approach, the traditional nation-state, the primary institution of the modern political order, loses power. *Neo-functionalists* say that, as interdependence is tightened among the member countries of a group whose integration is under way, it will lead to an ongoing process of cooperation among those countries, which will inevitably lead them to an integration of a higher and more intensive order, both economic and political. The supranational institutions resulting from such integration are, for the *neo-functionalists*, the most effective way to resolve common *low-level policy* problems (technical and non-controversial matters) and to advance toward resolution of *high-level policy* problems (coordination of macroeconomic and foreign policy). These processes take place owing to increasing interdependence among the parties and the adoption of more intensive commitments, thereby generating a spillover effect.

The spillover effect is based on the assumption that progress made in a regional integration process is irreversible, that is, the progress cannot be turned back. At present, the European process toward further integration, in terms of mutual security, political unity, and enlargement to include the Eastern European countries, is problematic and has launched discussion within the EU. However, under this neo-functionalism assumption, such difficulties can never imply a reversal of the achievements made thus far by the EU. In addition, the emergence of such problems and the search for solutions will in the end be the great driving forces behind the integration process. *Neo-functionalism* authors consider that the spillover effect exists because what has been achieved cannot be reversed, as in the European case cited, but they do not explain why. Moreover, this approach does not consider what impact the international context and globalization may have on this dynamic as a whole.

Another element that would, in the *neo-functionalism* view, further the integration process, and here we cite Walter Mattli (Mattli [1999], p. 26), is the *upgrading of common*

*interests* that occurs when member countries encounter difficulties in achieving common policies, although there is a recognized need to achieve certain standards that may safeguard other aspects of the relations among them. At this point, the need is acknowledged for autonomous supranational institutions to which sovereignty may be ceded, institutions capable of upgrading members' interests.

The *neo-functionalists* believe that, as integration processes intensify, the nation-state will disappear and national loyalties will be replaced by a more abstract loyalty to the "region-state." The construction of this new and renewed type of state, also the focus of much criticism, would, in their view, facilitate the cession of sovereignty of the nation-states to a higher form of state which, in the future, would have responsibility for addressing high-level policy.

Although the EU has inspired this approach, since the Summit of Nice (France) of December 2000, serious obstacles have arisen to intensification of integration, to further cession of sovereignty, to intensification of European security, and in the governmental framework of the unified and enlarged Europe. Progress made within the EU is increasingly on an intergovernmental basis, as high-policy matters are the responsibility of the European Council<sup>8</sup> and of the Council<sup>9</sup>, and not of an autonomous and supranational platform such as the European Commission. It has become very difficult to take a *neo-functionalist* approach to the study of recent and future developments within the EU; however, proponents of that approach, although mindful of such difficulties, continue to cling to the idea that the headway made is irreversible. In view of an uncertain international context in a state of flux, less dogmatic approaches may question whether it is in fact impossible to reverse headway made.

At present, among EU institutional structures, the balance is tilting toward intergovernmental institutions over the supranational, as is also occurring within Latin American integration processes. However, neo-functionalist authors continue to invest their faith in the key part to be played by supranational institutions in regional integration processes under way worldwide. This would tend to support Andrew Hurrell's assertion that it is possible that neo-functionalist ideas might become more pertinent in the future as regional cooperation intensifies and regional institutions become more firmly established (Hurrell [1995], p. 61) which, evidently, does not seem to be the case either within the EU, Latin American regional or subregional integration, or with the new regionalism as a whole.

There are doubts about the ability of the *neo-functionalist* approach to assess the relationship between optimization of welfare and "regional integration" and its failure to address questions such as: Why is decision-making at community level more efficient? Why do some integration schemes fail? What forces make the nation-state obsolete? What part does the international context play in integration? Why does a country decide to join an existing community and why does it decide to do so at a particular time? and What is the impact of the construction of a supranational community on non-member countries? (Mattli [1999], pp. 10 and 28).

### *Liberal institutionalists or intergovernmentalists*

*Neo-liberal institutionalism* has been the theoretical approach of greatest influence on the development of a regional process guided by the *Anglo-Saxon or liberal paradigm* based on intergovernmental negotiations – *intergovernmentalism*. It draws its inspiration from regional initiatives such as NAFTA and the FTAA. The three main contentions on which this perspective is based are:

First, the growing levels of interdependence generate greater demand for international cooperation. Institutions are seen as intentionally-generated solutions to different types of problems requiring collective action (...) provisions, rules and institutions are created because they help states to address common problems and because they promote welfare (...) Secondly, neo-liberal institutionalism is heavily state-oriented, utilizing forms by means of which states consider that rational selfishness can lead to cooperation. In contrast with the pluralistic network emphasized by the neo-functionalists, the state is seen as the effective arbiter between the national and international spheres. In fact, this approach underscores the way in which successful collaboration in addressing common problems reinforces the role of the state (...) The objective is to study and isolate the specific constellation of power, interests, and likely preferences to explain the sources and limitations of cooperative behavior (...) Thirdly, institutions are concerned about the benefits they provide, their impact on the calculations of participants, and how states define interest. Institutions achieve this by providing information, promoting transparency and oversight, reducing transaction costs, promoting the convergence of expectations, and facilitating the productive use of issue-linkage strategies. They particularly underscore the number of participants and the effectiveness of mechanisms discouraging non-compliance." (Paraphrased from Hurrell [1995], p. 62)

To summarize, *intergovernmentalism* or *neo-liberal institutionalism* views regional processes as a series of negotiations among the political leaders of states in specific areas with a view to expanding cooperation among those states. Regional processes resulting from convergence of the preferences of states' political leaders are not based on a vision of their common benefit, but on rational selfishness which, in the end, will generate benefit for them all. Neo-liberal institutionalism may be a theoretical approach with which to study the institutions emerging from "preferential trade and cooperation agreements," thereby making it a plausible theory of generalized application to be used in gaining an understanding of the new Latin American regionalism.

One possible criticism of this theoretical approach is that, once agreement is reached among the political leaders of the different states, they consider that this will guarantee successful implementation of that agreement, something shown to be false in the daily application of the numerous bilateral, trilateral, and multilateral agreements of this type concluded worldwide in recent years that are not fulfilling the objectives they contain. One such example is the G3, an agreement that today is virtually ignored.<sup>10</sup> In addition, *intergovernmentalism's* faith in the value of the conclusion of an agreement for its success may be the explanation for the long and arduous negotiations under way with a view to achieving, in 2005, the Free Trade Area of the Americas (FTAA), as the countries involved in constructing that regional free trade agreement take this theoretical approach as their starting point.

Like the *neo-functionalists*, the *neo-liberal institutionalists* may be criticized for not including in their analysis the impact of external factors and limitations on progress in the countries' regional processes. Consideration of such factors is of fundamental pertinence in the developing countries groups, where often the main obstacles to the advance of their regional processes are elements such as: external debt, externally-imposed liberalization and structural adjustment plans, FDI, the status of developed countries' economic cycles, etc., which, in the vast majority of cases, have greater bearing than the decisions taken by these countries' political leaders.

## *Other classifications and some legal bases for the study of regional integration institutions*

We also consider it important to mention the classifications that Isaac Cohen and Michael Emerson have proposed in their works (see Cohen [2000] and Emerson [1999]) which, taken together, complement the classifications we propose. They augment one another and, more importantly, together they assist in gaining an understanding the theoretical bases of “regional or subregional integration’s” institutional structure.

Isaac Cohen (Cohen [2000], pp. 109-121) distinguishes three alternatives: (1) the “federalist,” an institutional form tending immediately to create supranational institutions; (2) the “neo-functionalist,” which is that alternative that arises in view of the political impossibility of immediate establishment of “idealized”<sup>11</sup> federal institutions, and which is seen as a transitory option until the “federalist” option is gradually achieved. This option would correspond to what we call the *Rhine or structuralist paradigm*; and (3) the “functionalist,” which does not concern itself with the end objective, and where such institutions as may gradually disappear are designed to implement *issue-linkage strategies*, through the adoption of solutions that are also common (Cohen [2000] pp. 118-120). According to our classification, this alternative corresponds to the *Anglo-Saxon or liberal paradigm*.

Michael Emerson (Emerson [1999], pp. 239-284) studies European regional institutions by postulating four multinational government models: *federatio*, *confederatio*, *condominio*, and *consortio*. (See Table 2).

*Federatio* and *confederatio* both have predetermined territories, but differ in that “the functions of the *federatio* are implemented as standard policies, while the *confederatio* permits a degree of flexibility in their application by territorial units, even allowing some such units to opt for remaining outside the confederation, but not to the extent of undermining the essential unity of the whole” (Emerson [1999], pp. 240-241). The fundamental distinction drawn by this author between the two models is the greater legitimacy of the *federatio* at the higher level, the regional state or super-state, while in the *confederatio*, the nation-state retains its effectiveness. “This is consistent with the conventional distinction between federation and confederation, in which, in the federal case, greater legitimacy is recognized at the higher level as compared with the confederate case, in which the states retain political primacy. But, in both cases, there is interdependence or sufficient synergies, spillover effect, and upgrading common interests,<sup>12</sup> among the spheres of competence at top government level, so that the value of the unit as a whole more than offsets the loss of scope for action of the states” (*Ibidem*, p. 241).

However, *condominio* describes the case “where a given policy is implemented with rather powerful and ongoing common mechanisms of a legal, financial, or decision-making nature” (*Ibidem*). Examples of two institutions based on this model are NATO (North Atlantic Treaty Organization) and the European Central Bank (ECB). However, in the *consortio*, “functions are carried out in a more relaxed framework, and may be based on cooperative behavior for specific periods rather than on ongoing commitment” (*Ibidem*) This model is the one on which organizations such as the OECD and the European Council are based.

The classifications above emerge from political analysis of regional or subregional institutions. However, it cannot be forgotten that terms such as supranationality, integration, confederation, and federation used to analyze “regional and subregional integration” processes have considerable foundation in law. We point to foundation because it appears to us that if, in the study of institutions from an IEP perspective, we do not give proper

consideration to the use of such terminology, many imprecise classifications might in the end be created, which would more confound than clarify analysis.

From a legal perspective, Begoña Vidal situates “regional or subregional integration processes” “at an intermediate point, sometimes operating under international law and, at others, employing federal techniques” (Vidal [1999], p. 120). And here, according to Vidal, the term *supranationality* emerges as a concept midway between “international,” by which “preferential trade and cooperation agreements” are governed, and “federal,” as the objective to be attained with consolidation of “regional or subregional integration” into a super-state. According to Pescatore,<sup>13</sup> supranationality is “autonomy of power and action on behalf of the common interests and objectives of several states, its foundation being the recognition by several states that purely national interests have been overcome and that such interests has been subsumed into the interest of a larger human community” (*Ibidem*). This distinctive and particular characteristic is the source of the distinction made by the author between *federation*, *confederation* and *integration* as supranational regimes for the organization of states. These terms are linked by the existence of a certain solidarity among community unification processes which, as they do under Cohen's *neo-functional* theoretical approach or “neo-functional” alternative, mark an integrating tendency of states, the spillover effect, toward federal union. This means that the neo-functionalists, in keeping with federalist political doctrine, support the federal form as the most appropriate way to organize the integration of a region or subregion.

For Pescatore, *federation* describes the case where participating groups are autonomous but not sovereign from the moment that the federation becomes a full-scale state, the regional state. This term essentially coincides with Cohen's “federalist” alternative and with Emerson's *federatio*. As is the case for the first term mentioned, the *confederation* is based on the establishment of general ties of union, except that each of the members retains their sovereignty. And *integration* is distinguished from the terms above because it specifies unification projects among states for particular sectors without seeking to encompass all powers of a state, although it is similar to the federal formula as the strength of ties among the states increases, along with relationships within the sectors involved.

The difficulty of using this terminology for “regional or subregional integration” agreements emanates from the fact that ongoing processes are being defined which, in principle, are subject to international law as long as they go no further than preferential trade agreements. They later become subject to community or integration law as their ties and common commitments to certain supranational aspects are developed. And, lastly, if the political will of the member countries so permits, the integration process will in the end establish a federal state subject to public law.

While these “regional integration” processes (economic, political, and social) flow, in the *neo-functional* view, with its choice of a federal super-state, it will inevitably be difficult to classify these integration processes as political objects. To paraphrase the political scientist P. Schmitter, in reference to the EU case, Latin American “regional or subregional integration” projects are unclassified political objects which, for the moment, work, but defy conventional categorization, that is, these integration processes, assisted by the instrument of community law, are transitionally valid but cannot be identified in political analysis. According to this author, in Emerson's words, “Either the EU is truly unique and always will be, or it is an immature political structure that will not stand the test of time unless a more solidly distinguishable political form is adopted.” (Emerson [1999], p. 240).

In view of the foregoing, Emerson adds that “for Europe (or Latin American integration processes)<sup>14</sup> to be a meaningful political entity, there must be a substantial

proportion of *confederatio* or *federatio*" (*Ibidem*, p. 242) and if the concentration of power permitted by such government models is to be justified, the synergy among the competences exercised by the institutions must achieve credibility and influence in foreign policy and be intrinsic to the political, economic, and social development of the member countries.

#### IV. THE INTERNATIONAL CONTEXT AND INTEGRATION

Another way to study regionalism is to study it within its international context. This variable focuses on the birth or restructuring of regional or subregional processes under way and as the result of the pressures of a particular international context. Mansfield and Milner indicate that states do not decide to enter into a preferential trade agreement in an international political void (Mansfield and Milner [1999], p. 608). At this point, it is important to distinguish between "first class" regional processes, which are those in which the three large blocs participate (Europe, in the EU; the United States, in NAFTA; and Japan, in the South-east Asian regional process), and "second class" regional processes, such as CACM, CAN, MERCOSUR, etc. "First class" regionalization processes may influence the international system directly by defending its interests, and its regional models have the ability to attract and polarize "second class" regional processes. The latter manifest considerable economic and political-ideological dependence vis-à-vis the former, thereby hindering their autonomous action. This typology shows how power relationships among international players (states and multilateral institutions) have positive or negative impact on the establishment and model of regional "preferential trade and cooperation" or "integration" agreements. And, in turn, the establishment of such agreements influences global cooperation and political and economic integration agreements.

*Systemic theory* has been the principal source of studies of regionalism in its international context by analyzing the impact of international political and economic structures, power relationships, and multilateral institutions on regional agreements. In studying the reality of "regional or subregional preferential trade and cooperation agreements," and of "regional or subregional integration," authors employing this theoretical instrument justify doing so as, in their view, it eliminates the reductionism of partial analyses (of nature: biosphere and ecosystems; of the economy: the world, blocs, states, regions, and municipalities; of politics: world, inter-state, inter-bloc, and different authorities hierarchically inferior to the state) of the object of study, such as Latin American regional processes, which are, by their nature, broad. Now that the Cold War has ended, regional realities have become more complex, owing to the dissemination, especially in developing countries, of existing theoretical paradigms as one more element of the new world order now taking shape. Such complexity and the growing bilateral, trilateral, and multilateral ties among countries and blocs, as well as interrelationships among politics, economics, culture, the environment, etc., support the use of the *systemic approach* in studying the new Latin American regionalism.

Notable among systemic theories are two basic types: first, *neo-realist theory*, which essentially underscores competition for political power within an anarchic international system; and secondly, study of *globalization*, which focuses on interdependence and the impact of economic and technological change on the international system.

#### NEO-REALISM AND THE EXTERNAL CONFIGURATION OF POWER IN INTEGRATION PROCESSES

The *neo-realists* explain the emergence of regional blocs in terms of the external power configuration. Political and economic regionalism (which they view as essentially

the same) are viewed from the external perspective of the international system as a whole, "outside in." That is, the emergence or transformation of a regional process is seen as the result of external challenges it faces.

The *neo-realist* approach is marked by geopolitics and by competition on the market of the "triad" (Japan, Europe, and the United States). Such international competition via trade blocs influenced by the hegemonic power of one of the triad's poles might lead to cessation of the use of the multilateral trade regime as, both within blocs and among them, direct trade policy might be applied without having to use the multilateral forum. Along with the ongoing risk of confrontation among them, we must remain mindful of the underlying risks for countries not participating in any regional or subregional bloc, which might become completely vulnerable and outside the most active trade flows.

The waning of the Third World movement of the 1970s and the risks of conflict taken into account in neo-realist thinking have provided impetus for "regional or subregional preferential trade and cooperation agreements" among developing countries in the 1990s. The *neo-realists* consider that the attitudes and policies of the most powerful countries are very closely linked to the establishment of regional and subregional agreements. This position vis-à-vis the international system makes such regional groups dependent upon the political preferences and reactions of the triad's three poles and the industrialized countries' world economic cycle. In any event, this phenomenon is not characteristic solely of the new regionalist trend, but there are examples from the Cold War period where the two superpowers sponsored and supported certain regional alliances with geopolitical objectives, and withdrew that support when such alliances did not serve their interests. The latter is what happened in Latin America with the regionalist trend of the 1950s under the ISI model, which met with opposition in the United States, and was finally thwarted by the crisis of the industrialized countries and the Latin American debt crisis of the 1980s. In the neo-realist view, in the post-Cold War period, the success or failure of regional and subregional integration processes would be determined essentially by the influence of the triad's poles.

Under the approach we have studied, the fundamental explanation for the emergence of the latest regionalist trend in Latin America would be the United States' loss of hegemony in the world order. This loss of influence within the world economy, the trade issue in multilateral negotiations, and the strengthening of the counter hegemonic powers, Japan and the EU, have led the United States to support the formation of regional agreements such as NAFTA and the FTAA, in which all Latin American countries except Cuba have been invited to participate, regardless of whether they belong to "preferential trade and cooperation" or subregional "integration agreements" now being implemented, such as the CACM, CAN, or MERCOSUR.

The regional initiatives in which North America participates are essentially commercial in nature, seek to facilitate further opening by the participating economies with a view to world free trade, and utilize intergovernmental mechanisms in decision-making and in their operation. The success and proliferation of such initiatives while, in the international sphere, cause them to lose political and economic influence vis-à-vis other blocs with a presence in the region such as the EU, also counteract regionalism of a protectionist nature, which might arise in Latin American subregional groups and would impede progress toward free trade. In consequence, under this approach, the new Latin American regionalism would essentially be a regional and intergovernmental economic cooperation phenomenon, as the Latin American region now finds itself under the renewed regional influence of North America. Lastly, in this case, the inspiration for the most recent wave of Latin American regionalism would be the *liberal or Anglo-Saxon paradigm*.

The new regionalism manifests particular characteristics depending upon the bloc applying it. CAN, MERCOSUR, the FTAA, etc. are integrationist schemes of a new regionalist or open regionalist hue, but each with its own characteristics. In the neo-realist view, then, the most recent wave of Latin American regionalism would be marked by intergovernmentalism and trade cooperation. That is, under this approach, the new regionalist institutional structure would be essentially intergovernmental and would relegate supranational institutions to second tier. In addition, the first item on the Latin American integrationist agenda would be trade negotiations among the countries and blocs of the region and outside it for better insertion in the international arena.

The *neo-realists* also focus on the relationship between regionalism and hegemony, closely linked to power struggles. In the post-Cold War world, hegemonic power would appear to be represented by a tripolar world of Japan, Europe, and the United States. These hegemonic powers may be considered *benign* when, in promoting regional projects, they do not confine themselves solely to the pursuit of their national interests, but encourage the redistribution of benefits among all member countries. "Leadership's responsibility must be understood as the reconciliation of national interests with the interests of other participants in the regional integration process" (Dieter [1997], p. 154). When a country does not exercise leadership in keeping with such characteristics, it is, in the last analysis, considered a *malign* hegemonic power.

In his concern for systematization, Andrew Hurrell suggests four ways in which the existence of a hegemonic power might serve as a powerful promoter of regionalism and the establishment of regional institutions (Hurrell [1995], p. 54).

In the first, regional or subregional groups join together to counteract the power of a hegemonic country within a region or continent. This search for less imbalance of power between the United States and the rest of the Americas is what may have led the President of Brazil, Fernando H. Cardoso, to propose a new Latin American integration initiative through a South American Free Trade Area (SAFTA).

A second way would be to seek balance of power within a region by promoting autonomous regional institutions that will limit hegemonic action by a particular country. This is the case of Germany within the EU where, for historical reasons and reasons of balance, especially at the initiative of France, an attempt is being made to limit the Teutonic country's influence through the allocation of votes within European institutions. This is reflected, for example, in the distribution of votes within the Council, where Germany, with a population of 82 million, currently has 10 votes, the same number as France, with a population of 59 million, as compared with the 39 votes of the 10 smaller countries, with a population of 79 million. This balance of power via institutions does not detract from Germany's hegemonic capacity, but it does preserve a degree of control over that country by the other EU countries. Since the end of World War II, the predominance of political criteria over the democratic within the Council is what, in this view, has thus lent viability to the European project. At present, as a result of the unification of Germany and the future enlargement of the EU, the dilemma of whether to base institutions on democratic or political criteria has been reawakened in Europe.

This second way shows that in regional processes, the weaker countries seek to balance the power of the hegemonic country via supranational regional institutions, by means of balanced decision-making capacity. In Latin America, Brazil is leading the MERCOSUR subregional process. However, the autonomy of its institutional structure is extremely limited and Uruguay, Paraguay, and even Argentina lack the necessary strength,

nor are their historical reasons to press for an institutional structure to counterbalance the weight of Brazil. In this specific case, the establishment of community institutional structures within the subregion, should Brazil wish this to take place, would not overcome the insuperable imbalances of power that exist between Brazil and the other countries of the subregion. Based on MERCOSUR's example, we may say that this way, which promotes supranational regional institutions, also, from the outset, requires balance as, if the imbalance of power between the hegemonic country and the others is very marked, the conditions may not arise to promote the establishment or equitable operation of regional institutions. It would seem logical that the rest of the countries comprising MERCOSUR would promote its integration with other subregional blocs of the Western hemisphere, such as CAN. Such a union would enable the weaker Southern Cone countries to gain strength vis-à-vis Brazil.

In Hurrel's third way, the existence of a "local hegemonic power" would encourage the weaker countries, under its influence, to seek regional institutions in the hope that the mere proximity of a powerful country would be of some benefit to them (*bandwagoning*). This way would explain the existence of MERCOSUR today as an integration process wherein the imbalance of power between Brazil and the other countries of that subregion is so great that the latter might be integrated (particularly Uruguay and Paraguay) because geographic proximity affords them the possibility of material benefits. This way might also be what is causing some Latin American countries to seek entry into the FTAA or some of them to seek entry into APEC. It should be noted that this way is not always beneficial for the less influential countries, as integration is advanced more by means of passive transfixion with economic and trade figures than to an active and well-designed strategy for international insertion via blocs. This perspective might also explain one of the characteristics of current Latin American regionalism, the helter-skelter conclusion of bilateral, trilateral, and multilateral agreements among developing countries, and by those countries with other countries or areas of the world. Developing countries sometimes imagine that their mere presence in the largest possible number of regional agreements (*bandwagoning*), without further strategy, will be of some benefit to them.

The fourth way emerges when the stimulus provided by the hegemonic power for the establishment of regional or subregional blocs is accompanied by loss of hegemonic power. As we saw in the second way, extreme imbalance of power between the hegemonic country and the other countries under its influence causes the most powerful country to have no interest either in "regional integration" or in building institutions, and it is only when its power declines that it promotes this type of agreement to maintain its now jeopardized interests, share budget, resolve common problems, and generate international support and legitimacy for its policies. On the one hand, the hegemonic power preserves its leadership capacity in order to promote processes within its area of influence but, on the other, the loss of hegemony implies that there must be cooperation with the other countries. This way is in keeping with the assertion of neo-realist authors that the United States' loss of hegemony has been the main reason for the development, in the 1990s, of the new wave of regionalism in Latin America.

The stimulus provided by a hegemonic power may also be accompanied by a search for power by leading its own area, thereby according it a larger role in the international context. Returning to the Brazilian example, in this view, it might be said that the stimulus provided by that country to form a South American regional bloc is based on its need to lead the South American space to attain greater political and economic power within the international context. Thus, from that perspective, Brazil is promoting a regional economic

and political project that will enable it to gain power vis-à-vis the United States, Japan, or the EU.

#### IS GLOBALIZATION INEVITABLE? REGIONALISM FROM THE GLOBALIZATION PERSPECTIVE

Although the neo-realist approach is based on systemic theory, it does not take full account of the new framework of globalization<sup>15</sup> in which are established the systems comprising the world order that began to emerge in the 1970s with the oil crisis and was finally consolidated in 1989, with the fall of the Berlin Wall and the hegemony of capitalism.

The new regionalism emerged in the framework of globalization and is unquestionably determined and characterized by it. Under the globalization approach, regionalism is studied as one more element in the global web, whose operation it may assist or impede. In short, this approach studies regionalism as subordinate to the global phenomenon.

One of the main characteristics of globalization is that it is no longer being promoted by states as the principal agents of international economic relations, and this goes beyond the neo-realist approach's state-centric view. The nation-state is now part, albeit an important one, of the world system.

Globalization, which supposes a high degree of interdependence among the different systems forming today's international system (political, economic, social, environmental, and cultural), means that a complex view must be taken, one seeking to understand the relationships created among such systems, as many different combinations are possible.

In the neo-liberal *occidocentric* view, from a *positive perspective*, globalization manifests great potential to generate world economic welfare. In the context of increasing globalization and competition, its first conclusion is that its primary beneficiary is the world's population, as the prices of goods and services will tend to fall and, hence, purchasing power or, the equivalent, real income, will increase, as price levels will be lower. At the same time, from a *negative perspective*, there is a critical view that argues that the logic of global construction does not presuppose the inclusion of every, but rather of particular, territories, human groups, or cultures, while the others are excluded from its benefits, as is happening with virtually all of Africa. No further attempt is made to establish trade relations with India or China, but rather with Bombay or Shanghai. This means that, at the same time, these are territories (cities with a great deal of commercial activity) incorporated into the global logic which, within the countries, may be seriously unraveling the national fabric, thereby rendering impossible the balanced and redistributive development of the whole. "The (new)<sup>16</sup> 'fragmentation-segmentation' reference framework takes a more complex view than the traditional 'North-South' dichotomy" (Moneta [1998], p. 158).

We have just seen, in a general way, globalization's two sides, the *positive* and the *negative*. Such perspectives, relating welfare and globalization to one another, take as their starting point the question "What impact does the globalization process have on the welfare and development of the world's peoples? However, when the relationship under examination is that existing between globalization and regionalism, another fundamental question must first be asked: What impact do regional processes have on the development of the globalization phenomenon, and vice versa? To this question, which inquires into the interaction between the regional and global spheres, positive and negative responses may also be made. Some indicate that the coexistence of the two spheres is, in the last analysis, detrimental to their mutual development (*negative perspective*). However, others indicate that such coexistence is of benefit to both and consider regionalism as an intermediate phase—a *hinge-of* globalization (*positive perspective*).

What is demonstrated by such favorable or unfavorable perspectives is, first, the enormous complexity of today's world, as it is very difficult to give a single, unqualified, answer in support of or against the simultaneous existence of globalization and regionalism. The explanation for this is that some problems (environment, human rights, drug trafficking, immigration, etc.) may only be addressed efficiently at a global level, while others require a more reduced framework. An example of this is competition policies promoted by regional groups owing to the absence of international provisions that establish harmonized regulations to be used in addressing such topics.

Lastly, there is also sharp divergence of view regarding the trade area. Regional trade agreements - *regionalist* versus *multilateralist* - are seen by some authors as collaborators in the quest for world free trade, while others see them as adversaries in that quest. It might here be asked: What is the impact of the establishment of regional blocs on the consolidation of world free trade? In view of its importance, in the next section, we will discuss the debate regarding regional versus multilateral trade relations.

In the study of regionalism from a global perspective, it is also interesting to take into account the civil society-regionalism-globalization triad, and the incipient interrelationships among the three elements.

In most studies in which globalization appears in one or another form, there is a tendency for it to be viewed as a natural, inevitable, and irreversible process and, hence, one beyond question, while regionalism, on the other hand, except in certain situations, is seen as a voluntary phenomenon. This deterministic view of globalization is infused with strong belief in the liberal paradigm as the only one flexible and capable of generating growth and greater benefit to society as a whole. However, such naturalization is increasingly questioned by world civil society - the Porto Alegre Forum - through anti-globalization movements, which have ceased to believe that "globalization is irreversible, inevitable, and necessarily fortuitous" (Cassen [2001], p. 6) and such questioning might also be increasingly strengthened by regional citizens' platforms which, in pressuring against the drift toward liberalism in their respective regional groups - as in the EU case - are expressing the same concern in the global arena.

Such anti-globalization criticisms find further support when organizations such as the World Bank (WB), in its *Informe sobre el desarrollo mundial* (2000), acknowledge the failure of their adjustment programs in the fight against poverty, or elements of the specialized liberal media, such as *The Economist* magazine, acknowledge that those who oppose globalization are right in saying that Third World poverty is the most urgent moral, political, and economic issue of our time. And they are right when they say that the tide of globalization, however strongly it may be running, may be turned (*Ibidem* p. 6).

Recently, the objective of such anti-globalization movements has been to attack international organizations such as the World Trade Organization (WTO), the International Monetary Fund (IMF), the WB, etc. And, since late 2000, they have incorporated among their efforts criticism of regional organizations such as the EU and the FTAA. European civil society, supported by anti-globalization movements, first spoke up Nice in December 2000, by offering its view on the current direction of the process. European citizens thus expressed their "disappointment at the 'social deficit' in the construction of the Community" and "a more universal opposition to its liberal drift" (*Ibidem* pp. 6-7). All this manifested the consciousness being awakened among civil society in the construction of Europe and showed that globalization may also be questioned in the regions through anti-globalization movement thought. In addition, the extent of civil society participation shows that the traditional

democratic deficit in regional processes is beginning to shrink through greater, although poorly organized, citizen activism. This trend is especially marked in North-South agreements, such as the FTAA or Latin American-European Union summits. However, in South-South Latin American subregional groups such as CACM or CAN, it is unlikely that such manifestations will yet take place.

#### LATIN AMERICAN INTEGRATION PROCESSES: BETWEEN REGIONALISM AND MULTILATERALISM

At present, most of the world's countries and regional and subregional blocs seem to be moving towards free world trade. In Latin America, in the 1990s, this process became very complex, as innumerable free trade agreements were being concluded and, in addition, some of them came within the framework of "regional integration" processes, such as CACM, CAN, and MERCOSUR. The speed of the process, stemming from today's particular international context, has meant that such "multiple" or "simultaneous membership" is revealing "dark sides," which do not necessarily imply incompatibility with the multilateral system governed by the WTO.

It is customary to speak of three routes to opening to trade that lead to total liberalization of world trade (the objective pursued by the WTO). These are: the unilateral, the multilateral, and "integration" or "preferential trade and trade cooperation" schemes. Unilateral opening is the most radical and is taken pursuant to a country's unilateral decision to open its economy. When a country takes this route, it essentially seeks to enhance its international competitiveness through exports to third countries. On the other hand, multilateral opening consists of the use a country may make of the WTO rules to establish trade relations with the other member countries of that organization.

Unilateral and multilateral opening afford a range of benefits, such as: establishment of trade, increased competition through imported goods, and reduction in input costs. At the same time, it implies fiscal costs through reduced tax collection; incurred costs stemming from the need to replace obsolete capital goods and the emergence of unemployment; and political costs to be borne by governments and leaders when they seek to insert their countries into the globalization process. Not to be forgotten is the additional risk that multilateral rounds may involve for developing countries when they are suddenly announced, with programming beyond the control of the least developed countries. Although there is a perception that the multilateral trade system is run by the developed countries in keeping with their interests, it is equally true that<sup>17</sup> the WTO is increasingly emerging as a forum that may benefit developing countries if they participate actively within it.

The third route is taken through "integration" and regional or subregional "preferential trade and cooperation" agreements. This route to opening is taken when two or more countries decide to conclude an agreement to strengthen trade relations by eliminating trade restrictions beyond what is dictated by the WTO itself. That is, groups with legal, though not necessarily geographic, ties are established, among whose members there is greater trade liberalization than with non-members. This is what some authors refer to as "inward" application of the Most-Favoured-Nation clause, based on mechanisms that the WTO has made available to countries to enable such preferential agreements to discriminate against non-members. This means that the members countries of the preferential agreement accord greater preferences to the other members and have opened their economies further to one another than to the rest of the world (Hummer and Prager [1998], pp. 92-100).

The objective of world trade liberalization is at odds with such protectionist measures as may be issued by countries or regional groups that decide to establish barriers

against non-members while conceding preferences to one another. This is what happened after World War II with what is now the EU, and was permitted under the GATT; in Latin America in the 1960s and 1970s with the ISI policy inspired by ECLAC; and continues today with levels of protection for EU agricultural products to which Common Agricultural Policy (CAP) applies, together with protection through non-tariff measures, such as rules of origin, and technical or phytosanitary rules. Today, however, on the global scene and particularly in Latin America, regional “preferential trade and cooperation” or regional or subregional “integration” groups are not implying any threat to the success of the multilateral trade system, but are rather assisting in its consolidation.

The foregoing implies that the *regionalist* versus *multilateralist* debate, meaning the clash between trade liberalization and protectionism based on “regional integration” agreements is virtually meaningless in today’s Latin American reality. In fact, we find that the new Latin American regionalism is justified because it contemplates opening the region’s economies to the exterior through the conclusion of trade liberalization agreements on several fronts as the best and most competitive strategy for insertion into the globalized economy. Thus, regional integration in Latin America is now proposed as one element in the process of opening and trade liberalization, which will enable the Latin American countries to insert themselves effectively into the international economy by enhancing their negotiating capacity with other countries or regions and increasing their room for maneuver in today’s geopolitical game. At the same time, this means of opening is accepted by liberal economists, who see the new regionalism, although a second best option, as a feasible way of consolidating free trade in the world and as evidence of the success of the multilateral trade system.

As a result of all of the above, the different “preferential trade and cooperation” and “regional or subregional” agreements in force are exceeding the dictates of the WTO in opening their economies. This leads us now to view the multilateral trade system as a more protectionist context than are such agreements. This turn of events has altered the direction of the *regionalism* versus *multilateralism* debate, as it is no longer the same as the *protectionism* versus *free trade* debate. That is, in today’s Latin American regional reality, in the view of neoclassical international trade theory that liberalization on good terms will in the end lead to the countries’ economic development and the population’s welfare, the key issue is how to open to the region and the world. And the focus is no longer, or at least not as a priority, on how we use “regional integration” deliberately to induce structural changes (diversification of productive activities, less dependence on export destinations, and linking of economic sectors) that may generate greater growth, modernization, and development in the medium term in the subregion’s economies. Thus, the WTO is the highest point of an inverted liberalization pyramid that comprises the other agreements, as commitments to liberalize trade generate closer ties among countries. For example, we might say that the FTAA must be a *WTO plus* and, in turn, CACM, CAN, and MERCOSUR must be an *FTAA plus* for their existence to be meaningful in the new world economic context. In consequence, for regional or subregional agreements of the new Latin American regionalism to survive, they must be broader and more encompassing than the WTO framework

In any event, the *building blocks* or *stumbling blocks* debate, as it is also characterized in Anglo-Saxon academic circles, continues because of the existence of the following incompatibilities and complementarities.

There are essentially three *fears* regarding possible incompatibilities between regionalism and free trade.

The first focuses on the greater diversion, rather than creation, of trade, which regional or subregional agreements may produce, in keeping with Jacob Viner's classic contention regarding the static effects of customs unions. In addition, if the agreement is integrationist, it will address other, not merely trade, concerns, such as political and social. This might in the end demonstrate, at a given moment, greater concern for its internal problems than for its external relations, and concern that protectionist centralism would be generated through new external tariff and non-tariff barriers (neoprotectionism). To this concern is added, as a characteristic of the new Latin American regionalism, simultaneous participation by countries or subregional groups in several agreements, complicating the administration thereof, and perhaps leading to inconsistencies in their application. According to Luis Tineo, the most significant example is rules of origin, as these lead to fragmentation owing to the need for sophisticated processes of verification of origin and customs administration, which grows more acute with the growth in trade generated by the helter-skelter proliferation of trade agreements. All this will require greater efficiency in determining products and their processes and, if this is not done, it will constitute a barrier to free trade, not only among the countries involved in tariff verification, but also with third countries participating in the production of final goods (Tineo [1996]). These problems are expressed very clearly by Torcuato S. Di Tella:

"It is still early to say which policies will be pursued by the diverse economic areas to prevent the negative effects of globalization, which lead to sudden changes in the market available to national producers, thereby generating employment crises or crises of instability and deterioration in employment conditions. Some say that the remedy is to do "more of the same," and that yet further liberalization of capital movements and total opening to trade will in the long run be to everyone's benefit. This is a rather utopic view and will most likely end in a new era of government controls, including a degree of protectionism, but at the regional, rather than the national, level" (Di Tella [2000], p. 11).

The second fear relates to a possible excess of negative leadership by one country over a region against free trade. The country, which assumes the leadership role solely to further its national interests, might cause greater control to be imposed over the market and invisible barriers to be generated that would in the end complicate the entry of products and services of countries outside the region. One example is Japan, and its influence over the Asian countries, which, through specialization and development of their own technology (not compatible with that of other regions) have created Asian regional protectionism vis-à-vis the rest of the world.

Lastly, there is a fear regarding a sustained diversion of trade that may occur within each region. According to neoclassical international trade theory, this sustained diversion of trade would, in the end, be detrimental to world welfare. However, this view, in which regional agreements provide for the displacement of cheaper imports from third countries by more expensive imports from member countries, is not necessarily shared by scholars in this area, who take account of the dynamic effects of regionalization processes. Some consider that trade is created by strengthening the natural comparative advantages of geographically proximate areas. In any event, today's regionalism does not consider itself limited, in the conclusion of trade agreements, to geographically proximate countries. In addition, fears are sharpened by the "domino effect." This means that the strengthening of some regional groups may promote the establishment of others, reduce the supposed benefits of free trade, foster world fragmentation, and generate trade wars among them.

In this connection, Bhagwati argues that, with the success of the Uruguay Round, from which the WTO emerged, the conditions are now present for the liberalization of multilateral trade, and that the helter-skelter conclusion of regional agreements generated by the new regionalism only jeopardizes the multilateral trade system. That author recently asked himself whether anyone today could be certain that bilateral preferential agreements, which have proliferated and continue to fragment the world trade system, would evolve into blocs that might build the world free trade of the future, blocs that, with such diversity of form and size would never be at all useful. (Bhagwati [2001]). In Bhagwati's view, it would be pointless to withdraw from the WTO framework through "preferential trade and cooperation" or regional or subregional "integration" agreements which, in the medium term, might generate more risk than benefit to free trade.

Compatibility between regionalism and multilateralism, *building blocks*, as we have seen, is the position that has the most proponents, based on study of four variables: growth, external barriers, the importance of trade outside regional agreements, and motivations. Some of the reasons for such compatibility are discussed below.

First, regional blocs not only do not see themselves as detrimental to free trade, but it is thought that they promote the growth of the member economies and that, in the long term, such growth will promote consumption of products originating outside the region. Therefore, in this view, regional blocs promote world trade however one looks at it. Growth in the member countries of a regional or subregional group is essentially based on a regional agreement's impact on its member countries in the form of trade-related income, growth in investment, and beneficial macroeconomic effects. The static negative impact of such an agreement would, in principle, offset its dynamic impact on the economy. Examples of the latter are: improvement in economic efficiency generated by increased competition; the economies of scale created by enlargement of markets that encourage specialization; increased investment, both domestic, to be used in adapting to the demands of the new competition, and external, attracted by the new business opportunities created by a regional market; spurring of technological development and the use of enhanced techniques that involve greater competition and the possibility of cooperation in R+D (research and Development) policies and enhancement of the countries' trade relations. In short, regional or subregional initiatives, particularly economic integration initiatives, are appropriate because the dynamic impact is greater than the static and, in addition, their dynamic impact on member countries in the end stimulates world trade.

Secondly, regionalism would facilitate the opening of economies, along with lower and less dispersed tariffs, economies that would not open if they were not integrated into any regional bloc. In the eyes of the citizenry, the opening of the economy within a larger bloc diminishes its leaders' responsibility for the social costs involved; hence, the political cost for their leaders is lower than it would be in the case of unilateral or multilateral opening. In addition, the countries' fear of finding themselves excluded would be conducive to the collective willingness to open. In the Latin American case, initially, such opening was not facilitated by the participation of member countries in regional groups, but rather by the IMF and WB economic policy proposal made to the region's countries in the context of the debt crisis of the 1980s. The result of this unilateral tariff reduction, along with what has been promoted by regional groups has been, for example, that the region's average highest tariffs have dropped from some 80% in 1985, to approximately 40% in 1995, and that, from 1985 to 1995, the region's average external tariff dropped radically from levels above 40% to levels below 12%. (Devlin et al. [2001], pp. 6-7).

Thirdly, there are two other factors that permit complementarity between regionalism and multilateralism: first is the fact that the stronger member economies of regional agreements retain their global intent. Secondly is the fact that these strong economies encourage other, smaller, economies to join regional agreements in which they participate and, therefore, trigger opening processes of multilateral intent. Reasons for wishing to integrate into a regional group are: the credibility it affords the member country; security of access to large markets; and implementation of outwardly oriented policies to attract FDI. All this may constitute incentives for developing countries to enter a group, such as APEC or the FTAA, of which countries such as the United States and Japan are also members. However, another element must be borne in mind. The proliferation of regional and integration agreements might produce the opposite effect to that intended. In other words, participation in several groups at the same time may diminish the countries' credibility with its peers in other regional groups, and with the rest of the world. If, in addition, these integrating groups do not, in the end, advance and consolidate their members' political will, their credibility will be still further diminished.

Above and beyond the debate we have just outlined, regional or subregional "preferential trade and cooperation" and "integration" agreements must be compatible with GATT/WTO provisions. This point is discussed in detail below in the specific case of the Andean Community.

## *V. THE ANDEAN INTEGRATION PROCESS IN THE EARLY TWENTY FIRST CENTURY: AN INTERNATIONAL ECONOMIC POLICY ANALYSIS*

### A BRIEF HISTORICAL SUMMARY OF THE ANDEAN INTEGRATION PROCESS

The first wave of Latin American regionalism began when Argentina, Bolivia, Brazil, Colombia, Chile, Ecuador, Mexico, Paraguay, Peru, Uruguay, and Venezuela signed the Treaty of Montevideo (1960), which established the Latin American Free Trade Association (LAFTA) and the Central American countries signed the Treaty of Managua for the establishment of the Central American Common Market (CACM).

LAFTA aspired to create a Latin American common market, although neither a timetable nor mechanisms were established. The difficulties in attaining this objective led its initial impetus to flag and thwarted its success as a hemispheric integration project. According to Walter Mattli, this resulted from a lack of sustainable demand for integration and a lack of regional leadership. Owing to the absence of a "benign hegemonic power," as other authors have called the regional leader, the benefits of integration were not redistributed among all member countries, but rather were concentrated, although only moderately, in the three regional "giants" (Argentina, Brazil, and Mexico) (Mattli [1999], p. 146).

In response to LAFTA's internal shortcomings, the Andean countries proposed their own economic integration. On May 26, 1969, the Governments of Bolivia, Colombia, Chile, Ecuador, and Peru signed the Cartage Agreement, which established what is now known as the CAN, then known as the Andean Group. The objective of the Andean subregional integration agreement was to promote the balanced and harmonic development of its Member Countries, spur their growth through economic integration, and facilitate their participation in the Latin American integration process.

This "early Andean regionalism" at first sought to construct an enlarged market through the formation of a customs union and coordinated industrial planning. The mechanisms proposed essentially were: (1) The Liberalization Program, which sought to

liberalize subregional trade automatically and irrevocably through the establishment of a free trade area (FTA); (2) The Common External Tariff, which would be adopted gradually, in two stages: the first, with the adoption of the Common Minimum External Tariff (CMET), which was approved in 1970 with a general average of 40%, with great dispersion of 0 to 120 points, but with 97% of products at a level at or below 80%; and the second, with the implementation of a scaled Common External Tariff (CET) (the countries only made headway in proposing and formulating this); (3) Joint industrial programming,<sup>18</sup> which would be implemented through sectoral industrial development programs; and (4) Harmonization of economic policy, which included the adoption of common regimes in different areas (mainly FDI<sup>19</sup> and physical integration) (SGCAN [1998]).

With this subregional approach to harmonization and planning of economic policy, Andean integration would achieve the economic development of its Member Countries. All this, in keeping with ECLAC's design and somewhat influenced by the thought of the "dependence school," sought auto-centric and self-sustained development from an endogenous base, in which the state played an active and instigating part (negotiated planning) in economic development and wherein integration was not "merely a synonym of market enlargement, in which market forces, left to their own devices, would determine the allocation of factors" (Lozano [1980], p. 889). To summarize, it was sought to generate Andean capitalism on conditions of social equity by creating Andean enterprise, an Andean capital stock, and an Andean entrepreneurial fabric.

From its inception, ECLAC's ideas dominated Latin American integrationist thought. However, in the late 1960s and particularly in the 1970s, pessimism became pervasive among most Latin American intellectuals, scientists, entrepreneurs, and politicians<sup>20</sup> in view of evidence that the ISI model had not attained the objective of Latin American development. In the mid-1970s, major anomalies persisted in the region's economies (severe limitations on import capacity, growing external debt, increased unemployment and underemployment, growing marginalization of low-income groups, and strong inflationary pressures).

The disenchantment of the 1970s was reflected in Andean integration as stagnation of the process and the difficulties in overcoming differences among the productive structures and economic policies of the Member Countries. In those years, the Andean Group also faced two crises: the first, in 1973, was the incorporation of Venezuela into the Agreement. This country had participated in the negotiations that led to the Andean project but, at the last moment, withdrew for domestic political reasons, which prevented consensus from being reached to sign the Agreement. The incorporation of Venezuela led to a "positive crisis," as the Cartagena Agreement had to be readjusted fully to incorporate the new member. In 1976, the Andean Group had to face another crisis, this time negative. That year, Chile withdrew from the Agreement, an event that signified a sharp reversal of the Community project. Under the regime of General Pinochet, Chile adopted an outwardly oriented liberal economic model \_ induction via the market \_ which the rest of the Agreement's countries considered incompatible with the strategy and joint objectives established. All this took place at the same time as the Latin American debt crisis of the 1980s, and the generalized non-compliance by the Member Countries with the commitments undertaken in the Cartagena Agreement. These external and internal factors, along with the beggar-my-neighbor policies and the fall in levels of intrasubregional trade brought to the fore the extreme external vulnerability of the Andean countries to the world crisis and called into question the very existence of the integration process (See SGCAN [1998]).

In the mid-1980s, the Latin American countries began to apply orthodox economic policy, in keeping with the IMF and WB macroeconomic adjustment proposal [Structural

Adjustment Programs (SAP)], known as the “Washington Consensus.” These policies were: greater opening to external competition; elimination of administrative restrictions on imports; elimination of FDI restrictions; reform of state public administration models; privatization of some state activities; further deregulation of the labor and financial markets; and promotion of competition. It was sought, through implementation of the SAPs, to: control inflation; promote private investment; and improve access to financial resources so as to achieve internationally competitive prices and stable and sustained growth. All this was to take place in an enlarged, more efficient, competitive, and growing economic area with the capability to compete the world level. In the specific case of the Andean countries, Bolivia implemented its liberalization policy in late 1985, Venezuela in 1989, Colombia and Ecuador in the early 1990s, and Peru in August 1990. All liberalization schemes of the Member Countries of the Andean Group had the same orientation, which materialized as a reduction in the number of tariff rates and lower levels of protectionism. The average Andean tariff fell from approximately 35% in 1988 to some 13% in 1995.

In those years, the Andean area regained its interest in relaunching the integration process, but with a more flexible approach to the Cartagena Agreement framework, which meant replacing the original model with another in which were strengthened the principles of orthodox or neoclassical international trade theory and the *liberal or Anglo-Saxon paradigm* of regional construction.

The Andean Group's new approach began to materialize as a protocol amending the Cartagena Agreement (Quito Protocol) of 1987. Since that time, the Andean Presidents have been able to intervene directly in the conduct of the integration process. From 1989 to 1991, nine meetings of Andean Presidents were held. In 1989, they were held in Caracas (Venezuela), Cartagena (Colombia), and Galapagos (Ecuador); in 1990, in Machu Pichu (Peru), Lima (Peru, Bogotá (Colombia), and La Paz (Bolivia); and, in 1991, in Caracas and Cartagena. The next was held in 1995, in Quito (Ecuador) and, since that time, these meetings have usually been held once each year. Although in those years, the integrationist paradigm had begun to change, the top political leadership of these countries, from the first meeting, demonstrated their conviction that the integration Agreement would go beyond mere trade aspects, and that it was necessary to assume commitments in the political, social, and cultural areas.

The crisis in the integration process was assessed. That assessment studied the options for relaunching the Andean Group. Based thereon, the short, medium, and long-term objectives were formulated again to lend consistency and organization to the process, in keeping with the new subregional construction paradigm. In 1990, it was decided to establish a Free Trade Area (FTA), which would come into full operation in 1994. In 1991, a four-tier CET (5%, 10%, 15%, and 20%) was adopted, and Bolivia was authorized to retain its tariffs at 5% and 10%. Also adopted in that year was the Andean Price Band System (APBS), which would come into operation in 1995. The FTA and the CET came into force in Bolivia, Colombia, Ecuador, and Venezuela. Peru withdrew from the negotiation process,<sup>21</sup> and proposed its gradual incorporation into the FTA, while it became an observer country with respect to the CET.

Lastly, at the Meeting of the Andean Presidential Council (Quito, September 5, 1995), the New Strategic Design (NSD) was adopted to redefine objectives (strengthening of subregional integration, enhancement of the Community's external image, and consolidation of the Andean Group's sectoral activities, especially in the social area) and of its institutional mechanisms (IRELA [1999], p. 9). The new Andean institutional structure

was adopted by the Presidential Council on March 10, 1996, in Trujillo, Peru (the Protocol to Modify the Andean Subregional Integration Agreement, the Trujillo Protocol) and, on August 1, 1997, the Andean Group became today's Andean Community (CAN) and the Andean Integration System (SAI).

The CAN comprises Bolivia, Colombia, Ecuador, Peru, and Venezuela, and the bodies and institutions of the SAI. It should be noted that the new Andean institutional structure brought together, in the SAI, the bodies and institutions (supranational and intergovernmental) established during the life of the Cartagena Agreement since its conclusion in 1969. In the new institutional system, the earlier trend to strengthen the intergovernmental political bodies was reaffirmed in order to create a more effective and flexible body, such as the Andean Council of Foreign Ministers of 1979 and the Andean Presidential Council of 1990, at the expense of Community bodies such as the Board (which was replaced by the General Secretariat of the Andean Community (SGCAN) or the Commission of the Andean Community, while retaining the Community judicial body and the Andean Parliament as the region's potential legislative body. (See Table 3)

The CAN's current objectives are: to promote the harmonic and balanced development of its Member Countries; to spur their growth through integration and economic and social cooperation; to facilitate participation by the Andean countries in the Latin American Integration Association (LAIA), with a view to the formation of a Latin American common market; and continuous enhancement of the standard of living of the region's peoples.

#### THE NEW ANDEAN REGIONALISM AND ITS NATIONAL INSTITUTIONS

Mindful of the importance of strong national institutions in attaining its objectives, among which is the establishment of a common market in 2005, the CAN has proposed to the Andean countries a macroeconomic policy harmonization program and views it as essential for the Andean integration process to be constructed by countries committed to democracy, while seeking to ensure that the regional forum assists in strengthening and improving the democratic systems of the Member Countries.

As regards harmonization of macroeconomic policies, the consultant Carlos Stark, bringing together North's ideas regarding the "new institutionalist economy" and open regionalist concepts, indicates that harmonization of macroeconomic policies is not, as it is in other experiments,<sup>22</sup> a necessity derived essentially from the maturation of the integration process, but principally a way to move forward with the process, and to assist in reducing the volatility of the subregion's economies, thereby making the region more attractive to trade, financial, and international investment flows (Stark [2001], p. 1). This assertion is a departure from the neofunctionalist belief that, in a process wherein interdependence among countries is being fostered, problems arising during such a process can only be resolved through greater levels of irreversible independence. The comments of this consultant, shared by SGCAN, are a return to the idea that integration is a process organized and promoted by forces from without, *the external integrator*, and not, as the neofunctionalists would argue, by the growing interdependence and maturation of the process, which have been taking place in the Member Countries for over 30 years of Community construction.

The SGCAN has tentatively proposed some criteria for macrofiscal convergence, to be accepted by the Andean countries voluntarily and as a community. These are: 1. Single-digit levels of inflation; 2. Fiscal deficit no higher than 3% of GDP; 3. Public debt not to exceed 50% of GDP.<sup>23</sup>

The main fiscal reforms, introduced by the Andean countries under the influence of the SAPs, have led to greater fiscal discipline, although recent years have seen a trend toward increasing fiscal deficit. In addition, the reforms have harmonized the countries' tax systems, the main source of income of these systems being indirect taxes, mainly the value added tax (VAT). However, such reforms have not managed to eliminate problems of tax evasion, avoidance, contraband, and corruption; fiscal policy in the Andean countries continues to employ complex and changing methods of income collection and public expenditure allocation that detract from the legal security of economic agents. Differences remain among them in the treatment they accord the basic tax elements: tax rates, subjects, taxable events, tax basis, and tariffs. (See Bautista [2001] and Tables 4, 5, 6)

Different exchange regimes have been adopted, a fact impeding the countries from managing monetary policy in the same way. In January 2000, Ecuador adopted dollarization, which involved renouncing its own currency and deprived it of instruments to achieve price stability, such as regulation of the money supply and determining interest rates and exchange rate movements. Bolivia has implemented the crawling peg regime, and Peru a controlled or managed flotation system. The two countries have high levels of spontaneous or natural dollarization. According to indicators of bank system foreign exchange reserve as a percentage of total deposits, dollar placements in Bolivia exceed 90%, and in Peru exceed 80%. This is corroborated by the foreign currency portfolio indicator as a percentage of total portfolio which, for Bolivia, approaches 100% and for Peru exceeds 80%. This de facto dollarization means that these countries have scant room for maneuver in attaining the inflationary targets they themselves have set (price stability). Moreover, Colombia has a system of free flotation, and Venezuela had a pegged exchange rate system that, in February 2002, was replaced by a free flotation system. Colombia and Venezuela remain countries with low levels of spontaneous dollarization and, consequently, with more room for maneuver in managing their monetary policy instruments. To attain the objective of price stability, these countries manipulate interest rates. Before modifying its exchange regime, Venezuela achieved price stability through sharp exchange rate adjustments, which led to price corrections in line with external shocks caused by fluctuation of international oil prices (Vega [2001], pp. 15-22).

Something similar occurs with servicing the levels of public debt, encountered in every country faced with a burden of external debt. In 2002, in Ecuador foreign debt represented 78.2% of GDP, while internal debt was 22.3% of GDP; the same indicators for Bolivia were 55.5%, with internal debt of 10.3%; in Peru, 37.6%, with internal debt of 6.2%; in Colombia, 27%, with internal debt of 17.8%; and in Venezuela, 18.4%, with internal debt of 7%. To this picture is added the concessional terms on which Bolivia contracted its external debt, which might make it difficult to establish common indicators. In that connection, Bolivia is the only Andean country that has "qualified" for the Heavily Indebted Poor Country (HIPC) debt relief program. The main objective of this initiative is general debt management on a case-by-case basis, focusing on a country's total debt so that financial assistance is made available to it on highly concessional terms and debt service is reduced. Evidently, inclusion of Bolivia in the HIPC obliges CAN to take account of such differentiated treatment when the public debt criteria of the Andean countries are definitively established (See Figure 1).

At the subregional level, the aforementioned macroeconomic initiatives are being proposed and promoted by the Andean Presidential Council and by SGCAN, and formulated by the Advisory Council of Treasury or Finance Ministers, Central Banks, and Economic

Planning Officers of the Andean Community. The economic and policy targets proposed by CAN to the countries of the subregion are in keeping with and reinforce the liberal reforms under way (fiscal discipline, exchange rates that boost exports, trade liberalization, promotion and mobilization of FDI, privatizations, and deregulation) applied by the Andean countries in the wake of the foreign debt crisis to meet the criteria established in the late 1980s by the IMF and WB, in place since that time. Thus, as is the case with trade liberalization at the WTO multilateral level, Andean integration remains at an intermediate stage as regards harmonization of macroeconomic targets promoted by and in harmony with targets defined at a broader multilateral level.

A decade after promotion of the implementation of these reforms began, their results are being questioned, despite their impact on price stability and levels of economic growth. However, the countries that have implemented them have not managed to resolve their structural problems, reduce inequality, or alleviate the poverty of their people. These criticisms emanate even from the multilateral organizations that formulated them themselves (IMF and WB). In that connection, World Bank President James Wolfensohn said that we could not adopt a system addressing macroeconomic and financial aspects without taking account of structural, social, and human aspects, and vice versa. (Naim [2000], p. 28).

The CAN Member Countries exemplify that assertion. In the early 21st century, they are characterized by small economies; social polarization; profound economic, political, and social crisis through subjection to sharp shocks (of both capital flows and terms of trade); their position as exporters of products of low added value; their low levels of investment and technological development; and their excessive levels of foreign debt. In addition, their fiscal systems continue to differ widely. In each country, different terminology is used, their tax systems are constantly changing (subjects, tax base, tariffs), information on the non-financial public sector is insufficient to make a detailed study of the countries' public sector as a whole, and no satisfactory system has been implemented to avoid double taxation within the subregion. Efficient customs policies remain to be developed and road and transportation services infrastructure needs to be improved.

The countries also have many common elements. The Andean countries have very similar cultural and ethnic structures and Spanish is the official language in all countries. In addition, based on the "Washington Consensus," all countries have been making structural reforms and renewing its policies, so that the environment is considerably more propitious to a convergence process than it was a decade ago. These reforms have consisted of privatization of state enterprise; elimination of state in favor of market regulation; and greater opening to international capital and to foreign goods and services. Another common element is that for all Andean countries, the United States is the largest trading partner. In addition, as seen above, most Andean countries have highly dollarized monetary regimes and high levels of external debt.

According to Moisés Naim, over time, the multilateral organizations (IMF and WB) have been discovering the basic reasons for the lack of success of measures implemented. These are: economic orthodoxy, institutions, globalization, and the rediscovery of underdevelopment" (Naim [2000], p. 28). First, no consideration had been given to the state of the institutions (political and legal framework) in the countries subject to "structural adjustment." Secondly, none was given to the measures' impact on the countries in the context of economic globalization. The regular appearance of financial crises (with epicenters in Mexico, Southeast Asia, Russia, Brazil, and Argentina), with their devastating effect on progress made by the countries after years of effort in implementing the programs, thus

reveals that globalization may become a biased and asymmetrical influence, a process that only actually exists as mobility of capital benefiting countries with high technological levels. Accordingly, "structural reforms" that do not take account of financial globalization will, at the end of the day, assist in preserving such asymmetry. Finally, the promoters of reform have (re)discovered underdevelopment and the fight against poverty as the only thing that makes implementation of the proposed reforms meaningful.

The process of discovery described above should serve as a lesson – by induction – regarding the path being taken by CAN when, although in a still very preliminary way, it proposes the macroeconomic harmonization of the subregion's countries. Such harmonization will only succeed if any proposal provides for prior physical, territorial, and customs integration, as well as stable homogeneous political and legal frameworks, ready for adaptation to the Andean countries, in short, national institutions, in North's sense, adapted and fully aware of their important role. In the CAN, there is constant talk of open regionalism as regionalism that will lead to the appropriate insertion of the Andean countries in globalization. This means that, from the outset, the CAN, in contrast to the "Washington Consensus," speaks of globalization in the framework in which the process is being implemented. Nonetheless, the Andean countries must not forget that their macroeconomic harmonization proposal cannot merely be, as is occurring with trade liberalization, a "Washington Consensus plus," which does not rectify the demonstrated weaknesses of the IMF and WB proposals of the last decade. Lastly, CAN does not have to (re)discover underdevelopment because that, unfortunately, has been its context since its establishment. The search for the welfare of the Andean citizens and the fight against poverty and inequality and, in the last analysis, for justice, is becoming the objective of economic, political, and social integration of the five Andean countries.

With respect to democracy and the rule of law,<sup>24</sup> the democracies of the Andean countries' political systems are weak, in ongoing social and political crisis, and victimized by politicians of autocratic tendency, factors that have gradually eroded the rule of law. According to Germán Carrera Damas<sup>25</sup>: "there is a common element, the crisis of democracy, stemming from the general ideological disorientation now suffered by the region as a whole, and the emergence of what I have called, it seems somewhat unhappily, 'substitute ideologies' (...) and, once democracy has been discredited, nothing remains to restrain autocracy" (Bustos and Montúfar [2001], p. 117).

Such weakness of democracy is also reflected in a political reality characterized by the absence of citizen involvement in public life and political parties. The Andean countries have traveled the length – formally - of the political foundations of democracy. In practice, however, they remain at a "pre-modern" stage, in the terminology of political science, characterized by a powerful oligarchy that retains control of the system and prevents it from internalizing values of justice, equity, and public benefit" (Cabanellas [1998], p. 571). This provides fertile ground for a reactionary germination of more or less developed autocratic alternatives, reflecting a mixture of populism and fundamentalism "that defines itself in terms of a perfect past, not a possible future" (Bustos and Montúfar [2001], p. 120). In recent years, this has been manifested as the "Bolivarianism" of Venezuela or the "Fujimorism" of Peru, which has opened the way for a democratic transition process that is encountering innumerable problems, and, during the 2001 election campaign, led the current President of Peru to style himself the "new Pachacutec."

These issues stem from an ongoing social and political crisis manifest in a Colombia marked by violence and guerrilla warfare; in an Ecuador which, in 1999, suffered

its worst crisis of recent history that ended in indigenous riots and led to five changes of government in two years; in a new Bolivian President, Jorge Quiroga, who, in August 2002, replaced the recently deceased Hugo Banzer; in a Bolivia where there are constant riots and blockaded roads \_ whose numbers rise in the month of April \_ demonstrating the discontent of different segments of the population; in a Peru that became embroiled in an electoral process of two years' duration (2000-2001), after nearly a decade of "Fujimorism," and where, after one year in office, President Toledo was losing popular support; and in a Venezuela where the balance of powers has been altered under the presidency of Hugo Chávez, a leader under fire from entrepreneurs, some segments of the population, and even from different tiers of government. In short, such a crisis situation does not foster the subregional integration process.

The CAN understands that the subregional project must reinforce national democratic systems. In 1998, Oporto (Portugal), the Additional Protocol to the Cartagena Agreement was presented, the "Andean Community Commitment to Democracy," which President Fujimori refused to sign at the time and which, after much pressure and in view of the clear decline of his regime, he finally signed in June 2000. Evidently, the subregional process is having impact; it has done so in the Peruvian case and in the strengthening of democracy in the Andean countries, but has not yet been sufficiently consolidated to be able to impose a requirement that the countries to have "truly" democratic systems in order to participate in the CAN.

#### THE NEW ANDEAN REGIONALISM AND THE ANDEAN INTEGRATION SYSTEM

Within the Andean institutional structure, the SAI's highest body is the Andean Presidential Council, comprising the heads of state of the Member Countries of the Cartagena Agreement, which expresses its will through Guidelines, essentially presidential mandates not forming part of the Community's supranational legal code. This includes: (a) The Cartagena Agreement, its Protocols and Additional Instruments; (b) the Treaty Creating the Court of Justice of the Andean Community (TJCAN) and the additional protocols thereto; (c) the Decisions of the Andean Council of Foreign Ministers and the Commission of the Andean Community; (d) the Resolutions of the General Secretariat; and the (e) Industrial Complementation Agreements and such other agreements as the Member Countries may adopt among themselves and in the framework of the Andean subregional integration process.

The System's legislative bodies are the Andean Council of Foreign Ministers and the Commission, which have responsibility for issuing Decisions (Andean laws). There are two other bodies of a Community character, the General Secretariat and the Andean Parliament. The SGCAN is the Community's technical body, whose main work, for which it may issue Resolutions (Community administrative decisions), is to provide technical support to the other Andean bodies and to administer the integration process. The Andean Parliament, surprisingly, does not legislate the process, but is rather a deliberative organ without any authority to issue binding or obligatory provisions. (See Table 3)

In addition, in 1979, the Andean countries created today's Court of Justice of the Andean Community, which brought the Cartagena Agreement under Community or integration law. Pursuant to the Treaty Creating the Court of Justice,<sup>26</sup> the CAN incorporated a fully Community judicial body into its legal structure. At the same time, the Agreement's legislation – Decisions and Resolutions\_, under Articles 2 and 3<sup>27</sup> of that Treaty, became immediately applicable and were accorded direct effect, although Member Countries were

to undertake the appropriate constitutional reforms.<sup>28</sup> This has meant that the Andean integration process is now governed by Community or integration law, and no longer by international law as, for example, occurs with MERCOSUR, NAFTA, or the FTAA. Article 2 of the Treaty reads: "Decisions become binding for Member Countries as of the date they are approved by the Andean Council of Foreign Ministers or by the Commission of the Andean Community;" and Article 3 reads: "Decisions of the Andean Council of Foreign Ministers or of the Commission and Resolutions of the General Secretariat shall be directly applicable in Member Countries as of the date they are published in the Official Gazette of the Agreement, unless the indicate a later date."

Miles Kalher states that one of the characteristics of the new regionalism is that the integration processes have very poorly developed institutional structures. However, this does not apply to the CAN which, as we have seen, has a highly developed and broad institutional structure. As Maldonado Lira indicates, "in Latin America, there is no other subregional integration process with a broader and more developed institutional and organizational fabric than the Andean Community" (Maldonado [1999], p. 23). The new institutional structure combines an institutional structure with supranational bodies with the dynamics of intergovernmental operation. This makes the CAN "an original international organization model, a departure from classic international or cooperation organizations, which some have called "supranational organization," and others simply as "integration organization" (Sobrino [2001], p. 3). In the CAN, supranationality is not understood "as support for a super-state, that is, both a legal phenomenon that involves the creation of a new international subject with sovereignty and a body of higher rank than the states comprising it" (*Ibidem*) corresponding to what we refer to as federation. The term supranationality is used within CAN to refer to "cession (...) of the exercise of sovereign competences, not cession of sovereignty (...) competences are ceded by attribution and not through transfer of sovereignty. It is not, therefore, a final legal act" (*Ibidem*). However, it is necessary "for such cession to be appropriately in keeping with the legal system of the member states (...), for there to be constitutional basis for it" (*Ibidem*). "Constitutions will be affected by the integration process in that it limits state powers (not the legitimacy of power) and it implies that Andean Community law will take precedence over national law and will convert national judges into ordinary judges of Andean Community law" (*Ibidem*).

Thus, the Andean integration process, analyzed from the perspective of Community law, would appear to be neither a *federatio* nor a *confederatio*, nor does it retain the absolute sovereignty of a nation-state, although it does retain its essence.

This shows how difficult it is to characterize the CAN in political terms, a difficulty not encountered when the Andean integration process is defined in law, where the Member Countries, the subregional institutional structure, and private individuals involved in the process are clearly subject to Community or integration law. José Manuel Sobrino's legal analysis expresses it clearly: "Unquestionably, the Andean Community is not a federation, nor do we see on the horizon a United Andean States" (Sobrino [2001], p. 3). Allan Wagner,<sup>29</sup> referring to the political aspect of the Andean integration process, speaks of "Community integration of supranational scope and political projection, but without the characteristics of a federal or confederate state, is probably the most feasible model in view of today's integration possibilities" (Wagner [2000], p. 62). But, as he takes a neofunctionalist approach, the author remains mindful of gradual and ongoing progress toward "an truly higher and qualitatively different stage, consisting of a supranational state that would become a totally new political entity to succeed the independent entities that originally agreed to implement

the integration process". Essentially, political, though not legal, analysis under way within the Community therefore maintains that there is a need to identify this integration process politically and to see that the Community institutional structure finally matures so as to realize the Andean political project which, in Wagner's words, will not fail to become a federal union in the future. According to Wagner, we note that the political dimension of the integration process has been present since its inception, and has been referred to repeatedly by the presidents throughout the CAN's history. In 1996, in the Trujillo Protocol, "the political dimension of the Andean integration process was incorporated into the text of its establishing instrument" (*Ibidem* p. 70).

In all we have thus far discussed, we have noted that both the *neofunctionalist* theoretical approach and federalist political doctrine see the federal state as the logical result of the interdependence generated by "regional or subregional integration." At this point, it must be asked whether the Andean institutional structure, and its dynamics, will enable a federal Andean federal political project to be achieved. Or, if the answer is no, whether today's institutional structure could maintain Andean integration in an ongoing state \_ of supranationality that is neither federal nor confederate (in Sobrino's words) \_ defying all forces of *neofunctionalist* gravity (*spillover effect and upgrading common interests*). In short, what is the true part played by institutions in the new Andean regionalism?

From the subregional institutional perspective, the new Andean regionalism was inspired in the Single European Act of the late 1980s, which was based on an institutional model developed along the road to opening and competitiveness. And, at the same time, in the 1990s, the Anglo-Saxon view of regional institutionalism has permeated the operation of its institutional structure, as it has in that of the EU, where regional institutions are of very little weight and where intergovernmental negotiations and international multilateral institutions (WTO) predominate. That is, open Andean regionalism, from an institutional point of view, is under the simultaneous influence of Anglo-Saxon and Rhine regionalism. Such coexistence of paradigms within the process stems from the need \_ facilitated under an Anglo-Saxon institutional scheme \_ for the subregion's efficient insertion in an international context where the globalization concept is gradually being adopted, a context characterized by uncertainty vis-à-vis an international system that does not cease to lay down new internationally-agreed "rules of the game." In Wagner's words, it stems from a need to attempt "to (...) form groups to participate in the most advantageous way or, at least, the least detrimental way, in such a complex international context, all of which acts as an important *external federator*" (Wagner [2000], p. 74). It also stems from a need to preserve the ambitious Andean economic, political, and social integration project, which must be based on a solid Rhenish institutional structure. As we have seen, this dichotomy is not one faced solely by CAN, but is also emerging, although with variations, in blocs or countries as paradigmatic as the EU and the United States of America.

The coexistence of paradigms described above may be limited when, in attaining the objectives of integration, priority must be given to one over the other. Accordingly, priority among objectives will have to be determined, or more weight given to one paradigm over the other. At such times, and on this point, Andean integration has still not been completely defined, a fact admitted even by the CAN. José Antonio García-Belaunde<sup>30</sup> recognizes the fact that the Andean project has another dimension now that, in seeking to attain objectives such as the definition of a social agenda, the neo-liberal model imposed on the region is questioned. The agenda seeks to undertake joint efforts in the labor, educational, and health areas, share experiences of efforts made in the fight against poverty,

address border development as a Community, and find a mechanism for greater social participation in the Andean integration process. It further seeks a way to develop a culture of integration culture that will enable Andean citizens to identify with one another based on common history of shared valued and of a major political project. This, according to the author, underscores the fear that there is still no paradigm or any conceptualization of integration and social development in the subregion (García-Belaunde [2000]).

According to Luis Abugattas,<sup>31</sup> the dynamics of the CAN have been defining it more and more as an intergovernmental institutional scheme, which has been draining the strength of the established institutions, so that the Andean process, during the first wave of Andean regionalism, operated increasingly on a Community basis, without definitively eliminating such institutions. This author considers that the adoption, in 1992, of Decision 322 on trade relations with the members of the Latin American Integration Association (LAIA), Central America, and the Caribbean was the turning point in building a supranational Andean integration process in favor, finally, of intergovernmentalism. This Decision authorizes the Andean countries to launch trade negotiations individually with other countries of the region, with the sole obligation to so advising the other CAN Member Countries. Evidently, Decision 322 (Andean law) contravenes Article 98 of the Cartagena Agreement<sup>32</sup> (the Andean Constitution), which reads "The Member Countries commit themselves not to alter unilaterally the levies set in the various stages of the External Tariff. They also commit to hold the necessary consultations in the Commission before taking on obligations of a tariff nature with countries outside the Subregion." This Decision emerged from the new wave of Andean regionalism and sought to reinforce the new thinking regarding the operation of open regionalism, wherein integration was seen as a process assisting the countries' insertion into international world trade. In consequence, support for unilateral relations in "law," thereby strengthening intergovernmentalism, was provided even by contravening the provisions of the Cartagena Agreement (the supranational Constitution). Moreover, after this Decision was issued, there was no attempt by the countries to declare it unconstitutional, as might have been done, or to replace it with another Decision, which renders it a Decision suffering from the defect of nullity, while remaining in force. In addition, querying the foundation of the Andean legal system and, hence, Andean institutional architecture of Community character, in view of open regionalist practice, demonstrates clear intergovernmental political intent, at least insofar as trade is concerned.

Another significant example of this trend to build and strengthen intergovernmental institutions within the CAN is the path taken to achieve the Andean Common Market (ACM) in 2005. At the Meetings of the Andean Presidential Council in Guayaquil (Ecuador) in 1998, and Cartagena (Colombia) in 1999, it was proposed to draft an additional protocol to the Cartagena Agreement that would provide for the establishment of an ACM by 2005. But, in the end, at the Meeting of the Andean Presidential Council in Lima, in 2000, the Andean Presidents chose to develop it through Guidelines which, as mentioned above, do not form part of the Andean legal code, and are the form in which the will of the Andean Presidential Council is expressed. The body with responsibility for compliance with and ensuring execution of such Guidelines is the Andean Council of Foreign Ministers. The justification given for choosing this means of consolidating the ACM, rather than drafting a protocol incorporating such an objective and goals in the Cartagena Agreement, is the expeditiousness of the direct Presidential mandate. But the choice of this route may also be interpreted as lack of assurance on the part of the Presidents that an ACM can really be built by 2005. And they evidently prefer a path that does not involve the

legal code which, although the Guideline is laxer form of directive than the protocol, should it not achieve the established goal, would not discredit the process as much. Thus, an objective as important to the integration process as the establishment of an ACM is being channeled through intergovernmental institutional instruments, while avoiding existing supranational channels, although any Decisions adopted subsequently by the Commission and Council would have a supranational character.

In recent years, lack of compliance with the targets set for the ACM in protocols or Andean legal provisions is demonstrating, to the participants themselves and to other international actors, the weakness of the process of building the Community. However, studies, commitments, and deadlines imposed in Guidelines, as they are not part of the Community legal code, have no legal or institutional implications should they not be fulfilled, while not undermining the credibility of the subregional integration process. To prevent this loss of credibility, the CAN is showing a preference for an intergovernmental operation that bypasses Community law and lends greater flexibility and agility to the process. This inevitably calls into question the need for subregional institutions of a supranational nature, and for a Community legal system, and shows the direction, in terms of paradigm, the CAN is taking in defining itself in institutional terms.

The description we have made of CAN's institutional structure has revealed an integration process with a highly developed Rhenish institutional structure with economic, political, and social integration objectives. In keeping with the political theory discussed, such institutional dynamics are only meaningful if the subregional process is moving in the direction of supranational construction of the federal state. However, more detailed study of the SAI and the dynamics of its operation indicate an essentially intergovernmental subregional process. The Andean Presidential Council (the executive branch) is the highest authority of the SAI, above the Andean Court of Justice (the judicial branch) and the Andean Council of Foreign Ministers and the Commission (the legislative branch). In consequence, high and low Andean policy continues to be defined by the individual interests of the Member Countries via the institutional structure of the Andean integration process operating on an intergovernmental basis with strong Presidential leadership.

These contradictions call into question the current Andean institutional architecture, the SAI, as an instrument appropriate to the new subregional integration realities and make revision necessary, as was suggested by the Andean Presidential Council in 1999, in order to adjust it to such realities. The SGCAN indicates that:

"This leads one to consider further institutional reform in the medium-term to enable a streamlined, organized, and coherent decision-making process to be ensured, in which all pertinent government sectors participate (...) The Presidential Council provides for a review of the Andean institutional structure, not merely the establishment of an entity, so that it would have to seek a more comprehensive and permanent institutional solution to overcome the difficulties of the structure established by the Trujillo Protocol and enable the increasingly complex agenda of the integration process to be addressed (...) the strengthening of national institutional capabilities to coordinate and address integration issues, as otherwise, as the integration agenda expands, difficulties will be aggravated and may become a factor stifling the process (SGCAN [2000], pp. 9-10). [unofficial translation]"

The General Secretariat's message clearly conveys its wish that the guiding principle of the subregional institutional structure be "form follows function," Cohen's "functionalist" option and the *neo-liberal institutionalist* approach; in short, institutional functioning inspired

by the *Anglo-Saxon or liberal paradigm*. The CAN is therefore obliged to redesign the SAI's supranational institutional aspects, which implies questioning the validity of a body as paradigmatic as the Court of Justice or the essential meaning of Andean Parliament as the mechanism to attain democratic participation by the citizenry in the integration process, which is essential to the determination of a social agenda. It must then be asked whether the SAI's lack of effectiveness stems from some or all of the existing bodies, or an inappropriate combination thereof, in a system of bodies founded on different paradigms. Is it a response to the logical outcome of objectives too demanding for the Andean countries' current realities? Does it stem from the political, social, and economic instability of the developing countries? Why has the institution's regional conceptual structure not assisted *\_form preceding function\_* in escaping from a national concept of development?

#### THE NEW ANDEAN REGIONALISM AND THE INTERNATIONAL CONTEXT

The neo-realist and globalization theorists have been those who have studied regionalism in the international context by analyzing the impact of international political and economic structures and of such regional or subregional leadership as may promote a particular type of regional model (Rhine or Anglo-Saxon) and may define the scope of objectives sought; and by analyzing whether interdependence has had positive or negative impact on regional processes and the globalization phenomenon.

#### *The external influence of power and hegemony in the CAN*

In the neo-realist view, the new Andean regionalism is characterized by intergovernmentalism and trade cooperation. That is, in this approach, the trend seen in the evolution and operation of the Andean institutional structure, where intergovernmental mechanisms are relegating the supranational to second plane, is the logical consequence of the region's new ideological context. This theoretical perspective would also support the thesis that the priority item on and objective of today's Andean integrationist agenda is Andean insertion on good terms into the FTAA. The economic objectives of the process (customs union, common market, and the other international trade agreements with areas such as MERCOSUR or the EU) therefore form part of this strategy of regional hemispheric insertion influenced by the Anglo-Saxon or liberal paradigm. This reading of neo-realism omits from the political and social integration agenda how such insertion is to be achieved, although the CAN has not refused to put such objectives on its agenda.

This theory-based assertion is corroborated by the words of the CAN Secretary in saying that: "based on the principle of 'open regionalism,' the CAN has been implementing a global trade negotiation strategy. The FTAA is one of the main aspects of this strategy, but it is not the only one" (Alegrett [2001a]). He qualifies his assertion by saying that it is not the only one, but later on, in the same text, when speaking of the strategic importance of the formation of a South American economic area, he indicates that "its contribution to achieving more balanced participation in negotiations for the establishment of the Free Trade Area of the Americas in 2005" must be fostered (*Ibidem* [2001a]).

The neo-realist theorists also focus attention on the relationship between regionalism and hegemony, closely linked to the struggle for hegemonic power, with positive or negative impact on the countries under its influence. In this approach, the lack of a hegemonic power to lead the Andean subregional process makes this process particularly sensitive to countries or blocs with strong leadership capacity, within the Latin American

region or outside it. It is essential for such leadership to benefit all member countries, a *benign hegemonic country* which, at the same time, will assist the leaders in retaining power. This will mean, in consequence, that the leaders support regional institutions and meet their commitments within this regional institutional framework. In this view, the absence of strong regional leadership might be one of the factors limiting CAN's success.

The key to the definition of an Andean subregional integration model is which hegemonic power and which paradigm will have most weight, and what benefits this will afford the Member Countries. And whether such leadership will assist and enable the broad integration objectives to be attained. The United States, the EU, and Brazil are interested in some type of leadership over the Andean subregion.

- The United States weighs heavily in the Andean subregion. In addition to being the foremost trading partner, it is currently leading the FTAA process which is promoting economic regionalism based on a preferential trade and cooperation agreement that is intergovernmental in nature, and believes in the American market with rules of the game in the areas of goods, services, and "new issues" that have yet to be defined, whose end result is contingent upon negotiations between the United States, Canada, and the Latin American countries and blocs.

As mentioned above, Andean integration re-emerged in the 1990s as part of a new form of regionalism largely driven by new forces emanating from the international context. In the Andean case, and throughout Latin America, these driving forces have influenced the Andean integration model and exerted influence over the countries individually. In this new regionalism, the SGCAN acknowledges that, in political and economic terms, the hegemonic part has been played by the United States and its regional construction proposal, initially represented by NAFTA and later by the FTAA. In that connection, the CAN is clear in stating that "the North American Free Trade Agreement \_in particular, the United States market\_ exerts the strongest magnetic pull in the region" (SGCAN [2000], p. 1). And it continues, "the preeminence of the United States in the region has strengthened vis-à-vis countries weakened by the debt crisis and prone to dependence of the neo-liberal ideological type" (*Ibidem*) [unofficial translation]. However, the SGCAN is of two minds regarding the hegemonic part played by the United States vis-à-vis Latin America and the Andean subregion as, on the one hand, the hegemonic power acts as an arbiter of democracy and assists in seeking solutions to the difficulties of governance but, on the other, its influence detracts from the countries' political and economic autonomy and the subregional integration project. The SGCAN expresses it thus:

"Latin America's vulnerability and dependence vis-à-vis the regional power has become more marked in recent decades, leaving scant room for maneuver for the countries to seek, individually, solutions to their own needs. The hemispheric project, constituted by the new inter-Americanism of the Summits of the Americas and the FTAA would, in such a context, tend to deepen dependence rather than create relations of interdependence and mutual benefit to the extent that the countries of the Andean Community do not establish sufficiently powerful ties to counterbalance this influential relationship and strengthen the foundations for greater internal autonomy" (SGCAN [2000], p. 1). [unofficial translation]

One of the most notable achievements of the Andean countries in the new international context has been to adopt, within the CAN "common positions, joint actions and single spokespersonships, including the harmonization of votes and of nominations"<sup>33</sup> which, in recent years, has broken with the unilateralism characterizing the subregion's

countries in the early 1990s. These have already been successfully implemented in negotiations with Brazil, Argentina, MERCOSUR, and in the meetings to define the negotiating terms in the FTAA and will stand the test of fire in coming months when this hemispheric agreement is negotiated.

- The EU attends the FTAA process and proposes agreements that provide for political dialogue, economic cooperation and, in some cases, free trade agreements and a strong presence of its investment, in a framework of reconciliation of the interests of Latin America, North America, and the EU (the transatlantic triangle), but for fear that the FTAA may imply strong limitations of its access to the Latin American market.

The agreements that the EU is at present concluding with Latin America, whose foremost promoter within the EU is Spain, are *fourth generation or strengthened cooperation* agreements. These political and economic association agreements seek to strengthen ties among the parties based on principles of reciprocity and common interests and to create, in the medium term, free trade areas in which there is greater cooperation in political, scientific and technical, social, and cultural areas, along with trade (including essentially the same issues as does the FTAA).

The relations between CAN and the EU are governed by a *third generation* framework cooperation agreement, signed in 1992, which is a later version of those signed in 1980 and 1983. The objective of this agreement is to consolidate, intensify, and diversify relations among the parties through renewal and promotion of existing relations, which are based on the usual tenets of such agreements: political dialogue, the Framework Cooperation Agreement, specialized dialogue in the fight against drugs, and access to the European market with preferences through the Drugs GSP. At present, the two blocs are preparing a study that will make a "photographic" assessment of the status of economic and trade relations between the CAN and the EU, and set out their prospects. The objective is simply to be able to renew current relations by concluding a *fourth generation* association agreement containing the fundamental tenets of such agreements, such as political dialogue, trade liberalization (which would appear to be the most problematic) and economic cooperation (association agreement).

Another key aspect of the EU's hegemonic influence in the CAN is the current process of redefining Europe. For Andean integration, the EU has been the referent for its institutional structure and the integration model to be replicated but, currently, this referent point has only slight bearing on the dynamics of the Andean process, in part owing to the influence of regionalism on intergovernmental trade and cooperation agreements promoted by North America and in part by an absence of decisions taken in Europe regarding the new challenges involved in constructing its own integration process.

- Brazil has certain regional and world geopolitical and geoeconomic pretensions that it knows it cannot satisfy merely by leading MERCOSUR. On the other hand, the need for a country to play the part of a *benign hegemonic power* in the region has been understood by Brazil in its proposal to create the South American Free Trade Area (SAFTA). It is therefore repeatedly expressing, in its statements, its desire to "focus, along with the other countries of the continent, on topics pertinent to the region of a diverse political and economic nature" (MERCOSUR [2001]). The SAFTA initiative, whose main focus could be the integration of CAN and MERCOSUR, would mean, if it were consolidated, greater balance in hemispheric negotiations for the FTAA and less vulnerability and greater opportunity to defend South American interests vis-à-vis the rest of the world and the regional initiatives with North America and the EU. To achieve a South American position, Brazil proposed an

ambitious land and river infrastructure project, which is now being implemented. However, thus far innumerable problems have arisen in the negotiations between MERCOSUR and CAN, which are raising doubts as to whether a free trade area can be established between the two blocs by the end of 2002, as initially envisaged.

Multilateral negotiations between CAN and MERCOSUR failed in 1999 but, subsequently, tariff preference agreements were negotiated between CAN and Brazil, and CAN and Argentina. After these negotiations, with a view to finalizing a free trade area between the two blocs in 2002, CAN opted for an “unorthodox” method of negotiation with Uruguay and Paraguay, consisting of negotiating separate fixed preference trade agreements with them, thereby facilitating the negotiations between the two blocs before the end of 2001. This unusual proposal did not produce the anticipated results owing to the difficulties that arose during the negotiations for those agreements. With Uruguay, they have not yet begun because that country prefers to negotiate everything within blocs; and it is unclear whether it will be possible to conclude a preferential agreement with Paraguay before the next meeting of CAN and MERCOSUR.

### *CAN and the multilateral trade system*

Along with the debate on *building blocks* or *stumbling blocks*, discussed in Section IV, regional or subregional “preferential trade and cooperation” and “integration” agreements must be compatible with GATT/WTO provisions so that regionalism does not become a barrier to world trade liberalization. The multilateral trade system is, as indicated earlier, the basis for the different trade agreements. Of course, such compatibility is not necessary in the case of agreements where none of the member countries are members of GATT/WTO. However, this is not the case in any of the initiatives that have emerged in Latin America. And in the specific case of the CAN countries, all have been members of the WTO since 1996, the year when Ecuador acceded to the Agreement.

The basic principles of the world trade system are: *non-discrimination* based on Most-Favoured-Nation (MFN) treatment, in which the contracting parties to the Agreement undertake to accord unconditionally to all other parties any advantage, favor, or immunity that may affect such customs duties and levies, regulations, and formalities as may apply to products originating in other countries or destined for them; and *national treatment*, meaning that the countries must accord the same treatment to nationals and foreigners. Different exceptions to the *non-discrimination* principle are contained in the GATT of 1947 and subsequent GATT/WTO legislation.

With respect to trade in goods, the MFN principle need not be observed where there is a legal basis for the exception under: (a) Article XXIV of the GATT and/or the Understanding on the Interpretation thereof of 1994. This Article enables trade agreements implemented via free trade areas or customs unions to discriminate against third countries for up to 10 years, provided that the member countries do not enjoy levels of protection from third countries higher than those existing prior to the Agreement; (b) the Enabling Clause of 1979,<sup>34</sup> which authorizes non-compliance with MFN treatment in two cases: first, “preferential treatment accorded by developed contracting parties for products originating in developing countries, in keeping with the Generalized System of Preferences”; and, secondly, “regional or general agreements concluded among developing contracting parties in order mutually to reduce or eliminate tariffs and, in keeping with such criteria or conditions as the contracting parties may establish, non-tariff measures, applicable to

products imported in the framework of their trade with one another." It is the latter exception that the Andean countries have invoked to accord one another more favorable treatment vis-à-vis third countries, through a free trade area and customs union; and (c) Article XXV, paragraph 5 of the GATT, which provides for exceptions, "waiver," to the General Agreement in exceptional circumstances if this decision is accepted by a two-thirds majority of votes cast and such majority comprises more than half of the contracting parties. The Andean Trade Preferences Act (ATPA) is an example of the "waiver" exception granted by the United States to the Andean countries to support the fight against drug trafficking.

With respect to services, exceptions are authorized under Article V of the General Agreement on Tariffs and Services (GATS)<sup>35</sup>, which provides for the existence of agreements that have opted for a broad process of economic integration or trade liberalization among the countries concerned (WTO [1994], p. 347) and, when developing countries are party to an agreement of [this] type (...), flexibility shall be provided for (...) in accordance with the level of development of the countries concerned, both overall and in individual sectors and subsectors (WTO [1994], *loc. cit.*).

Accordingly, in keeping with the foregoing, any regional or subregional "preferential trade and cooperation" and "integration" agreements that may wish to be recognized by the WTO as exceptions to MFN treatment must be notified pursuant to Article XXIV of the GATT; pursuant to the Enabling Clause if they are developing countries; or Article V of the GATS for liberalization of trade in services. Thus far, the GATT/WTO has been notified of 220 regional trade agreements, of which 191 were notified pursuant to Article XXIV of the GATT (109 of these remain in force), 18 under the Enabling Clause, and 11 under Article V of the GATS (WTO [2000b], p. 1).

This, which would appear to be so clear, is not in the last analysis, and creates confusion in daily implementation of preferential agreements, essentially as the WTO, formerly the GATT, has not sufficiently developed Article XXIV of the GATT and Article V of the GATS, meaning that these articles encounter problems of practical applicability. And, in our view, this explains, when notifying agreements and amendments thereto, the confusion regarding submitting reports and passing examinations to comply with all WTO provisions. If, as we have said, Article XXIV of the GATT and Article V of the GATS are not sufficiently developed for real application, this inadequacy automatically applies to the Enabling Clause, as this is a Decision with very basic regulations and, therefore, countries invoking it assume that its development corresponds to the articles and Understandings of the multilateral trade agreement.

In 1987, the CAN notified<sup>36</sup> itself as a customs union under the Enabling Clause. Until 1987, the Cartagena Agreement was notified under the GATT through its membership of LAIA, which had notified itself<sup>37</sup> under the Enabling Clause in 1980 as a preferential trade agreement. However, in 1987, the Quito Protocol was adopted, amending the Cartagena Agreement. One of the articles amended was Article 3.c, whose text states that one of the measures to attain the objectives of the Cartagena Agreement is a more advanced trade liberalization program than that provided for under the commitments made in the Treaty of Montevideo of 1980. And it was precisely this amendment that led to the decision of the CAN, then the Andean Group, to notify itself to GATT. This notification was made under the Enabling Clause, and not under Article XXIV, essentially for two reasons<sup>38</sup>: (1) The Enabling Clause imposes fewer requirements than Article XXIV regarding review of progress made in liberalization processes. At the time of CAN's notification, this review consisted only of a request for information made by the Committee for Trade and

Development of the GATT. In addition, agreements notified pursuant to Article XXIV, initially and until 1996, had to be submitted for examination to obtain recognition and, subsequently, had to send biannual reports to Geneva. The examination and monitoring was carried out by an *ad hoc* working group; and (2) At the time of notification, no agreement had been concluded among developing countries of which the GATT had been notified under Article XXIV of that Agreement.

Thus far, the CAN has only submitted four reports<sup>39</sup> to GATT/WTO, the last of these dating from the mid-1990s. Although it has not sent any reports since 1996, the CAN has never been subject to any complaint or special request for information by the multilateral trade organization.

In 1996,<sup>40</sup> the WTO adopted a stricter and more serious policy that focused on oversight of notified agreements. However, no study of the compatibility between preferential trade agreements and the GATT had been conducted by the WTO for 43 years. In consequence, the Committee on Regional Trade Agreements (CRTA) was established with the mandate to study whether notified agreements were following the procedures and mandates adopted by the Council for Trade in Goods, the Council for Trade in Services, and the Committee for Trade and Development. The CRTA is directly subordinate to these three bodies. Its purpose is also to examine how reports required by the agreements should be submitted; to formulate procedures to facilitate and improve the examination process; and to study the systemic consequences of such agreements on the multilateral trade system. The search for greater discipline by the WTO has come at the time of the rebirth of regionalism in Latin America. This, as we have seen, has taken shape as a “boom” in the emergence of new regional agreements that depart from the traditional North-South divide of earlier regional agreements (NAFTA and the FTAA) and the establishment of MERCOSUR. Participating in the agreements of the current Latin American regionalist trend are countries weighing more heavily in the world economy. It may thus be anticipated that future studies of the compatibility of agreements among developed and developing countries will be more fully elaborated, especially those involving the United States, Canada, Mexico, or Brazil. Although none of these countries are participating in the Andean subregional integration process, the possibility should not be ruled out of that process being submitted to rigorous examination (as occurred with MERCOSUR) under Article XXIV.

In the CRTA at present 86 studies of agreements are under way, 79 of which will be examined by the Committee on instructions from the Council on Trade in Goods and 6 on instructions from the Council on Trade in Services. However, there is no study under way on instructions from the Committee for Trade and Development, given that agreements, such as CAN, notified under the Enabling Clause (WTO [2000b], p. 1) would come under that Committee. Virtually until today, the Committee for Trade and Development has merely carried out notarial work, consisting of studying and then recording agreements notified under the Enabling Clause, although without issuing any sort of decision in that connection. However, in the MERCOSUR case, this changed. This agreement was notified under the Enabling Clause, but the CRTA took the decision to examine it under Article XXIV of the GATT.

As long as the Enabling Clause remains in force and intact for notified agreements among developing countries, it will continue to govern all aspects of the liberalization of trade in goods. And as regards liberalization of trade in services, regardless of other notification, this must be notified under Article V of the GATS.

In view of the above, the Enabling Clause is a valid route for the CAN. However, in view of trends within the WTO, this route is now manifesting certain difficulties, which

could grow more acute in the future and which are lead to some indecision in the Andean process regarding its relationship with the multilateral trade system. Such indecision would justify notification under Article XXIV of GATT/WTO by the subregional agreement as a customs union whose consolidation is under way. Some of the difficulties are: (1) Unfounded doubts regarding notification to the WTO under Article V of the GATS, of Decision 439 on the General Framework of Principles and Rules for Liberalizing the Trade in Services in the Andean Community.<sup>41</sup> This Decision will not be operative and, therefore, not subject to notification, until the inventories (the list of all measures restricting trade in services among the Andean countries) are approved –also by Decision; and (2) The problems that may arise when CAN notifies itself as a customs union under Article VI (anti-dumping and countervailing duties) of the General Agreement on Tariffs and Trade, taking into account that Article 4.3 of this Agreement says that when two or more countries have reached, in keeping with the provisions of Article XXIV, paragraph 8, subparagraph (a) of the GATT of 1994, a degree of integration manifesting the characteristics of a single unified market, the productive sector of the integrated area as a whole will be viewed as a national productive sector.

Other arguments in favor of notification under Article XXIV are: (1) The increasing likelihood that paragraph (c) of the Enabling Clause will be eliminated on agreements among developing countries and that the terms will worsen for those countries that must notify after the elimination of this paragraph of the Clause. If the CAN does not notify before this occurs, this would apply to it; (2) The CRTA is examining MERCOSUR under Article XXIV, although it was notified under the Enabling Clause; and (3) The flexibility afforded CAN by the Enabling Clause in the 1980s \_ when it was nothing more than a mere preferential agreement\_ is no longer necessary. Today, the Andean integration process is a nearly perfect free trade area for trade in goods, which is the minimum requirement to register as a free trade area under Article XXIV of the GATT. As regards liberalization of services, only the general framework (Decision 439) has been adopted, and no further steps can be taken until the Member Countries draw up their inventories of restrictive measures so that the true process of liberalization of services may begin. Therefore, notification under Article V of the GATS cannot yet be mooted. As the CAN wishes to consolidate a customs union so as to become a common market by 2005, it could also notify itself as a customs union in consolidation. Should its intent to consolidate the customs union in coming years not come to fruition, the Member Countries would be obliged to “level” with the WTO regarding the integration process or, what is the same thing, level with themselves and with the other countries.

Rodríguez Mendoza proposes that another notification of CAN be made “to the General Council of the GATT (which, in practice, would be the same as doing so under Article XXIV) and to the Committee for Trade and Development (to preserve such rights as may exist by virtue of the Enabling Clause)” (Rodríguez Mendoza [1998], p. 10). He adds that “in any case, the changes notified would be evaluated by the Committee on Regional Trade Agreements” (*Ibidem, loc. cit.*).

To summarize, notification of the CAN under Article XXIV would greatly clarify the panorama for the inward integration process, to the WTO and to the other blocs (MERCOSUR) with which agreements have been concluded or whose conclusion is envisaged. It would also bring the WTO up to date regarding the amendments made by the process over all these years, and specific problems now arising as regards GATT/WTO provisions would be eliminated. Lastly, it would break the deadlock regarding the decision to notify the CAN under Article V of the GATS. It is true that the two notifications (goods and services) are not directly related to one another and one can be made independently of

the other. It is also true that doubts regarding notification of Decision 439 to the GATS stem from studying the advisability of CAN including the Decision inventories in such notification. However, doubts regarding notification under Article XXIV are, in the end, leading in practice to notification under Article V of the GATS.

To summarize, although the relationship between the CAN and the WTO is technical in nature, the new notifications and CAN's presence in the multilateral trade framework will unquestionably depend on political decisions taken at the highest level.

## VI. CONCLUSIONS

We have discussed herein the three variables employed in the IEP approach (national structures, regional institutions, and the international context), a combination which, from the outset, was shown to be necessary in studying a phenomenon as complex as today's Andean regionalism.

By way of summary and conclusion, we will review our comments on Andean open regionalism from the IEP perspective, and set out its prospects.

It was mentioned repeatedly above that Andean Group membership rose after its relaunch in the late 1980s based on an open regionalist approach. Andean open regionalism is proposed as a subregional integration scheme for realistic insertion of the countries in the international context. Under this approach, the subregional process plays an inductive part toward the exterior for the countries individually, a sort of economic laboratory, where each member of the group experiences the subregional area before entering the global market, that is, no attempt is made to generate further interdependence which \_ in the neofunctionalist view\_ can only occur through stronger and renewed commitment among the countries. Such dynamics define the CAN in terms of the liberal or Anglo-Saxon paradigm and show it to be a focus of study of the neo-liberal institutionalists or intergovernmentalists. In keeping with the definition of Andean open regionalism, the link with the exterior is the stimulus for specific cooperation among the Andean countries. That is, the driving force of Andean integration is their insertion into other blocs, such as the FTAA, MERCOSUR, or the EU. The CAN's means of attaining its internal goals (customs union and common market) also define Andean integration in terms of the Anglo-Saxon or liberal paradigm.

Having reached this point, an observer of the CAN might ask himself whether the objective of social and political integration has truly been achieved under this view of "outward" regionalism. Evidently, as we have just seen, from the economic perspective, Andean regionalism seeks to be the springboard for successfully activity abroad, and such success \_external integrator\_ will be what organizes and generates growth and modernization within the Andean economies. Based on analysis of the CAN as a clear exponent of open regionalism, we must then ask: Will Andean open regionalism also succeed in ensuring that external forces produce significant structural transformations (elements of social and territorial cohesion; diversification of productive activities with less dependence on export destinations; linking of economic sectors; strengthening of international negotiation capacity, etc.)?

As indicated by the subregional institutions, another element characterizing today's Andean regionalism is the possibility of retaining the three simultaneous integration objectives (economic, social, and political) and of moving toward their simultaneous achievement, along with the possibility of believing that even if some of them founder, there may be progress with the others. This means that social and political integration could be consolidated, even if economic integration does not go beyond the free trade area. The

CAN would thus enter waters uncharted by any regional bloc, defying the only process seen thus far that has integrated in stages, the EU.

Therefore, although in the Andean subregional process the predominant paradigm is Anglo-Saxon and intergovernmental, in Andean dynamics of operation, this continues to coexist with a subregional institutional structure of Rhenish supranational character that has established a subregional Court of Justice, an Andean legal system, and a Parliament, and has established a political integration objective which, according to federalist theory, will in the end convert the subregion into a federation or confederation.

The foregoing shows that the Andean open regionalist scheme adopted in the most recent wave of regionalism has not yet made it imperative to define the Andean regionalist model. The need for such a definition has led to a paradox in Andean regionalism that must be resolved in the short term. This is the friction generated when, in the same subregional scheme developed under the new wave of Latin American regionalism, intergovernmentalism is increasingly evident but, at the same time, earlier supranational institutional structures are retained, structures that were never truly operational and which are seen as mechanisms that today detract from the agility of the process. Also paradoxical is the intergovernmental operation of the "preferential trade and cooperation agreements" while retaining objectives (economic, social, and political) of a Community nature that are proper to "integration agreements." In our view, the main source of this paradox is the belief on the part of Andean leaders that "subregional integration" is naturally better than a "preferential trade and cooperation agreement." However, a realistic view of globalization and the international context leads them to pin all their hopes on "preferential trade and cooperation agreements," such as the FTAA.

Our work has exposed this paradox in each variable discussed and has pointed to an evident need for the CAN to define a model to ensure that efforts made by the countries and subregional institutions are more effective, and that they target, based on a model built on one or the other paradigm, the main objective of joint efforts made by the subregion's countries: the Andean peoples' progress toward higher levels of welfare, justice, and equality.

#### WITH RESPECT TO NATIONAL STRUCTURES

Regardless of the Andean subregional model, it is essential for the Andean countries to strengthen their institutions and democracies in addressing any regional project. But it is also important to determine what impact pressure from the CAN has in that effort. In the European case, the incentive to accede to the current EU helped countries such as Spain or Portugal in their efforts to consolidate their democracies and institutions. Thus far, the CAN has cast its vote unconditionally for democracy for its Member Countries, but it would appear that that vote is not enough for the Andean countries to develop strong democracies. To attain consolidated national structures, along with the incentive of other blocs of higher than subregional rank, an active and aware civil society at the national and international levels is essential. Such domestic weaknesses and the part played by political leaders at the subregional level make it difficult to achieve concerted and common action in broader forums and this, in the final analysis, leads to the countries, taking a narrow view, ever to put their interests above those of the group. In short, the need for strong national institutions is essential to the success of the subregion under whatever subregional model may be defined and for its insertion into regional blocs of higher rank, such as the FTAA and the South American bloc.

## WITH RESPECT TO SUBREGIONAL INSTITUTIONS

In opting for one or another model, it is essential that reform of the subregion's institutional structure be undertaken.

In the liberal or Anglo-Saxon paradigm, the structure would have to confine itself to fully intergovernmental arrangements, wherein disputes would be resolved through arbitration procedures, and the supranational legal system would be eliminated. In short, the new objectives of the Andean subregional process would have to be defined by consolidating a new legal instrument (a new Cartagena Agreement) and redesigning the Andean institutional structure, which would allow for greater flexibility of action by the Member Countries. As the most extreme measure, this might involve the elimination of the Andean Court of Justice and the Andean Parliament and, hence, the regulatory competences now enjoyed by the Commission and the Council. Making the institutional structure more flexible would involve, among other things, participation by different players via special groups. Opting for this paradigm would not necessarily imply reluctance on the part of the countries to cooperate in the social areas such as education, health, communications, etc., although, in this new design, such cooperation would now come under the new objectives, wherein interdependence generates cooperation only in specific areas. There could be cooperation in the political area as well, but effected by the national states, which would be the true political objects.

Under the Rhine or structuralist paradigm, efforts would have to be made to democratize the CAN's institutional structure by establishing balance among the three powers, a step that would gradually eliminate integration at the presidential level and promote the integration of the citizenry.

## WITH RESPECT TO THE INTERNATIONAL CONTEXT

Throughout this work, we have made repeated reference to the importance to today's Andean regionalism of the international context, which has become a more influential element in defining the Andean subregional model.

In studying the neorealist approach, we noted the United States' influence within the subregion in terms of trade and ideology. The presence of the United States is causing the Andean model to gravitate in the direction of the liberal or Anglo-Saxon paradigm. Regionalism promoted by the United States is now reflected in the existence or implementation of "preferential trade and cooperation agreements," such as NAFTA and the FTAA. Nonetheless, the European referent has been present at all times within the subregion as an example of successful integration to be followed, and that referent remains in the Andean subregion in the form of regional institutional structures (SAI) of European architecture and as agreements between European countries and the CAN, countries that evidently seek to retain and strengthen the European presence and influence in the subregion. However, along with geographic and trade factors, there is now a key factor detracting from the referential part played by the EU in the Andean subregion. This is the existing lack of definition within the EU itself vis-à-vis the imminent enlargement to include Eastern Europe and the greater influence of intergovernmental dynamics within the Union.

The emergence of a *benign hegemonic power* within the Andean subregion would enable the model to be defined and to succeed as, while there has been an ongoing European presence, the hegemony of the United States in the subregion has continued throughout the 20<sup>th</sup> century. But only in the late 1980s did the United States realize that it was possible

for it to lead hemispheric regionalism as a hegemonic power. Nonetheless, its hegemonic presence is not always viewed as benign although, for the success of the FTAA and of the liberal or Anglo-Saxon paradigm within the subregion, it must in fact be so. In consequence, the FTAA is a defining moment for the Andean model. In this scenario, account must be taken of Brazil's efforts to become the South American benign hegemonic power. If Brazil succeeds, along with adding another dimension to the FTAA project, this will impact the South American and Andean regional model. Such success will allow Brazil to determine what type of regionalism it wishes to lead and the part it wishes to assign Europe in this approach to building South American regionalism. The last element to be taken into account is the active part played by Europe through fourth generation agreements with MERCOSUR and probably with the CAN but which, in our view, will have one or another dimension depending on the consolidation of Brazil as the benign hegemonic power.

In coming years, possible theoretical scenarios for the CAN are:

- As trends would suggest, after specific reforms of the Agreement and the redesign of objectives and how to attain them, the CAN defines itself as a "preferential trade and cooperation agreement" in which a free trade area is consolidated along with, in due course, a customs union, and the Member Countries cooperate with one another in specific social and political areas (common spokespersonship, drug trafficking, immigration, etc.).

- The less likely alternative, with the help of a Brazilian hegemonic power following the Rhenish or structuralist paradigm, the CAN defines itself as a full "integration agreement," in which Andean citizens incorporate themselves into the process as important players, and where all such players lend legitimacy to a gradual, increasingly interdependent, and incremental supranational construction of the Andean subregional integration process.

This work has discussed today's Andean regional model and its strengths and weaknesses. Unquestionably, the objectives and architecture of the Andean subregional process make it one of the most ambitious and developed integration groups in Latin America. Today, however, the CAN must renew its efforts to complete the definition of its subregional model. A model defined clearly in terms of either of the two paradigms, or a well-delineated combination of them, will better enable the common objectives proposed by the Member Countries to be achieved. Better definition is essential in a world where the rules of the game are being rewritten and the players are being dealt new hands.

## Notes

<sup>1</sup> In 1980, LAFTA became the Latin American Integration Association (LAIA).

<sup>2</sup> Prof. Pedro Caldentey del Pozo, in the seminar "Development and Economic Integration Strategies in Latin America in the 1990s," given as part of the doctoral program of the Faculty of Economic Sciences and Business Studies (ESEA) of the *Universidad de Córdoba* (Spain), suggested the existence of a *Rhine [Central European] paradigm* and an Anglo-Saxon paradigm, extrapolated from Michel Albert's famous distinction between *Rhine capitalism* and *Anglo-Saxon capitalism*. Our description and cross-referencing with other authors and theories are based on this distinction.

<sup>3</sup> Study of the non-geographic regionalist phenomenon began in the late 1960s and early 1970s.

<sup>4</sup> The Declaration of Bogotá was signed on August 16, 1966 by the Presidents of Colombia (Carlos Lleras Restrepo), Chile (Eduardo Frei), and Venezuela (Raúl Leoni), and the Presidents of Ecuador and Peru, represented by their personal delegates (Galo Plaza and Fernando Schwalb). This Declaration provided for the bases for common international policy, Latin American economic integration, border integration, physical integration, multinational projects, monetary policy, etc.

<sup>5</sup> Parentheses added by author.

<sup>6</sup> Felipe Herrera was Minister of the Treasury of Chile and President of the Inter-American Development Bank (IDB) from 1960 to 1971.

<sup>7</sup> Secretary General of the CAN

<sup>8</sup> Heads of State and Government of the EU countries, accompanied by their respective Foreign Affairs ministers and the President and a member of the Commission, gather twice a year constituting the European Council.

<sup>9</sup> It is formed by fifteen Ministers, one for each Member Country.

<sup>10</sup> In April 2001, the Presidents of Colombia, Mexico, and Venezuela met again with a view to re-launching G3. To that end, on April 8, 2001, the Declaration of Caracas was signed. In that declaration, the three countries undertake to promote political and economic consensus and trilateral cooperation to reactivate the integrating body. It only remains for the declaration to be translated into specific activities.

<sup>11</sup> Quotations marks added by author.

<sup>12</sup> Terms added by author.

<sup>13</sup> Judge Pescatore is one of the intellectual progenitors of European law.

<sup>14</sup> Parentheses added by author.

<sup>15</sup> We also saw this in Section III, in the study of the *neo-functional* or *supranational* and *liberal institutionalist* or *intergovernmentalist* approaches.

<sup>16</sup> Parentheses added by author.

<sup>17</sup> According to Jeffrey Schott, from the establishment of the WTO until mid-1998, 138 requests for consultation had been submitted in connection with different disputes, and approximately 25% of these had been initiated by developing countries. (Rodríguez Mendoza [1999b], p. 42).

<sup>18</sup> The Agreement provided that the main instruments to be used in industrial programming would be the Sectoral Industrial Development Programs (SIDP). In 1972, a metallurgical program was approved, in 1975, the Petrochemical Program, in 1977, the Automotive Program and, beginning in 1975, several versions of a Steel Programs were proposed.

<sup>19</sup> In 1970, Decision 24 was adopted, containing the Common Foreign Investment and Technology Licensing Code. This provision established minimum restrictions to be applied by each government, and authorized the countries to adopt stricter provisions if they so wished (it imposed limits on remittances abroad; obliged foreign companies to become national or mixed to benefit from the advantages of the enlarged market; obliged all new foreign investment to obtain express authorization from a national entity with responsibility for negotiation, admission, and control thereof; regulated the use made by foreign investors of domestic and foreign credit; restricted automatic reinvestment of profits in excess 7% per year of own capital, as well as the purchase of national stock; and recommended prohibition of investment in strategic sectors).

<sup>20</sup> The pessimistic statements of Felipe Herrera, Raúl Prebisch, and ECLAC itself belong to this period.

<sup>21</sup> On August 25, 1992, the Commission of the Andean Community adopted Decision 321, on the temporary suspension of Peru, based on which the country suspended, until December 31, 1993, its obligations under the Liberalization Program and the Common External Tariff. This Decision was extended until April 1994, when the Commission of the Andean Community adopted another piece of Community legislation that provided for the three-stage incorporation of Peru in the Free Trade Area. Lastly, after arduous negotiations, on July 30, 1997, the other Andean Group members concluded an agreement for full reincorporation of Peru into the Free Trade Area, to be completed in 2005.

<sup>22</sup> We take this to be a reference to the EU.

<sup>23</sup> Elements of the proposal to define a Community fiscal target presented on April 26 and 27, 2001, in Lima (Peru), by SGCAN at the technical preparatory meeting of the Fifth Regular Meeting of the Advisory Council of Treasury or Finance Ministers, Central Banks, and Economic Planning Officers of the Andean Community.

<sup>24</sup> "Rule of law" means a politically organized society where the law is higher than its leaders, rather than the reverse, and it is thus applied equally to all citizens. Today, this requires the existence and effectiveness of a Constitution; in earlier times, it required a traditional statute providing for balance among the powers, which is respected or, if it is not, provides for the consequent private redress or the imposition of established criminal sanctions (Cabanela [1998]).

<sup>25</sup> Ph.D. in History from the Universidad Central de Venezuela and author of *El culto a Bolívar; esbozo para un estudio de la historia de la ideas en Venezuela*, published by the Universidad Central de Venezuela in 1973.

<sup>26</sup> The Treaty Creating the Court of Justice of the Cartagena Agreement (TAJ) was signed by the Presidents on May 28, 1979, in Cartagena. In view of the new institutional

structure adopted in the Trujillo (Peru) Protocol in 1996, on May 28, 1996, in Cochabamba (Bolivia), the Treaty Creating the Court of Justice was amended in an additional protocol to adapt it to the new situation. Since that date, the TAJ has been known as the Court of Justice of the Andean Community (TJCAN).

<sup>27</sup> As codified in Decision 472, currently in force.

<sup>28</sup> At present, Colombia (1991), Ecuador (1998), and Venezuela (1999) have amended their Political Constitutions to adjust their provisions to the needs and requirements of Andean and Latin American integration. The Constitution of Peru of 1996 is more tentative, although Article 44.2 reads: "It is incumbent upon the state to establish and execute border policy and to promote integration, particularly Latin American, as well as the development and unification of border areas, in keeping with foreign policy." Bolivia is, for the moment, the only Community country whose Constitution, despite the amendments of 1995, does not contain any provision in this area. However, this could be rectified soon if, as it would appear, in the constitutional reform proposed in Bolivia, and that which will surely take place in Peru during the democratic restoration process now under way, they adjust their Constitutions to the needs and requirements of Andean integration.

<sup>29</sup> Advisor to the Secretary General of the Andean Community.

<sup>30</sup> Advisor to the Secretary General of the Andean Community.

<sup>31</sup> Interview conducted by the author of this paper on March 14, 2001, in Lima (Peru). Luis Abugattas is a Ministry of Industry, Tourism, Integration, and International Trade Negotiations of the Government of Peru. From 1986 to 1992, he worked as a Board of the Cartagena Agreement official, and has worked as a consultant on different tasks for the SGCAN in the services area.

<sup>32</sup> As codified in Decision 406 currently in force.

<sup>33</sup> Decision 458 of May 25, 1999, Common Foreign Policy Guidelines, p. 3.

<sup>34</sup> Decision (L/4903) of November 28, 1979, on differential and most favored nation treatment, reciprocity, and greater participation by developing countries.

<sup>35</sup> In English, it is known as *General Agreement on Trade in Services* (GATS).

<sup>36</sup> On May 12, 1987, in text L/6737, which entered into force on May 25, 1988.

<sup>37</sup> On August 12, 1980, in text L/5342, which entered into force on March 18, 1981.

<sup>38</sup> These reasons were adduced by Luis Abugattas in an interview conducted by the author of this paper in Lima (Peru) on March 14, 2001. Luis Abugattas was the Board of the Cartagena Agreement official with responsibility for drafting and issuing notifications to the GATT under the Enabling Clause of the Cartagena Agreement.

<sup>39</sup> The reports sent to the Committee for Trade and Development were: L/6737 in 1990, L/7089 in 1992, L/6841 in 1994, and L/7088 in 1996.

<sup>40</sup> On February 6, 1996, the WTO General Council approved the formation of the Committee on Regional Trade Agreements.

<sup>41</sup> Decision 439 of June 11, 1998, on the General Framework of Principles and Rules for Liberalizing the Trade in Services in the Andean Community.

Table 1

SPHERES AND CRITERIA OF THE NEW REGIONALISM			
Sphere	Geographic		Non-geographic
Criteria	Economic	Historical, cultural, social	Economic
Involuntary	Border areas and natural ecosystems		<b>Globalization</b>
Voluntary	Multilateral, trilateral, or bilateral free trade areas (FTAA, G3, or CAN-Brazil)	Subregional Integration (CACM, CAN, and MERCOSUR)	Free trade areas (EU-Mexico)  Ibero-American Community of Nations

Source: Prepared by the author.

Table 2

MULTINATIONAL GOVERNMENTAL MODELS		
	Flexible territories	Fixed territories
Flexible functions	CONSORTIO	CONFEDERATIO
Fixed functions	CONDOMINIO	FEDERATIO

Source: Emerson [1999] p. 241.

Table 3

INSTITUTIONAL STRUCTURE OF THE ANDEAN COMMUNITY					
Bodies	Main functions	Composition	Regular meetings	How will is expressed	Nature
Andean Presidential Council (1990)	<ul style="list-style-type: none"> <li>- Define integration policies.</li> <li>- Evaluate the results of the process.</li> <li>- Provide policy guidelines.</li> </ul>	Presidents of the Republics	Once a year.	Guidelines.	Executive.
Andean Council of Foreign Ministers (1979)	<ul style="list-style-type: none"> <li>- Formulate foreign policy of the Member Countries.</li> <li>- Formulate, implement and evaluate the process' general policy.</li> <li>- Represent the Andean Community on matters within its sphere of competence.</li> <li>- Sign convention and agreements with third countries.</li> </ul> <p><b>In enlarged session:</b></p> <ul style="list-style-type: none"> <li>- Prepare presidential meetings.</li> <li>- Elect the Secretary General.</li> <li>- Propose amendments to the Cartagena Agreement.</li> </ul>	Foreign Ministers of the Republics.	Twice a year.	Decisions and Declarations.	Executive, representative and legislative.
Commission of the Andean Community (1969)	<ul style="list-style-type: none"> <li>- Formulate, implement, and evaluate policy in the trade and investment area.</li> <li>- Coordinate positions in fora on matters within its sphere.</li> <li>- Represent the Andean Community on topics within its sphere of competence.</li> </ul> <p><b>In enlarged session:</b></p> <ul style="list-style-type: none"> <li>- To address sectoral matters.</li> <li>- Considerar normas para armonización de políticas económicas.</li> </ul>	Plenipotentiary representatives.	Three times a year.	Decisions.	Legislative.
General Secretariat of the Andean Community (1996)	<ul style="list-style-type: none"> <li>- Ensure compliance with rules.</li> <li>- Formulate Draft Decisions and propose them to the Council of Ministers and Commission.</li> <li>- Conduct technical studies.</li> <li>- Maintain contact with Member Countries and regional organizations.</li> <li>- Serve as Secretariat for the meetings of representatives of the SAI institutions.</li> </ul>	Secretary General.	Ongoing.	Resolutions, draft Decisions, initiatives, and opinions.	Executive and initiative.

over...

Bodies	Main functions	Composition	Regular meetings	How will is expressed	Nature
Andean Court of Justice (1979)	- Functions set forth in the treaty establishing it.	Judges.	Ongoing.	Judgements.	Jurisdictional.
Andean Parliament (1979)	- Participate in promoting and guiding the process. - Study implementation of integration. - Proposes draft legislation.  - Promotes harmonization of legislation.	At present, representatives of national congresses.		Proposals.	Deliberative.
Andean Business and Labor Advisory Councils (1983)	- Issue opinions on programs of interest to their sectors. - Participate with voice in meetings of the Commission. - Participate in meetings of working groups and groups of government experts to which it may have been invited.	Delegates of organizations representing the business and labor sectors.		Proposals.	Advisory.
Andean Development Corporation (CAF) (1968), and Latin American Reserve Fund (FLAR)* (1988)	- To promote the integration process and coordinate on an ongoing basis with the General Secretariat. - Functions as set forth in their establishing conventions.		Ongoing.		Financial.
Agreements (1970-1973)	- To address education, health, labor, and other matters.	Ministers of the areas.			Cooperation.

Note: (\*) The FLAR was founded as an extension of the Andean Reserve Fund (FAR), a financial institution created in November 1976, in the context of the Cartagena Agreement, whose Establishing Agreement was amended to permit accession by third countries. This new agreement was signed in Lima, Peru, on June 10, 1988, and entered into force on March 12, 1991.

Source: Board of the Cartagena Agreement, *Informativo Andino* N° 8, 1996. From Vieira [1999] pp. 133-137.

Table 4 (A)

**CAN: COMPOSITION OF CURRENT REVENUE <sup>(1)</sup>**  
(In percentages)

Items (*)	1986				1990				1995				1999				2000			
	Direct taxes (a)	Indirect taxes (b)	Tax (c)=(a+b)	Non Tax (d)	Direct taxes (a)	Indirect taxes (b)	Tax (c)=(a+b)	Non Tax (d)	Direct taxes (a)	Indirect taxes (b)	Tax (c)=(a+b)	Non Tax (d)	Direct taxes (a)	Indirect taxes (b)	Tax (c)=(a+b)	Non Tax (d)	Direct taxes (a)	Indirect taxes (b)	Tax (c)=(a+b)	Non Tax (d)
Bolivia	n.a.	n.a.	n.a.	n.a.	26.7	68.7	95.4	4.6 (2)	33.9	55.4	89.3	7.7 (2)	36.0	48.5	84.5	15.5 (2)	n.d.	n.d.	n.d.	n.d.
Colombia (3)	27.0	60.5	87.5 (4)	12.5	37.0	53.3	90.3	9.7	35.6	50.3	85.9	14.1	33.8	50.8	84.6	15.4	33.4	52.8	86.2	13.8
Ecuador	10.2	50.4	60.6	39.4	7.6	41.5	49.1	50.9	11.0	51.0	62.0	38.0	16.4	48.2	64.6 (5)	34.5	14.7	45.0	59.6 (5)	40.4
Peru	26.4	63.9	90.3	9.7	13.7	80.7	94.4	5.6	19.1	69.4	88.5	11.5	19.9	66.6	86.5	13.5	18.7	63.8	82.4	17.6
Venezuela	46.7	31.7	78.4	21.6	66.9	6.6	73.5	26.5	40.7	36.5	77.2	22.8	23.9	47.0	70.9	29.1	30.1	40.8	70.9	29.1
CAN Simple Average	27.6	51.6	79.2	20.8	30.0	50.2	80.5	19.5	28.1	52.6	80.6	18.8	26.0	52.2	78.2	21.6	24.2	50.6	74.8	25.2

## Notes:

n.a.: Not available.

(\*) Items account for 100% of current revenue; (Column c + Column d).

(1) Central Government; cash basis. Social Security contribution not included.

(2) Includes capital transfers, accounting for 2.5% in 1986; 7.2% in 1990; and 1.3% in 1999.

(3) 1986 and 1990 income tax figures include wealth tax.

(4) In determining the 1986 composition of tax revenue, tax revenue, budgetary base, from the Banco de la República de Colombia's time serie "Principales Indicadores Económicos de Colombia 1923-1997" was used.

(5) According to Registro Oficial N° 78 of December 1, 1998, on January 1, 1999, a 1% capital transfer tax was introduced, replacing income tax. The actual percentage of income tax for Ecuador in the 1999 fiscal

period therefore 25.4%, as income tax collected by the Tax Administration (6.4%) is added to the financial transactions tax itself (19%). The same procedure is used for 2000.

Source: IMACRO, Macroeconomic Harmonization Unit database, General Secretariat of the Andean Community. Taken from Bautista [2001].

Table 4 (b)

**CAN: COMPOSITION OF TAX REVENUE <sup>(1)</sup>**  
(In percentages)

Item (*)	1986		1990		1995		1999		2000	
	Direct Taxes	Indirect Taxes								
Bolivia	n.a.	n.a.	28.0 (2)	72.0	38.0 (2)	62.0	42.6 (2)	57.4	50.2 (2)	49.8
Colombia	30.8 (3)	69.2 (3)	40.9	59.1	41.5	58.5	39.9	60.1 (4)	38.8	61.2 (4)
Ecuador	16.8	83.2 (5)	15.3	84.7	17.8	82.2	25.4 (6)	74.6	24.6 (6)	75.4
Peru	29.2	70.8 (7)	14.5	85.5	21.5	78.5	23.0	77.0	22.7	77.3
Venezuela	59.5	40.5 (8)	91.0	9.0	52.7	47.3	33.7	66.3	42.4	57.6
<i>CAN Simple average</i>	34.1	65.9	37.9	62.1	34.3	65.7	32.9	67.1	35.7	64.3

Notas:

n.a.: Not available.

(\*) Items account for 100% of tax revenue.

(1) Central Government. Social Security contribution not included.

(2) Includes: projected company income; VAT supplemental regime; sales tax (or income tax withheld at source); mining profits; simplified tax regime; integrated tax regime; projected property tax revenue; and company profits tax. Also includes free property transfer; departure taxes; and other taxes imposed under tax regulations.

(3) In determining the 1986 composition of direct and indirect taxes, tax revenue, budgetary base, taken from the Banco de la República de Colombia's time series "Principales Indicadores Económicos de Colombia 1923 - 1997", was used.

(4) Financial transactions tax ("two per thousand" tax) for 1999 and 2000 is included.

(5) For the years studied, transfers; income from entities and organizations; disposition of assets; and bond sale profits are included in other indirect taxes.

(6) According to Registro Oficial N° 78 of December 1, 1998, as of January 1, 1999, a 1% capital transfer tax was introduced, replacing income tax. The actual percentage of income tax for the 1999 fiscal period is therefore 25.4%, as the amount collected by the Tax Administration under this item (6.4%) is added to the financial transactions tax itself (19%). The same procedure was used for 2000.

(7) Other indirect taxes: other tax income and stamp duties were taken into account in the years studied.

(8) For the years studied, taxes on derivatives and other taxes are included under other indirect taxes.

Source: IMACRO, Macroeconomic Harmonization Unit database, General Secretariat of the Andean Community. Taken from Bautista [2001].

Table 5

**CAN: CUSTOMS TARIFFS, VAT, AND INCOME TAX AS A PERCENTAGE OF CURRENT INCOME <sup>(1)</sup>**  
(In percentages)

Item	Customs Tariffs	Internal VAT	External VAT	Total VAT	Income tax
Bolivia	8.0	14.2	19.8	34.0	24.9 <sup>(2)</sup>
Colombia	9.5	27.5	13.8	41.3	38.8
Ecuador <sup>(3)</sup>	13.1	17.2	14.5	31.7	24.6
Peru	12.9	30.9	22.1	53.0	22.7
Venezuela	10.6	n.a.	n.a.	24.8	42.4 <sup>(4)</sup>

Notes: n.a.: Not available.

(1) Central Government, cash basis.

(2) "Other direct taxes" (including title transfers, departure taxes, and tax regulations) account for 25.2% of direct taxes.

(3) For purposes of comparison, the information corresponds to 1999, as in 2000 is not available in cash basis.

(4) As mentioned above, over 64% corresponds to tax payments made by oil companies.

Source: IMACRO - General Secretariat of the Andean Community. Taken from Bautista [2001].

Table 6

**CAN: CENTRAL GOVERNMENT SURPLUS OR DEFICIT**  
(As a percentage of GDP)

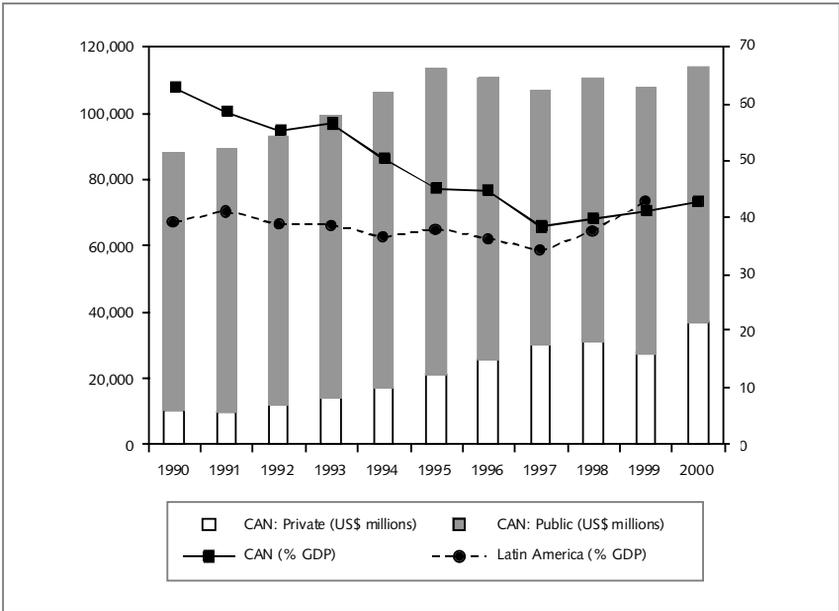
Year	Bolivia	Colombia	Ecuador	Peru	Venezuela
1986	n.a.	-1.5	-2.7	-3.7	-0.8
1987	n.a.	-0.5	-2.6	-5.9	-1.6
1988	n.a.	-1.5	-0.1	-2.8	-6.1
1989	-1.9	-1.7	2.0	-4.9	-1.1
1990	-1.2	-0.9	1.9	-8.0	-2.4
1991	0.7	-0.3	1.4	-2.5	-1.0
1992	-1.0	-1.9	3.0	-3.9	-3.9
1993	-3.8	-0.9	1.9	-3.6	-2.9
1994	-3.3	-1.4	0.3	-3.2	-7.3
1995	-0.8	-2.3	-0.9	-3.3	-4.3
1996	-0.9	-3.7	-0.5	-1.4	0.6
1997	-4.0	-3.7	-1.5	-0.8	1.9
1998	-4.9	-4.9	-0.7	-1.0	-4.1
1999	-5.6	-5.8	-1.1	-3.0	-2.6
2000	n.a.	-7.6	0.5	-2.6	-1.9

Note: n.a.: Not available.

Source: IMACRO - General Secretariat of the Andean Community. Taken from Bautista [2001].

Figure 1

TOTAL FOREIGN DEBT



Source: IMACRO- General Secretariat of the Andean Community

## *Bibliography*

ALBERT, MICHEL. *Capitalismo contra Capitalismo*. Barcelona: Paidós. 1992.

ALEGRETT, SEBASTIÁN. "Las relaciones de la Comunidad Andina y el Mercosur ante la creación del espacio sudamericano", presentation given at the South American Seminar. Brasilia. 31 July-2 August, 2000.

\_\_\_\_\_. "La participación de la Comunidad Andina en el ALCA", presentation given at the First National FTAA/Peru Forum, Lima. 1 February, 2001a.

\_\_\_\_\_. "El Parlamento Andino y la construcción de una Comunidad de Ciudadanos", *CAN General Secretariat Press Room*. Lima. April, 2001b.

ANDERSON, BENEDICT. *Las comunidades imaginadas*. Mexico: FCE. 1991.

BAUTISTA GUZMÁN, J. L. "Evolución de la estructura tributaria de los países andinos 1986-2000". Monography submitted as final project for the Fifth In-service Training program for Andean Government Officials. Lima: SGCAN-BID-INTAL. 2001.

BHAGWATI, JAGDISH. "The FTAA is Not Free Trade", in *Annual World Bank Conference on Development in Latin America and the Caribbean 1997. Trade: Toward open regionalism*. New York: World Bank. 1998.

\_\_\_\_\_. "Bilateral Agreements Threaten the Achievements of the WTO", *Financial Times*. 6 March, 2001.

BOONEKAMP, CLEMENS. "Regional trade integration under transformation", presentation given at the *Seminar on Regionalism and the WTO*. Geneva: WTO Secretariat. 26 April, 2002.

BOUZAS, ROBERTO. "Introducción", in *Regionalización e integración económica. Instituciones y procesos comparados*, compiled by Roberto Bouzas. Buenos Aires: Grupo Editor Latinoamericano. 1997.

BURKI, SHAHID JAVED AND GUILLERMO E. PERRY. "Towards Open Regionalism", in *Annual World Bank Conference on Development in Latin America and the Caribbean 1997. Trade: Toward open regionalism*. New York: World Bank. 1998.

BUSTOS, GUILLERMO AND CÉSAR MONTÚFAR. "Entrevista a Germán Carrera Damas. El resurgimiento de un militarismo bolivarianista en la región andina", *Comentario internacional*, N° 1. Quito. First semester, 2001.

- CABANELLAS, GUILLERMO. *Diccionario enciclopédico de Derecho Usual III D-E*, 26<sup>th</sup> Ed. Buenos Aires: Editorial Heliasta. 1998.
- CALDENTY DEL POZO, PEDRO. *El desarrollo económico de Centroamérica en el marco de la integración regional*. Tegucigalpa: BCIE. 2000.
- CAMACHO, EDGAR. *El derecho de la integración en los procesos supranacionales*, Documento Informativo SG/di 286. Lima: SGCAN. 13 December, 2000.
- CASAS GRAGEA, ANGEL MARÍA. "La Comunidad Andina: 30 años en busca del desarrollo", *Revista de Fomento Social*, Vol. 56, N° 221. Cordoba. January-March, 2001.
- CASSEN, BERNARD. "Cumbre de Niza: mercaderes contra ciudadanos", *Le Monde diplomatique*, Spanish edition, Year VI, N° 62. Madrid. December, 2000.
- \_\_\_\_\_. "¿Es irreversible la globalización?", *Le Monde diplomatique*, Spanish edition, Year VI, N°. 63. Madrid. January, 2001.
- COHEN, ISAAC. "Aspectos institucionales de la integración. Consideraciones teóricas", *Integración & Comercio*, 35th year Special Issue. Buenos Aires: BID-INTAL. 2000.
- COMISIÓN DE LAS COMUNIDADES EUROPEAS. *Síntesis del Tratado de Niza*. Bruselas: Comisión de las Comunidades Europeas. 18 January, 2001.
- DEVLIN, ROBERT AND RICARDO FFRENCH-DAVIS. "Hacia una evaluación de la integración regional en América Latina", *Comercio Exterior*, Vol. 49, N° 11. Mexico. November, 1999.
- DEVLIN, ROBERT AND ANTONI ESTEVADEORDAL. *¿Qué hay de Nuevo en el Nuevo Regionalismo de las Américas?*, INTAL-ITD-STA Series, Working paper N° 7. Buenos Aires: BID-INTAL. August, 2001.
- DIETER, HERIBERT. "El regionalismo en la región Asia-Pacífico", in Roberto Bouzas (comp.), *Regionalización e integración económica. Instituciones y procesos comparados*. Buenos Aires: Grupo Editor Latinoamericano. 1997.
- DI TELLA, TORCUATO S. "¿Qué se gana con la unidad sudamericana?", Presentation given at the South American Seminar. Brasilia: 31 July- 2 August 2000.
- EMERSON, MICHAEL. *El nuevo mapa de Europa*. Madrid: Alianza Editorial. 1999.
- ESTEVADEORDAL, ANTONI; JUNICHI GOTO AND RAUL SÁEZ. *The New Regionalism in the Americas: The Case of MERCOSUR*. INTAL-ITD Working Paper N° 5. Buenos Aires: IDB-INTAL. April, 2000.

- FAWCETT, LOUISE AND ANDREW HURRELL. "Introduction", in Louise Fawcett and Andrew Hurrell (eds.), *Regionalism in World Politics. Regional Organization and International Order*. New York: Oxford University Press. 1995.
- FRAGA, ROSENDO. "América del Sur y América Latina", presentation given at *Seminario Sudamericano*. Brasilia, 31 July-2 August, 2000.
- GARCÍA-BELAUNDE, JOSÉ A. "El Sueño de Bolívar: De la Federación de los Andes a la Comunidad Andina", presentation given at the Colloquium *El sueño de Bolívar. El futuro de la representación política y de la integración de los países andinos*. Biarritz. 27-28 September, 2000.
- GONZÁLEZ VIGIL, FERNANDO. "La Comunidad Andina de Naciones ante el ALCA", II Coloquio Académico de las Américas. Buenos Aires: BID-INTAL. 3-4 April, 2001.
- HERRERA, FELIPE. "La tarea inconclusa: América Latina integrada", *Estudios Internacionales*, Nº 21. Santiago de Chile. January-March, 1973.
- HUMMER, WALDEMAR AND DIETMAR PRAGER. *GATT, ALADI y NAFTA. Pertenencia simultánea a diferentes sistemas de integración*. Buenos Aires: Ciudad Argentina. 1998.
- HUNTINGTON, SAMUEL P. *El choque de civilizaciones y la reconfiguración del orden mundial*. Buenos Aires: Paidós. 1997.
- HURRELL, ANDREW. "Regionalism in Theoretical Perspective", in Louise Fawcett and Andrew Hurrell (eds.), *Regionalism in World Politics. Regional Organization and International Order*. New York: Oxford University Press. 1995.
- INSTITUTO DE RELACIONES EUROPEO-LATINOAMERICANAS - IRELA. *Tres décadas de integración andina: logros y nuevos retos*. Dossier Nº. 69. Madrid: IRELA. 1999.
- KALHER, MILES. "El nuevo regionalismo y sus instituciones", in Roberto Bouzas (comp.), *Regionalización e integración económica. Instituciones y procesos comparados*. Buenos Aires: Grupo Editor Latinoamericano. 1997.
- KLEIN, WOLFRAM F. *El Mercosur. Empresarios y sindicatos frente a los desafíos del proceso de integración*. Caracas: Nueva Sociedad. 2000.
- LAS PARTES CONTRATANTES DEL ACUERDO SOBRE ARANCELES Aduaneros Y Comercio. *Instrumentos básicos y documentos diversos, Vigésimo sexto Suplemento*. Geneva: GATT. 1980.
- LAWRENCE, ROBERT Z. "Emerging Regional Arrangements: Building Blocks or Stumbling Blocks?", in J.A. Frieden and D. A. Lake (eds.), *International Political Economy*. New York: St. Martin's Press. 1995.

- LIZANO, EDUARDO. "Integración económica e ideologías sobre el desarrollo", *Revista Mexicana de Sociología*, Vol. XLII, N° 2. Mexico. April-June, 1980.
- MALDONADO LIRA, HÉCTOR. *Treinta años de integración andina: Balance y perspectivas*. Lima: SGCAN. 1999.
- MANSFIELD, EDWARD D. AND HELEN V. MILNER. "The Political Economy of Regionalism: An Overview", in Edward D. Mansfield and Helen V. Milner (eds.), *The political Economy of Regionalism*. New York: Columbia University Press. 1997.
- \_\_\_\_\_. "The New Wave of Regionalism", *International Organization*, 53,3. Summer, 1999.
- MARTÍNEZ GONZÁLEZ-TABLAS, A. *Economía política de la globalización*. Barcelona: Ariel Economía. 2000.
- MATTLI, W. *The Logic of Regional Integration: Europe and Beyond*. New York: Cambridge University Press. 1999.
- MERCOSUR. *Desde la visión de Brasil. El impacto de MERCOSUR-CAN en el ALCA*. Lima: SGCAN. 17 January, 2001.
- MONCAYO, EDGAR. *Las relaciones externas de la Comunidad Andina. Entre la globalización y el regionalismo abierto*. Lima: SGCAN. 1999.
- MONETA, CARLOS J. "El proceso de globalización: percepciones y desarrollos", in Carlos J. Moneta and Carlos Quenan (comp.), *Las Reglas del Juego. América Latina, globalización y regionalismo*. Buenos Aires: Corregidor. 1998.
- NAIM, MOISES. "Avatares del 'consenso de Washington'. Una camisa de fuerza para los países pobres", *Le Monde diplomatique*, Spanish Edition, Year V, N° 53. Madrid. March, 2000.
- NORTH, DOUGLASS C. *Institutions, institutional change and economic performance*. New York: Cambridge University Press. 1990.
- PASSET, RENE. "Lecciones de Porto Alegre", *Le Monde diplomatique*, Spanish edition, Year VI, N° 64. Madrid. February, 2001.
- RICUPERO, RUBENS. "La Integración y el Regionalismo en las Américas", in Ricardo Alonso (ed.), *Las Américas: Integración Económica en Perspectiva*. Santafé de Bogotá: BID. 1995.

RODRÍGUEZ MENDOZA, MIGUEL. *Los Países Andinos y la Organización Mundial de Comercio*. Report prepared for the SGCAN. Lima: SGCAN. 1998.

\_\_\_\_\_. *El camino a Seattle: las negociaciones comerciales multilaterales y la tercera conferencia ministerial de la OMC*. Report prepared for the SGCAN. Lima: SGCAN. 1999a.

\_\_\_\_\_. "Del GATT a la OMC: Perspectivas del Sistema Multilateral de Comercio", in Drago Kisić and Ramón Bahamonde (eds.), *El Perú y los procesos de integración y cooperación económica*. Lima: CEPEI. 1999b.

ROJAS-SUÁREZ, LILIANA. "Los procesos de dolarización de América Latina", in *La Dolarización en Ecuador. Efectos sobre el Comercio Andino*. Lima: SGCAN. 2001.

SCHULDT, JURGEN. "Una posición crítica sobre la dolarización del Ecuador", in *La Dolarización en Ecuador. Efectos sobre el Comercio Andino*. Lima: SGCAN. 2001.

SGCAN- SECRETARÍA GENERAL DE LA COMUNIDAD ANDINA. *28 años de integración andina: Un recuento histórico*. SG/di 100. Lima: SGCAN. 3 September, 1998.

\_\_\_\_\_. *Alegrett: la búsqueda de convergencias para construir el mercado común andino*. Extracts from an interview conducted by Gabriel Sanchez and published in *Revista Javeriana de Colombia*, N° 653. Lima. April, 1999a.

\_\_\_\_\_. *Discurso del Embajador Sebastián Alegrett, Secretario General de la Comunidad Andina*. Remarks made at the opening ceremony of the Eleventh Meeting of the Andean Presidential Council, held in Cartagena de Indias. Lima. 26 May, 1999b.

\_\_\_\_\_. *El futuro de la integración política andina: reflexiones de la Secretaría General*, Working paper SG/dt 107. Lima: SGCAN. 4 November, 2000.

\_\_\_\_\_. *Perspectivas de la integración andina, 30 años de la Comunidad Andina-Análisis*. Lima: SGCAN. 2001.

SOBRINO HEREDIA, JOSÉ MANUEL. *El derecho de integración marco conceptual y experiencias de la Unión Europea*. Information paper SG/di 288. Lima: SGCAN. 15 December, 2000.

\_\_\_\_\_. *Integración y supranacionalidad en la Comunidad Andina*. Information Paper SG/di 303. Lima: SGCAN. 19 March, 2001.

SOTELO, IGNACIO. "Eje franco-alemán o hegemonía alemana", *El país digital*. 1 December, 2000.

- STARK, CARLOS. *Bases para una propuesta de meta comunitaria fiscal en la Comunidad Andina (papel de trabajo)*. Information paper SG/di 306. Lima: SGCAN. 5 April, 2001.
- TINEO, LUIS. "El Acuerdo Grupo Andino/MERCOSUR y el sistema mundial del comercio", Final report prepared for the *Seminario las relaciones Grupo Andino/MERCOSUR: proyección y desafíos*. Lima: JUNAC. 25 - 26 November, 1996.
- VEGA CASTRO, JORGE. "Regímenes cambiarios y evolución del comercio en los países andinos", in *La Dolarización en Ecuador. Efectos sobre el Comercio Andino*. Lima: SGCAN. 2001.
- VIDAL FERNÁNDEZ, BEGOÑA. *El proceso de anulación comunitario. Control jurisdiccional de la legalidad de las actuaciones de las instituciones comunitarias*. Barcelona: Cedecs Editorial. 1999.
- VEIRA POSADA, EDGAR. *El mercado ampliado andino: una realidad*. Santafé de Bogotá: Cámara de Comercio de Bogotá. 1999.
- WAGNER TIZÓN, ALLAN. "Escenarios y Agendas para el tercer milenio: una agenda andina y latinoamericana", in Drago Kisic and Ramón Bahamonde (eds.), *El Perú y los procesos de integración y cooperación económica*. Lima: CEPEI. 1999.
- WAGNER TIZÓN, ALLAN. "Hacia una integración política andina", *Revista de la Academia Diplomática del Perú*, Special edition. Lima. December, 2000.
- WORLD TRADE ORGANIZATION - WTO. *Basic information on Regional Trade Agreements*. WT/REG/W/39. Geneva: WTO. 17 July, 2000.
- \_\_\_\_\_. *Mapping of Regional Trade Agreements*. WT/REG/W/41. Geneva: WTO. 11 October, 2000.
- \_\_\_\_\_. *Los resultados de la Ronda Uruguay*. Geneva: WTO. 1994.
- \_\_\_\_\_. *Informe (2000) del Comité de Acuerdos Comerciales Regionales al Consejo General*. WT/REG/9. Geneva: WTO. 22 November, 2000b.
- \_\_\_\_\_. *El comercio hacia el futuro*. Geneva: WTO. 1998.
- \_\_\_\_\_. *Manual de formación para cursos de política comercial*. Geneva: WTO. 2000a.
- WTO SECRETARIAT. *El regionalismo y sistema mundial del comercio*. Geneva: WTO. 1995.