REGIONAL ECONOMIC INSTITUTIONS IN LATIN AMERICA: POLITICS, PROFITS, AND PEACE

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Why, when, and how have Latin American states endeavored to create regional economic institutions, and what explains the results of those efforts? I examine seven cases:

1. the Latin American Free Trade Association (LAFTA),
2. the Southern Common Market (MERCOSUR)[1],
3. the North American Free Trade Agreement (NAFTA),
4. the Central American Common Market (CACM) in the 1960s and 70s,
5. the Central American Common Market since 1990,
6. the Andean Community in the 1970s, and
7. the Andean Community since 1990.

The empirical analysis focuses on two questions. Do regional economic associations in Latin America foster trade within the association's region? And, do the same economic associations foster or consolidate interstate peace within the respective regions, that is, does regional economic integration increase the likelihood of generating positive public-good externalities such as interstate peace and does such peace increase the likelihood of better economic results? These outcomes are noteworthy:

- Benign and common across cases (trade growth): each region achieves substantial within-area trade liberalization, and within-region and extra-region trade grows especially after 1990, notwithstanding some severe economic crises and various militarized interstate disputes in the 1990s and 2000s. In 2008, the value of trade in each region was the highest in their respective histories (International Monetary Fund 2009).
- Variable across cases (peace): NAFTA and MERCOSUR were built, and the latter contributed to, pluralistic security communities that ensure inter-state peace, whereas the CACM and the Andean Community endure militarized inter-state disputes.
- Variable across cases (within-region trade): In 2008, within-region trade for NAFTA amounted to 48 percent of the total trade of its member countries but only 8 percent for the Andean Community, 15 percent for MERCOSUR, and 17 percent for CACM (see Tables 2-5).

[1] MERCOSUL is the acronym in Portuguese.

- Common non-events across cases: None achieved a common market, notwithstanding the name of some and the ambitions of all but NAFTA. And none established effective supranational entities capable of making and implementing key within-region decisions.

What explains these outcomes and especially the variation across cases? I formulate three arguments about the processes that lead to the establishment of these regional associations: domestic politics, business profit incentives, and proactive intergovernmental peace building. Two additional arguments address the variation in performance after the regional associations have been established: institutionalized automatic rules and the role of heads of state and government.

First, domestic politics mattered in two senses. The inter-presidential level explains the start and the founding design of these institutions, except LAFTA and the CACM in 1960. The five cases of presidential involvement at the founding did, indeed, manage to get integration going with some success; so too did the CACM in the 1960s but LAFTA succeeded at no point. Domestic politics also mattered specifically to explain the common benign economic outcomes; in the late 1980s and early 1990s countries across the region unilaterally lowered trade barriers, thereby participating in the global trade liberalization during the decade preceding the establishment of the World Trade Organization (WTO). Therefore, at their founding or their re-launching, NAFTA, MERCOSUR, the CACM, and the Andean Community, could declare victory. Trade had been liberalized appreciably even before new regional arrangements were established. The least successful arrangement, LAFTA, did not feature pre-agreement widespread unilateral liberalization.

Second, businesses — national and multinational — responded to the profit opportunities created by unilateral trade liberalization. In the late 1980s, intra-zonal value and shares of trade grew across the cases, preceding the inter-state agreements regarding NAFTA, MERCOSUR, CACM, and the Andean Community. Thus victory could be declared when these arrangements were made because businesses were already expanding trade in each region, and often beyond it. In contrast, in the late 1950s, prior to their founding, LAFTA and CACM did not benefit from as much trade growth.

Third, proactive peace-building work distinguished between the cases. Where inter-state peace had been established well before creating a regional economic association (NAFTA), or where such an association was an outcome of a process simultaneous with peace building (MERCOSUR), the resulting economic arrangements proved more effective at both peace and trade. Where governments paid less attention to securing inter-state peace (Andean Community, CACM), the regional economic associations could not prevent militarized interstate disputes and regional trade suffered.

After the regional associations had been launched, a key feature of institutional design distinguishes successful from less successful cases. The more automatic the trade liberalization rules are, the more comprehensive and effective the trade liberalization will be. NAFTA thus generated both high trade value and high intra-zonal trade. MERCOSUR was successful, and LAFTA was not, though it included many of the same countries as MERCOSUR, because the MERCOSUR rules featured automaticity whereas LAFTA's rules enshrined product by product negotiations. The Andean Community had intermediate results because half of its trade items were liberalized through automatic rules and the remainder by product-specific negotiations.

Domestic inter-presidential politics matter as well for the process after an association has been established. The ongoing role of presidents as decision makers in NAFTA was minimal, limited to a handful of contentious products. In MERCOSUR, in contrast, presidents were the only significant decision makers, at times stopping the enforcement of some of the automatic rules. Presidential involvement that emphasized non-economic priorities also undermined MERCOSUR in the 1990s and 2000s.

By "institutions," in this work I mean shared norms, rules, and obligations whose adoption within each region is fostered by formal agreements, though they may be supplemented by informal understandings. Institutions vary depending on their organizational content. Precise, self-executing legal rules are institutions that require no further inter-governmental or supranational organizations; they anchor one end of this variable. At the other end of the same variable there are supranational organizations exemplified by the European Commission, Parliament, and Court of Justice. In between, there are inter-governmental organizations and processes.

Other factors play some role in the analysis that follows. In some instances, the extent of structural economic asymmetries such as gross domestic product (GDP) and GDP per capita (see Table 1) and the presence or absence homogeneity regarding political regimes or economic policy models explain some of the variation between the regional associations. Some expect that wide structural economic asymmetries as well as political heterogeneity in regimes (democracy, dictatorship) and economic models (liberal, protectionist) would make regional economic integration less probable or less successful while lower asymmetries and greater political homogeneity of regimes and economic models would make the establishment and success of regional economic associations more likely. There is some but only modest support for these propositions in this study. Supranational organizations matter little across the continent but they appear at times as secondary factors. Changing association membership had disruptive effects but also as a second factor.

Background

In the immediate aftermath of World War II, the United Nations established its Economic Commission for Latin America (ECLA), which years later would be renamed to include the Caribbean (ECLAC). ECLA would play a leading role in creating the first regional economic arrangements between Latin American countries. These began in the 1950s coincident with comparable processes in Europe that in 1957 led to the signing of the Treaty of Rome. In 1960, two foundational treaties were signed, namely, the General Treaty for Central American Integration, signed in Managua, which established the Central American Common Market (CACM), and the Treaty of Montevideo, which founded the Latin American Free Trade Association (LAFTA).

Latin American integration efforts over the past half century have been much less successful than those that narrate the history of the European Union. Moreover, in terms of fostering prosperity, consider the following (computed from Maddison 2003, tables 2c, 4c, and 5c). In 1950, Latin American countries looked economically successful in comparison to East Asian countries. In 1950, the per capita GDP of Argentina as a proportion of the per capita GDP of the United States was 52 percent; the comparable statistics were 17 percent for Brazil and 25 percent for Mexico. At that time, the similar statistics for South Korea and Taiwan were 8 and 10 percent respectively. In 2000, Argentina's colossal economic malperformance during the ensuing half century had brought its GDP per capita down to 30 percent of that of the United States. Mexico barely held its own at 26 percent, while Brazil rose slightly to 20 percent. In contrast, by 2000 South Korea's GDP per capita as a proportion of the similar statistic for the United States had risen to 51 percent and Taiwan's to 59 percent. Readers beware! The Latin American story is cautionary — there is much that should not be emulated!

The Latin American Free Trade Association (LAFTA)

In 1960, Argentina, Brazil, Chile, Mexico, Paraguay, Peru, and Uruguay founded LAFTA; Ecuador and Colombia joined in 1961, Venezuela in 1966, and Bolivia in 1967. Their governments responded principally to technical and economic considerations, although the signing of the Treaty of Rome in Europe was a background factor and some individual Latin American leaders thought about the political utility of economic integration as a means to cope with the United States. ECLA was the driving force for the establishment of LAFTA; its principal argument was to create sufficient economic scale to permit more effective import-substituting industrialization. ECLA's founder and long-time intellectual guide, Raúl Prebisch, argued that as import-substituting industrialization progresses "towards products that can be produced efficiently only in large markets, the necessity to develop intra-Latin American trade asserts itself" (Prebisch 1959, 18, 378). In 1960, ECLA's fundamental proposition was that Latin America would be unable to develop economically "unless it makes a sustained effort to establish within its territory the capital goods industries…" In order to produce the capital and intermediate goods "required to launch these highly complex dynamic industries… Latin America needs a common market" (quoted in Wionczek 1970, 52). LAFTA was founded in order to decouple Latin America from the world economy.

Emulating the Treaty of Rome and other early European integration processes, LAFTA privileged inter-governmental negotiations as its chief means of operation. LAFTA set an achievable agenda; it was not excessively ambitious. It envisaged only the elimination of barriers to intra-regional trade. The 1960 Treaty of Montevideo contained no provisions for the coordination of external commercial policies, nor rules for the harmonization of the domestic economic policies of member countries.

Intergovernmental negotiations would proceed through the adoption of lists of products. National lists would contain those products for which an individual member country agreed to reduce its tariff level by at least 8 per cent after each round of negotiations. The common lists would be negotiated every three years and would include all items for which the members collectively agreed to eliminate all trade restrictions over a twelve-year period via product-by-product negotiations. The "most-favored-nation" clause from the General Agreements on Tariffs and Trade applied as well; it was modified by the principle of reciprocity to enable the more successful countries to compensate those that gained less from trade (Blejer 1984, 15-19).

LAFTA was a failure. Even in the early 1960s, member governments scarcely mentioned the role of integration in their programs for national development, which were in vogue in the region at the time. Only one common list was ever approved (in 1964) and it never became effective; national lists had little practical importance and were abandoned by the end of the 1960s. No attempt was made to coordinate investments, much less to foster special benefits for the lesser-developed members. Despite the explicit objective at the founding of LAFTA to enable import-substituting industrialization on a regional scale, no regional organization had the funds to coordinate, supervise, or finance projects of regional importance and scale (Griffin and Ffrench-Davis 1965).

In the face of such unsatisfactory early results, Prebisch, Felipe Herrera, president of the Inter-American Development Bank,[2] and Eduardo Frei, President of Chile, attempted a rescue mission, establishing LAFTA's Council of Ministers. And at the inter-American conference held in Punta del Este, Uruguay, in 1967, the assembled presidents called for the establishment of a Latin American common market by 1985. Nothing of the sort happened and, instead, meeting in Caracas in 1969 the LAFTA governments postponed their goal for establishing a free-trade area, slowed down the pace of tariff negotiations, and suspended the implementation of the common list of products. LAFTA for practical purposes ceased to matter (Wionczek1970, 58-59).

LAFTA experienced increased political heterogeneity during the 1960s. Coups led to military governments in Brazil in 1964, Argentina in 1966 and Peru in 1968. At LAFTA's founding, these three along with Chile and Uruguay had been governed by civilians. The Argentine and Brazilian military governments had a significant interest in industrialization, however, thus mitigating the impact of this greater heterogeneity.

Intra-LAFTA trade did increase. The share of intra-LAFTA trade in total trade of LAFTA members hovered about 10 percent in the early 1960s and it rose to about 20 percent twenty years later, but this rise occurred for reasons other than LAFTA itself. Twenty years after the Montevideo Treaty, imports subject to LAFTA agreements were no more than 6 percent of the total imports of the region from the rest of the world. Alas, intra-regional imports not subject to LAFTA agreements grew faster than those imports governed by some LAFTA agreement (Blejer 1984, 17)![3]

In 1980, LAFTA was replaced by the Latin American Integration Association (LAIA), an even looser association with more limited scope. This decision was undertaken before the outbreak of the so-called Latin American debt crisis in 1982, which started the region's decade-long economic collapse. Integration efforts failed first — the failure of integration was not caused by the debt crisis and subsequent economic catastrophe, though the latter delayed the recovery of intra-regional economic relations. The new LAIA had no better success than LAFTA (French-Davis, Muñoz, and Palma 1994, 223) but it still exists as a broad framework for bilateral trade agreements.

[2] Founded in 1959, the Bank began operations in October 1960.
[3] For a less pessimistic assessment of LAFTA, see Ffrench-Davis, Muñoz, and Palma 1994, 211-217).

In the late 1970s, war and its threat made regional integration less likely. By that time, these factors were more important explanations for LAFTA's failure than LAFTA's institutional design flaws, technical reasons, or economic concerns. One may have supposed that the existence of military governments in Argentina, Bolivia, Brazil, Chile, Peru, and Uruguay, and a long-lived personalist dictatorship in Paraguay may have provided for sufficient political homogeneity and thus collaboration. Political homogeneity among dictators is no guarantee of inter-state peace, however. Dictators did collaborate through Operation Condor (McSherry 1999) to murder some adversaries but otherwise remained hostile toward each other.

In 1978, Argentina and Chile came to the brink of war; Argentina had decided to seize the disputed Beagle Channel islands, prepared a declaration of war, and on 22 December gave the order to attack (Mares 2001, 138). Also in 1978, on the eve of the centenary of its defeat by Chile in the War of the Pacific, Bolivia broke diplomatic relations with Chile over the continued impasse in negotiations to give Bolivia some access to the Pacific Ocean — access that Bolivia lost in that war. Ecuador and Peru did go to war in 1981 over disputed territory that Ecuador had lost in 1942. Argentina and Brazil faced deteriorating relations over the management of the Paraná River system waters until an agreement in 1979 that would prove enduring. And, in 1982, Argentina went to war with the United Kingdom. This ambience of war impeded deepened economic integration in South America.

The LAFTA failure illustrates several analytical points:

- Economic integration is an inherently political endeavor that requires the active engagement of governments and politicians. A multilateral agency like ECLA could not deliver national-level implementation, not even when it enlisted the support from the Inter-American Development Bank.
- The founding of LAFTA was not preceded by pre-agreement unilateral trade liberalization. Business incentives were few or absent. There was no proactive peace-building intergovernmental work. Presidents were little engaged in LAFTA's founding. Such initial conditions doomed LAFTA at birth.
- After the founding, intergovernmental product-by-product negotiations were unwieldy and ineffective. Middle-level bureaucrats lacked sufficient political support. Poor institutional design was an important explanation for LAFTA failure.
- Structural asymmetries between big and small countries (Table 1), and distributive disputes, lurked in the background but LAFTA never progressed enough for these factors to be decisive for its failure. LAFTA rules sought to help the less-developed economies, which made cumbersome negotiations even more difficult. Argentina, Brazil, and Mexico refused to make disproportionate concessions to the smaller countries (Cochrane and Sloan 1973, 18-19). In this respect, distributive concerns were a secondary explanation for LAFTA's failure.
- LAFTA's agenda was not excessively ambitious. Its task was to create a free trade area, not to undertake deeper or broader economic integration. The scope of LAFTA's mandate does not explain its failure.
- Intra-LAFTA Latin American trade increased but despite LAFTA, not because of it. Arguments about lack of within-region economic complementarity, inter-country business rivalries, or cultural incompatibilities are irrelevant to explain LAFTA's

failure. Businesses traded with each other within the region when it was economically profitable, not because of LAFTA inducements.

Table 1: Economic Asymmetries in the Americas

	GDP/cap	GDP	GNP/cap	GDP
MERCOSUR	*1960*	*1960*	*1988*	*1988*
Argentina	1167	24055	2520	79440
Brazil	506	35815	2160	323610
Paraguay	352	602	1180	6040
Uruguay	1188	2949	2470	6680
CACM				
Costa Rica	656	823	1690	4650
El Salvador	431	1049	940	5470
Guatemala	536	2124	900	8100
Honduras	366	694	860	3860
Nicaragua	487	692	NA	3200
CAN				
Bolivia	283	938	570	4310
Chile	1065	8201	1510	22080
Colombia	398	6131	1180	39070
Ecuador	312	1355	1120	10320
Peru	635	6362	1300	25670
Venezuela	1377	10123	3250	63750
NAFTA				
Mexico	672	23451	1760	176700
Canada			9976	435860
USA			9373	4847310
Maximum/minimum				
MERCOSUR	3.375	59.49336	2.135593	53.57781
CACM	1.79235	3.069364	1.965116	2.53125
CAN	4.865724	10.79211	5.701754	14.79118
LAFTA	3.375	59.49336	5.701754	75.08353
NAFTA			5.668182	27.43243

Source: Inter-American Development Bank, Economic and Social Progress in Latin America, 1978 (Washington: Inter-American Development Bank), 420; The World Bank, World Development Report, 1990 (Oxford: Oxford University Press, 1990), 178-181.

Notes: For 1960, gross domestic product (GDP) is in 1976 US dollars. For 1988, gross national product (GNP) and GDP are in 1988 dollars. MERCOSUR is the Southern Common Market; CACM is the Central American Common Market; CAN is the Andean Group, later Andean Community; LAFTA is the Latin American Free Trade Association, which by the 1980s became the Latin American Integration Association; NAFTA is the North American Free Trade Association. Maximum/minimum is the ratio of the largest to the smallest member country on each indicator. In 1988, CAN excluded Chile. In 1960, LAFTA excluded Venezuela.

The Andean Group, 1969-1985

In 1969, Bolivia, Chile, Colombia, Ecuador, and Peru signed the Cartagena Agreement to create the Andean Group in direct response to LAFTA's perceived failures (Peña 1973). Chile's President Eduardo Frei and Colombia's President Carlos Lleras Restrepo launched the Andean Group and provided it with leadership during the first couple of years. There was also some ideological convergence because all five countries had left-of-center presidents with statist preferences, yet Bolivia's and Peru's presidents were military men. (Andean Group countries remained within LAFTA and would later on remain within LAIA.) In 1970, the Andean Group enacted its Decision 24 to regulate foreign direct investment in member countries, prohibiting foreigners from investing in activities that would compete with existing firms and mandating compulsory divestment of majority control by international companies twelve to fifteen years after entry. The Andean Group's initiative was at the time the only such project to set joint restrictions on international firms within a common market area (Vernon 1971, 246).

The Andean governments created an executive body with significant powers, set out a schedule for trade liberalization and the gradual establishment of a common external tariff, agreed upon a system of preferences to benefit the least developed members (Bolivia and Ecuador), and proposed to harmonize economic policies, not just those regarding foreign investment. Internal tariffs were to be phased out entirely by 1981. The Andean Group moved beyond LAFTA's ineffective product-by-product trade negotiations; once within-area tariffs and other barriers to trade were removed, these would become irrevocable decisions. However, the Andean Group established an automatic mechanism for tariff dismantling that covered only about half of all tariff lines. Full trade liberalization was not achieved by 1981, though the average intra-regional tariff did drop to 14 percent, which was one-third of the 1969 value. The share of intra-Andean exports in all exports from the Andean countries rose from 8 percent in 1970 to 15 percent in 1980 (Ffrench-Davis, Muñoz, and Palma 1994, 217-219; Inter-American Development Bank 1984, 51). A common external tariff was never completed (Devlin and Estevadeordal 2001, 23-27).

The Andean Group incorporated Venezuela in 1973 but suffered the defection of Chile in 1976; President Augusto Pinochet's Chile found the Andean Group to be excessively statist for his government's economic liberalization's policies. In 1979, the Andean Group ratcheted up its institutional design creating the Andean Parliament, whose members are elected by the legislative organs of each member country; the Andean Council of Foreign Ministers, designed to foster the coordination of foreign policies; and the Andean Court of Justice, composed of five judges from the five member countries, each appointed for six years. Yet, the creation of these institutions was a response in part to a perceived malaise with the Andean regional association, reflected in the greater decline in intra-regional trade than in extra-regional trade, that is, Andean country trade with the rest of the world dropped less than Andean country trade with each other during the collective economic crisis of the early 1980s. Six years after the creation of these supranational organizations, intra-Andean Group trade had dropped to 3 percent. And, alas, just two years after the approval of these Andean regional institutions, in 1981 two member states —Ecuador and Peru — engaged in a short war.

The Andean Group's adoption of greater institutional complexity at the end of the 1970s was an act of desperation that failed to stop the Group's weakening. It generated no real institutional deepening. The Andean Group had achieved neither noteworthy trade integration nor peace. Decision 24 regarding foreign investment was also repealed. In time, each of the Andean Group countries, for reasons of their own domestic politics, would make dramatic changes in their policies, embracing market-conforming economic liberalization. Bolivia led in 1985, followed by Venezuela in 1989, Peru in 1990, and Colombia and Ecuador in the early 1990s. The Andean Group of the 1990s would be entirely different in substance from its predecessor.

- Political commitment and coordination by Andean presidents enabled the Group to achieve at the outset a hitherto unprecedented level of economic policy coordination, most notably regulating foreign investment, boosting the Andean Group impressively at birth (Avery and Cochrane 1973).
- Other initial conditions were less propitious. There was no pre-arrangement trade liberalization; the statist bias provided few incentives for private business. There was no simultaneous peace-building work.
- After the launch, trade liberalization implementation was in the hands of middle-level bureaucrats with insufficient authority. The design of the trade liberalization scheme was more agile than LAFTA's but still cumbersome and fell well short of goal. Design obstacles impeded integrative consolidation.
- Structural asymmetries were modest within the Andean Group (Table 1). The size of the various economies was less disproportionate than in the Southern Cone or in North America, though the gap in per capita product was the widest among regional groupings in the Americas. The lesser-developed economies benefited; distributive disputes were not serious obstacles.
- Political homogeneity among member states facilitated the Group's quick and effective launch. Increased political heterogeneity generated difficulties by the 1970s. Wholesale domestic political change — unrelated to Andean Group political institutions — would transform the integrative project and dismantled its most noteworthy decision regarding foreign investment.
- The Andean Group's agenda was very ambitious from the start yet agenda complexity was not among the reasons why the Group stumbled.
- Intra-Andean trade grew in part in response to the Andean Group's policies but the achieved level of trade integration always remained modest.

The Central American Common Market (CACM), 1960-1985

The Central American countries — Guatemala, Honduras, El Salvador, Nicaragua, and Costa Rica — followed a different trajectory. Upon independence from Spain and then from Mexico in 1824, Central America was a single country until 1842.[4] After it partitioned into the constitutive administrative units inherited from the Spanish empire, there were numerous efforts over the years to recreate forms of union, none of which succeeded, yet several led to intermittent warfare between Central American states (Karnes 1961).

Between 1951 and 1961, Central American governments launched three distinct and compartmentalized integrative processes. In 1951, ECLA created the Central American Committee for Economic Cooperation to foster economic integration. Also in 1951, the Foreign Ministers of the five countries created the Organization of Central American States (ODECA) to work "to reconstruct the political unity of Central America." In 1961, the War Ministers of the five countries met independently to form the Central

[4] Panama was a province of Colombia until 1903 and has not taken part in most Central American integration processes.

American Defense Council. In 1951, those responsible for economic policy stopped the diplomats from subordinating them to ODECA, which enabled the Economy Ministers to fashion the plans that established the CACM in 1960[5] (Schmitter 1970, 1-4; Nye 1968).

The CACM's General Treaty automatically removed tariffs on 75 percent of the items listed in the Uniform Central American Customs Nomenclature and set a five year clock to liberalize 95 percent of all traded goods items. By mid-1966, on schedule according to the 1960 Treaty, 94 percent of all items accounting for 95 percent of total intraregional trade were subject to intra-regional free trade; a common external tariff covered nearly 98 percent of all import items for all five countries, amounting to three-quarters to four-fifths of the region's imports (Cochrane and Sloan 1973, 23-24).

The Central American governments created complementary organizations, such as the Central American Bank of Economic Integration (1961), the Central American Clearing House and Monetary Council (1961), and others. By 1966, cooperation between Central American central banks had led to 97.5 percent of all inter-regional trade and transactions being registered through the Clearing House, with 71.3 percent clearing automatically, almost totally replacing the former system of utilizing U.S. banks for those purposes (Inter-American Development Bank 1984, 57; Schmitter 1970, 19).

In 1969, Honduras and El Salvador went to war.[6] Honduras pulled out from CACM institutions. The underlying cause of the war was directly related to issues of regional integration. Capital movements had long been rather free across Central America and the CACM succeeded in freeing nearly all regional trade. The free movement of labor had not, however, been addressed by Central American integrative institutions. Demographic pressures in El Salvador had stimulated Salvadoran migration to Honduras; in 1969, Honduras began to deport some of these Salvadorans. In July, El Salvador's army attacked Honduras.

By 1970, intra-CACM exports had reached 28 percent of total exports and 96 percent of total manufactured exports. That level held for the 1970s, standing also at 28 percent in 1980 (Ffrench-Davis, Muñoz, and Palma 1994, 222). The fact that intra-regional trade remained as high in 1980 as in 1970, that the regional central bank Clearing House registered nearly all intra-regional trade transactions, and in 1980 automatically cleared 84 percent of such transactions (Inter-American Development Bank 1984, 57), is an impressive testament to the efficacy of CACM institutions, notwithstanding the Honduras-El Salvador war.

Central America's integrative success had limitations. The intra-regional trade increase occurred largely in manufactured goods (86 percent of all regional exports in 1968 on the eve of the Honduras-El Salvador war) as the result of intra-industry specialization in the textile and shoe industries. CACM's greater scale induced this import-substituting industrialization but it was also its only significant example (Balassa 1971, 72). Only about one-seventh of the regional economic growth rate during the 1960s was attributable to the CACM. Moreover, the common external tariff was set

[5] Costa Rica joined the CACM in 1963.
[6] It is colloquially known as the "soccer war" because the triggering incident was a fight that broke out during a soccer game between Hondurans and Salvadorans.

higher for a number of industrial products than the previous tariffs on those products in the individual countries; such rates fostered mainly final-assembly shops (Wionczek 1970, 55). On balance the CACM of the 1960s and 1970s turned out to be mainly a trade-diverting customs union for non-durable consumer goods (Willmore 1976).

A different war, however, in the end weakened the CACM. In the 1980s, domestic and international warfare gripped Nicaragua, El Salvador, and Guatemala, affecting indirectly also Costa Rica and Honduras. Central America suffered as well from the general Latin American economic crisis. Intra-regional trade fell to 14 percent in 1986 when the value of intra-CACM exports was about a third of what it had been in 1980, declining three times faster than the overall decline of Central American exports to all parts of the world. Registration of transactions with the Clearing House fell to 76 percent in 1983, with only 59 percent of those transactions being cleared automatically (Ffrench-Davis, Muñoz, and Palma 1994, 222; Inter-American Development Bank 1984, 57). The CACM record highlights these conclusions:

- CACM Economy Ministers and technocrats insulated integrative processes in order to launch them and consolidate them at a medium level in the 1960s and 1970s. They benefited from support from ECLA and the Inter-American Development Bank but there was also support within each Central American government; CACM's success was political from its birth.
- CACM did not feature pre-agreement unilateral trade liberalization and provided few business regional incentives outside the textiles and shoes sector. Presidents remained rather uninvolved and governments did not undertake simultaneous peace-building efforts.
- CACM's institutions were thus de-linked from foreign policy and military coordination and integration. CACM integration withstood in some respects the effects of the 1969 Honduras-El Salvador war but not prolonged war in the 1980s.
- After birth, the most successful integrative design feature was the rule of automaticity for intra-regional trade and intra-regional central bank coordination via the Clearing House.
- Structural asymmetries between CACM members were the smallest in the Americas. That may have contributed to success in the 1960s and thereafter. On the other hand, Honduras and Nicaragua — the two smallest economies in 1960 — felt the sting of bearing asymmetrical burdens during the 1960s (Cochrane and Sloan 1973, 27) and this was one factor that led Honduras to pull out from CACM institutions after the 1969 war. Distributive disputes thus were a secondary explanation.
- CACM's integration agenda was ambitious. CACM was most successful in creating a free trade area and facilitating financial transactions, not in other integrative respects, but its two successes are noteworthy — even poor countries with limited technical capacities in the 1960s integrate successfully.[7]

[7] For a thoughtful and comprehensive account, see Sánchez Sánchez 2009.

The Andean Group, 1985-present

The first of the integrative schemes to be reborn, Phoenix-like, from the ashes of the 1980s Latin American economic catastrophe was the Andean Group. The attempt to infuse new life into the Andean Group was part of the wider effort to reactivate Andean economies from their collapse during the 1980s. A frenzy of presidential summitry led to nine meetings between the heads of state from 1989 to 1991. All member states were undergoing tumultuous domestic changes; in those years, incumbent political parties lost every presidential election in Bolivia, Ecuador, and Peru. The new presidents in Colombia and Venezuela brought to office economic teams with much stronger market-oriented views. Peru was an outlier, however. Facing high levels of domestic violence, wrenching economic policy changes, and a more authoritarian regime than its neighbors, between 1992 and 1997 Peru withdrew from Andean trade negotiations.

By 1995-1997, domestic political conditions had stabilized sufficiently, intra-regional trade had begun to recover, new Andean political institutions were created, and the Andean Group majestically became the Andean Community. The new institutional design emphasized intergovernmental processes (the Andean Council of Foreign Ministers created in 1979, the Andean Presidential Council founded in 1990) at the expense of integrative community entities such as the Andean Board and the Andean Commission, but the Community retained the Andean secretariat, parliament (a deliberative, not a legislative body), and court. Andean governments seemed to have been influenced by the 1986 Single European Act and the views of the United Kingdom regarding European integration (Casas Gragea 2002)

As was the case in the 1950s leading to the signing of the Treaty of Rome and as would be the case in North America in the decade preceding the start of the North American Free Trade Agreement, so too with the Andean Community: the prior growth of trade between businesses generated the incentives for governments to adopt measures to consolidate the new economic behavior. In 1985, at the bottom of the Latin American economic depression, intra-Andean exports had plummeted to only 3.2 percent of the total exports of the five Andean Group members. Member countries had fallen back on commodity exports to industrial countries. Regional trade lifted as the recession ended, tripling from 4.1 percent in 1990 to 12 percent in 1995 (Table 2).

Table 2: Exports of Andean Community Countries to the Entire Andean Community, 1985-2008 (as percentage of the total exports of each country)

	Country					
Year	*Bolivia*	*Colombia*	*Ecuador*	*Peru*	*Venezuela*	*CAN*
1985	0.025	0.061	0.025	0.069	0.018	0.032
1986	0.038	0.055	0.020	0.060	0.017	0.034
1987	0.054	0.081	0.063	0.061	0.004	0.039
1988	0.046	0.071	0.081	0.077	0.024	0.049
1989	0.060	0.054	0.078	0.057	0.025	0.042
1990	0.065	0.055	0.069	0.062	0.027	0.041
1991	0.102	0.107	0.071	0.077	0.028	0.058
1992	0.114	0.143	0.058	0.077	0.047	0.078
1993	0.155	0.157	0.094	0.078	0.071	0.098
1994	0.174	0.129	0.102	0.067	0.099	0.105
1995	0.191	0.197	0.082	0.074	0.099	0.120
1996	0.212	0.176	0.088	0.072	0.068	0.097
1997	0.197	0.183	0.121	0.077	0.076	0.108
1998	0.241	0.197	0.130	0.080	0.096	0.128
1999	0.214	0.142	0.075	0.058	0.060	0.088
2000	0.214	0.166	0.139	0.065	0.050	0.089
2001	0.272	0.224	0.179	0.075	0.044	0.109
2002	0.285	0.194	0.160	0.065	0.048	0.101
2003	0.261	0.145	0.174	0.061	0.040	0.089
2004	0.225	0.194	0.139	0.064	0.050	0.097
2005	0.135	0.197	0.152	0.064	0.028	0.082
2006	0.085	0.192	0.164	0.061	0.029	0.080
2007	0.089	0.245	0.164	0.072	0.022	0.086
2008	0.062	0.231	0.138	0.076	0.022	0.080

Note: Computed from International Monetary Fund, Direction of Trade Statistics
CAN = Comunidad Andina de Naciones (Andean Community)

This trade growth responded to the pre-agreement radical redesign of *domestic* economic policies, noted in a previous section, in the five Andean countries, which included unilateral trade liberalization, contributing to a burst of economic growth. The flurry of Andean presidential summitry and proliferation of integration-friendly talk signaled to enterprises that they could anticipate subsequent measures to lock in their gains. Thus the jump in intra-regional trade responded to the business cycle of recovery from the 1980s and the market-oriented shift in economic policies adopted in the early 1990s (and in Bolivia since 1985), all in the context of worldwide economic liberalization (Banco Interamericano de Desarrollo 2002, 27-28).

Unilateral anticipatory trade liberalization was salient. In 1988 average tariffs in Colombia, Ecuador and Venezuela ranged between 42 and 46 percent; Peru's average tariff exceeded 70 percent. In 1991, all four countries had reduced average tariffs to between 15 and 17 percent — Bolivia's average tariff had fallen to 9.2 percent (Devlin, Estevadeordal, and Garay 2000, 157). The rapid growth of intra-regional trade resulted from domestic economic growth and domestic policy innovations along with the inter-state presidential summitry signaling, but all the intra-regional trade growth preceded the institutional redesign of the 1995-97 period — the institutional redesign did not cause the growth in intra-regional trade.

Alas, the organizational redesign in 1995-97 had little incremental impact on trade integration and accomplished little else in other economic or political respects. The peak for intra-Andean trade at 12.8 percent was 1998; intra-regional traded trended downward in the years following the institutional rearrangements. Domestic politics and inter-state disputes set it back to 8 percent in 2008 (Table 2).

Peru's non-participation in the processes of trade negotiation and Andean supranational organization rebuilding had negligible impact on Peru's *de facto* trade integration with its neighbors, which implies that the supranational institutions mattered little one way or another. Peruvian exports to the Andean Community represented consistently between 6 percent and 8 percent of its total exports throughout the 1990s (Table 2); indeed, Peru's trade engagement with the Andean Community trended downward after it rejoined the formal institutionalized trade integration process in 1997 (computed from International Monetary Fund 2009).

Nor could the new Andean Community institutions sustain inter-state peace and contain inter-state conflict. Ecuador and Peru went to war in 1995 in the midst of the relaunching of the Andean Community, putting a damper on the hopes that trade would engineer peace. In the 2000s, severe disagreements emerged between Colombia's President Álvaro Uribe and Venezuela's President Hugo Chávez, with the latter occasionally expressing sympathy for the FARC — the Revolutionary Armed Forces of Colombia — a long-standing insurgency committed to overthrow the Colombian government. In March 2008, Colombia's troops crossed into Ecuador. Ecuador and Venezuela broke diplomatic relations with Colombia and mobilized their troops to the Colombian border; mediation by Latin American presidents and diplomats persuaded the three countries to stand down (Mares 2008; Kahhat 2008). The Andean Community neither prevented this escalation to near-war nor had a discernible impact on its de-escalation.

Increased domestic political heterogeneity weakened the prospects for the Andean Community and fanned the fires of inter-state disputes. The consolidation of the Hugo Chávez presidency upon surviving a failed coup attempt in 2002, and the forced departures from office of Bolivia's president Gonzalo Sánchez de Lozada in 2003 in Ecuador's Lucio Gutiérrez in 2005, consolidated a market-unfriendly government in the first and would bring to office similar governments in the other two. Colombia and Peru retained market-oriented economic policies and signed bilateral free-trade agreements with the United States. In April 2006, President Hugo Chávez mentioned the signing of these two agreements as reason for Venezuela to withdraw from the Andean Community, reducing its membership to four countries.

President Chávez's 2006 withdrawal of Venezuela from the Andean Community sheds light on the relationship between effective trade integration and the Community's institutions. On the one hand, Chávez had a point: the Community failed to coordinate the foreign economic policies of member countries as some bargained with the United States. US-Colombian and US-Peruvian free trade agreements are not easily reconciled with an Andean Community fashioned as a common market with a still-in-the-works common external tariff. On the other hand, Venezuela's withdrawal from the Community had little impact upon its trade with its former partners. During the 2000s, Venezuela's proportion of exports channeled to Andean Community countries trended down (Table 2). As the price of petroleum rose during the decade, the value of Venezuela's exports to the industrialized countries rose accordingly. Yet, the absolute worth of Venezuelan trade with its former partners increased as well. True, the Andean Community's relative share of Venezuelan trade was lower as the decade unfolded, but between 2006 and 2008 the value of Venezuelan exports to Bolivia, Colombia, Ecuador, and Peru increased every year (International Monetary Fund 2009). Andean Community institutions had done little to foster such trade and Venezuela's formal withdrawal from them did little to hinder it.

Focusing on the most conflictive Andean dyad, Venezuela and Colombia had developed an important bilateral trade that preceded the institutionalization of the Andean Community in the mid-1990s and survived the Venezuelan withdrawal therefrom. During the 1990s, Colombia and Venezuela became each other's principal destination for their respective non-traditional exports. Bilateral investment flows picked up as well (Gutiérrez 1998). Notwithstanding Venezuela's Andean Community withdrawal in 2006, the year 2008 was the best ever for the absolute value of Venezuelan exports to Colombia and Colombian exports to Venezuela (International Monetary Fund 2009).

Some Andean Community's supranational organizations merit comment. As Erik Voeten's paper (2009; see also Helfer, Alter, and Guerzovich 2009) in this project indicates, the Andean court of justice has carved out an important role in decisions regarding intellectual property disputes. By the late 1990s, the Andean Community adopted intellectual property rules consistent with the TRIPS rules of the World Trade Organization; the new rules gave private actors rights and obligations under Andean law: relevant intellectual property law was regional law. National administrative agencies applied these rules, national courts interpreted them, and courts in Colombia, Ecuador, and Peru began to refer cases to the Andean court. The Andean Court has issued over 1300 intellectual property decisions. In this respect, the Andean court's performance is impressive, yet it is the only issue area on which it is so. In the best years for the Andean Community (1995-2001), only 61 trade disputes were formally presented for institutional problem-solving (Banco Interamericano de Desarrollo 2002, 105).

The Andean Community has also had two helpful financial entities. The Andean Development Corporation (*Corporación Andina de Fomento* — CAF) predates the Andean Group's founding in1968 and welcomes both governments and private financial institutions as its shareholders. By the end of 2008, the Corporation's paid in capital amounted to about $2.2 billion (Corporación Andina de Fomento 2009). The CAF raises funds in industrialized countries principally to finance the development of infrastructure and other activities that assist Andean regional integration.

The Latin American Reserves Fund (*Fondo Latinoamericano de Reservas* — FLAR) involves all Andean Community members, still including Venezuela, plus Costa Rica and most recently Uruguay. It is a regional swap agreement under which participating countries may borrow on short notice for limited periods of time. It is akin to the Chiang Mai Initiative (CMI) or the North American Framework Agreement. The FLAR supports the balance of payments of member countries, including their monetary, financial, and exchange rate policies. Through 2008, it disbursed cumulatively over $8.7 billion during the three decades since its foundation in 1978, principally in response to the debt crisis of the 1980s and the 1997 East Asian financial crisis (Fondo Latinoamericano de Reservas 2008). As Henning (2009) notes in his paper for this project, the FLAR was a significant help to its Andean member countries in times of crisis. The FLAR funds itself in international markets at interest rates below those of its participating countries. Thus, this regional arrangement entails a lower insurance cost relative to what member countries would have to pay individually. The CAF has experienced the same phenomenon, in part because it has more and stronger members with investment-grade credit (Spain, Mexico, Chile). The FLAR and the CAF suggest that there are efficiency gains associated with these regional risk pooling arrangements (Borensztein, Levy, and Panizza 2006, 267-269).

The quantitative salience of the FLAR remains modest, however, relative to the magnitude of financial crises. Consider Ecuador, hit hard by side effects of the 1997 East Asian financial crisis, those in Brazil in 1999 and Argentina in 2000-2002, and the U.S. economic slowdown in the early 2000s. In 2000, an uprising overthrew the president of Ecuador, highlighting the severity of the circumstances. At the end of 2001, Ecuador's debt to the FLAR amounted to $325 million or three percent of Ecuador's external debt. By early 2003, as befits a short-term borrowing facility, the FLAR amounted to just one percent of the 38 percent of external debt that Ecuador owed to multilateral institutions (Inter-American Development Bank 2001 and 2004). The FLAR, in short, was a useful but small player in Ecuador's international financial picture.

In two respects, therefore, the Andean Community's supranational organizations are valuable, namely, the resolution of intellectual property disputes and modest support for member states in financing balance of payments problems and development projects. These financial institutions have had a limited impact, however, on the Andean Community's core mission, namely, maintaining peace and promoting regional trade.

- Domestic political and economic policy changes unraveled the original Andean Group and defined the new renamed Andean Community. Presidential summitry facilitated the rebirth of intra-Andean trade.
- Domestic policy changes prior to the re-launching of the Andean Community explain the growth of trade, including unilateral anticipatory trade liberalization. Businesses responded quickly to unilateral trade liberalization thereby boosting intra-regional trade. Andean Community institutions and their redesign did not cause the growth of inter-regional trade.
- The withdrawal (Peru, Venezuela) and reincorporation (Peru) of states as Andean Community institutional members had no discernible impact on intra-regional trade or other economic transactions. Levels of intra-regional trade were nearly three times higher by the end of the 2000s than they were when the Andean Group unraveled in the early 1980s — an excellent outcome — thanks, however, to domestic economic policies, not Andean institutions.
- The Andean Community institutions had little impact on the prevention of war (Ecuador-Peru) or severe conflict (Colombia and its neighbors). Nor did these conflicts depress trade. However, the Andean court of justice was a valuable contributor to the solution of intellectual property disputes between three of its

five member states and the two Community financial institutions do valuable work.

- Political homogeneity among member states facilitated the Andean relaunch in the early to mid-1990s while the increased political heterogeneity weakened it in the 2000s. Structural economic asymmetries widened slightly from 1960 to the 1988 eve of the Andean re-launch.

The Central American Common Market, 1985-present

Under the impact of domestic and international war and economic crisis, intra-regional Central American trade plummeted to 10.5 percent in 1986. The regional payments system broke down as governments defaulted on commitments to each other. As with the Andean countries, intra-regional trade recovered as the economic depression abated, reaching 15.3 percent in 1990 when a political settlement was finally reached in Nicaragua. Serious negotiations to end the war in El Salvador got under way during 1991, when intra-regional trade reached 17.6 percent (Table 3; see also Ballestero and Rodríguez 1997). As peace was secured (El Salvador 1992, Guatemala 1996), the economies and intra-zonal trade recovered, unleashing a torrent of inter-governmental political negotiations. The newly relaunched CACM would build on the accomplishments of the 1960s, in particular intra-regional free trade virtually free of tariffs outside agricultural products (Banco Interamericano de Desarrollo 2002, 32).

Table 3: Exports of Central American Countries to the Entire Central American Common Market, 1985-2008

	Country					
Year	*Costa Rica*	*El Salvador*	*Guatemala*	*Honduras*	*Nicaragua*	*CACM*
1985	0.155	0.141	0.196	0.093	0.088	0.146
1986	0.092	0.122	0.172	0.024	0.066	0.105
1987	0.098	0.202	0.235	0.033	0.068	0.135
1988	0.104	0.230	0.246	0.030	0.091	0.142
1989	0.101	0.323	0.233	0.034	0.203	0.155
1990	0.092	0.299	0.242	0.033	0.132	0.153
1991	0.112	0.335	0.269	0.037	0.188	0.176
1992	0.133	0.430	0.298	0.057	0.187	0.205
1993	0.093	0.421	0.311	0.121	0.219	0.193
1994	0.129	0.274	0.314	0.139	0.251	0.210
1995	0.129	0.422	0.292	0.148	0.177	0.218
1996	0.138	0.444	0.285	0.156	0.216	0.226
1997	0.098	0.426	0.216	0.147	0.217	0.187
1998	0.087	0.490	0.146	0.148	0.215	0.158
1999	0.080	0.543	0.155	0.066	0.271	0.136
2000	0.095	0.251	0.302	0.224	0.253	0.191
2001	0.112	0.252	0.439	0.197	0.296	0.228
2002	0.100	0.247	0.250	0.222	0.351	0.195
2003	0.128	0.239	0.252	0.217	0.369	0.202
2004	0.143	0.249	0.257	0.184	0.328	0.209
2005	0.143	0.341	0.272	0.085	0.334	0.201
2006	0.082	0.320	0.231	0.112	0.339	0.158
2007	0.088	0.337	0.255	0.121	0.360	0.170
2008	0.092	0.344	0.253	0.128	0.186	0.169

Note: Computed from International Monetary Fund, Direction of Trade Statistics
CACM = Central American Common Market

In December 1991, the Protocol of Tegucigalpa amended the charter of the long-existing Organization of Central American States (ODECA) to give rise to the Central American Integration System (SICA), bringing the economic integration process under government control to avoid the compartmentalized regional institutions of the 1960s. Decision making would be by consensus, giving veto power to each member state. The SICA's institutions include presidential summits, a council of ministers, an executive committee, and a general secretariat, with the latter two providing mainly technical and support services. The Central American Parliament and the Central American Court of Justice are key supranational institutions. Costa Rica refused to ratify the Tegucigalpa Protocol but in 1993 it adhered to the Protocol of Guatemala, which reformed the Central American Common Market and amended the 1991 Tegucigalpa Protocol (Sánchez Sánchez 2003).

The born-again CACM looked better on paper than in reality. By the end of the 1990s, only three of the five CACM countries had ratified the agreement that established the Central American Court of Justice. Even those that ratified it made little use of the Court. Of the sixteen trade disputes that broke out formally between CACM members from 1993 to 2001, in only one case did the parties resort to the Central American Court. Moreover, trade in agriculture and services had not yet become a part of Central American free trade. In 1995, the newly vigorous common external tariff covered 95 percent of the tariff universe but coverage fell to 50 percent by the end of the decade, Nicaragua being the main but not the only culprit (Devlin and Estevadeordal 2001, 19; Granados 2001; Banco Interamericano de Desarrollo 2002, 32, 98-99, 104-105.)

The impact of CACM institutions on actual integrative processes is complex because compliance with CACM rules and institutions was spotty. Central American intra-regional trade grew at about the same rate before and after the 1993 Guatemala Protocol until 1996, when it reached 22.6 percent, then it dropped steadily to 13.6 percent in 1999, rising to a peak of 22.8 percent in 2001, stabilizing until 2005, and dropping thereafter to 17 percent in 2007 and 2008 (Table 3). CACM rules and institutions, and the associated political processes, fostered intra-CACM trade but subject to significant oscillation as well as to the decision of the Central American states to join the United States in a free trade agreement. The drop in intra-CACM trade since 2006 probably stems from trade diversion toward the United States; in 2005, the United States ratified the Central American Free Trade Agreement (CAFTA), which went into effect in 2006 for all but Costa Rica (where it went into effect in 2009).

Costa Rica presents an opportunity to assess CACM supranational institutions. It had not signed on to the 1991 Tegucigalpa Protocol and rejoined CACM institutions only with the 1993 Guatemala Protocol. Yet the value of Costa Rican exports to the other Central American countries grew significantly between 1991 and 1993, though the proportion of its exports to Central American countries fell from 11 to 9 percent (Table 3).

Central America exhibited higher levels of foreign economic policy coordination than had the Andean Community. Central American governments negotiated agreements as a trade block with the United States, the European Union, Mexico, and Venezuela. But Central American governments also made individual deals. In the early 1990s, just as the Central Americans were allegedly revitalizing their integrative institutions, each Central American government reached a separate trade deal with the United States (Rodríguez 1994). Between 1994 and 2000, Mexico signed separate bilateral free trade agreements with Costa Rica and Nicaragua and another jointly with El Salvador, Guatemala and Honduras. And between 2006 and 2008 CAFTA went into effect without Costa Rican participation (Devlin and Estevadeordal 2001, 29).

War and peace issues affected the prospects for the CACM. Central American integration probably could not advance further or more rapidly after 1991 because the CACM and associated regional institutions could not prevent the threat of war. Disputes involving some use of force broke out between Honduras and Nicaragua in 1991, 1995, 1996, 1997, 1998, and 2000; between Nicaragua and El Salvador in 1996 and 2000; and between El Salvador and Honduras also in 1996 and 2000. In the 2000s, each of the five CACM members was involved in at least one militarized inter-state dispute with a neighboring country (Mares 2001, 43; Mares 2008, 5). The threat of war made regional integration deepening more difficult.

In the end, the CACM succeeded not as a common market but as a trade liberalization area — a laudable result. Notwithstanding a decline in the fraction of Central American exports going to other Central American countries in the late 2000s, the absolute value of Central American exports to neighboring countries increased dramatically for each and every Central American country between the signing of the Protocol of Tegucigalpa in 1991 and 2008. By dollar value, varying somewhat by country of export destination, Guatemalan exports to the CACM more than quadrupled, Costa Rican exports to the CACM more than quintupled, Nicaraguan exports increased by a factor of six, Salvadoran exports grew between three and ten times (with a 23-fold increase of exports to Honduras), and Honduran exports to the neighbors grew between 19 and 135 times. Comparing just 2008 to 2000, the exports of each of the CACM members to the region more than doubled during this decade, increasing without fail from each and every member to each and every member (computed from International Monetary Fund 2009).

- Business firms led the revival of the CACM in the late 1980s, taking advantage of the 1960s CACM trade liberalization that had never been repealed. Politicians followed business initiatives and re-started the CACM's institutions. CACM trade liberalization and central bank clearing turned out to be the region's most lasting economic integration accomplishment.
- The CACM was reborn in the early 1990s lush with parchment institutions but the rules that worked best were just those that had ever worked well, namely, trade liberalization and central bank payments clearing, which were the most automatic and depended least on ongoing decision making by politicians or CACM institutions. Presidential initiative was a key reason for the flourishing of parchment institutions, and lack thereof for their weak institutional consolidation.
- No inter-state war broke out in the CACM region after 1990 but militarized inter-state disputes were frequent. The CACM provided incentives to sustain inter-state peace but not enough to consolidate it, and this failure probably hindered the deepening of regional economic integration.
- Structural asymmetries between CACM members remained the smallest in the Americas. For most of the 1990s and the 2000s, politically right-of-center parties

governed throughout the CACM region. This political homogeneity sustained market-oriented economic policies but did not prevent militarized inter-state disputes between like-minded governments.

- CACM dealt with its much more ambitious institutional agenda in the 1990s and 2000s by failing to ratify those most ambitious agreements or failing to implement them if ratified — the common external tariff was porous, the justices of the Central American Court were not busy.
- CACM countries had a mixed record of foreign economic policy coordination. Free trade with the United States may weaken CACM and its institutions but it is too early to say.

The Southern Common Market (MERCOSUR)

The Southern Common Market (MERCOSUR) had an impressive start and, in some respects, lasting results because it emerged from a slow process of bargaining between Argentina and Brazil, with time for correction and maturation. Argentina and Brazil have not been at war with each other since the 1820s but their relations had deteriorated badly in the 1970s, with fear in each country that the other was developing nuclear weapons. This turned out to be wrong but it was believed in the South American milieu of the 1970s (Hymans 2001). In November 1979, the dictatorships of Argentina, Brazil, and Paraguay signed the Itaipú-Corpus Treaty, which would govern the distribution of the Paraná rivers system waters, to permit the construction of two hydroelectric projects, one by Brazil at Itaipú and one by Argentina at Corpus. The Argentine and Brazilian governments of the 1980s and 1990s would design a matrix of formal and informal agreements over multiple issue-areas to consolidate the peace and foster a shared prosperity (Escudé and Fontana 1998; Hirst 1998).

Economic integration accords were signed in 1986, emphasizing trade liberalization sector by sector. Within two years, 24 specific sectoral agreements were signed (Bouzas and Fanelli, 119).The procedure was cumbersome but it focused on opportunistic practical problem solving, reaching agreement in those sectors where it seemed most feasible. In 1985, exports to each other from the four countries that would go on to found MERCOSUR — Argentina, Brazil, Paraguay, and Uruguay — were only 5.5 percent of the combined total exports of these countries. In 1991, this statistic had risen to 11.1 percent (Table 4). Thus, as with reactivation of intra-zonal trade in the CACM and the Andean group and in Western Europe preceding the signing of the Treaty of Rome, within-region integration accelerated rapidly prior to the signing of the Treaty of Asunción in 1991, which established the MERCOSUR. Business firms used the new opportunities that governments had provided. The much-maligned LAFTA/LAIA also deserved credit because much of the preferential tariff treatment between these four countries dated back to the LAFTA years (Peña 1992, 99).

Table 4: Exports of MERCOSUR Countries to the Entire MERCOSUR, 1985-2008 (as percentage of the total exports of each country)

	Country				
Year	*Argentina*	*Brazil*	*Paraguay*	*Uruguay*	*MERCOSUR*
1985	0.080	0.039	0.253	0.248	0.055
1986	0.131	0.053	0.562	0.358	0.085
1987	0.121	0.053	0.332	0.272	0.076
1988	0.096	0.048	0.276	0.241	0.067
1989	0.149	0.042	0.344	0.326	0.082
1990	0.148	0.042	0.357	0.344	0.089
1991	0.165	0.073	0.328	0.351	0.111
1992	0.190	0.111	0.348	0.336	0.140
1993	0.281	0.139	0.374	0.416	0.185
1994	0.293	0.135	0.520	0.470	0.191
1995	0.320	0.132	0.574	0.469	0.203
1996	0.327	0.154	0.632	0.481	0.226
1997	0.355	0.177	0.544	0.496	0.248
1998	0.352	0.174	0.539	0.553	0.250
1999	0.305	0.140	0.542	0.450	0.206
2000	0.319	0.132	0.634	0.446	0.200
2001	0.280	0.108	0.524	0.408	0.171
2002	0.222	0.055	0.581	0.300	0.115
2003	0.191	0.077	0.591	0.307	0.119
2004	0.197	0.091	0.532	0.261	0.127
2005	0.191	0.099	0.540	0.230	0.129
2006	0.214	0.101	0.481	0.223	0.135
2007	0.227	0.110	0.560	0.253	0.150
2008	0.253	0.104	0.546	0.265	0.154

Note: Computed from International Monetary Fund, Direction of Trade Statistics
MERCOSUR= Mercado Comun del Sur (Southern Common Market)

The deepening of this Southern Cone integration process cannot be explained simply as a result of these economic agreements, however. Three other considerations intervened. First, in 1990 and 1991, Argentina and Brazil undertook dramatic domestic economic policy changes, including unilateral trade liberalization, prior to the signing of the Treaty of Asunción. Market-oriented economic policy convergence greatly facilitated the negotiations toward that Treaty (Devlin, Estevadeordal, and Garay 2000, 157). The Argentine government, led by President Carlos Menem and Economy Minister Domingo Cavallo, reoriented the Argentine economy toward the market, cutting in half average Argentine tariff rates, from 31 percent in 1988 to 14 percent in 1991. In 1990, Fernando Collor de Melo, Brazil's first directly-elected president in thirty years, also cut Brazilian average tariffs in half, from 42 percent in 1988 to 20 percent in 1991. Paraguay and Uruguay had had lower tariff rates than the other two but they also brought them down to similar levels. The results were instantaneous, most notably for Brazil, whose exports to Argentina more than doubled in twelve months: from $645 million in 1990 to $1476 in 1991 (International Monetary Fund 2009).

Second, in 1985 the twenty-year military dictatorship came to an end in Brazil. The Uruguayan authoritarian regime also came to an end in 1985 and, in 1989, Paraguay's multi-decade personalist dictator, Alfredo Stroessner, was overthrown, opening up politics. The newly developing democratic political homogeneity of MERCOSUR countries (Argentina's dictatorship had ended in 1983) also paved the way to the signing of the Treaty of Asunción. (Note that the structural economic asymmetry between MERCOSUR countries did not prove an obstacle to the signing or the early success.) The Treaty of Asunción did not explicitly include a "democracy clause," as the European Community had, but it behaved as if it did, successfully helping to block a military coup attempt in Paraguay in 1996; the MERCOSUR agreements were modified to include such a democracy clause following upon this coup attempt. MERCOSUR governments would rally again and again to prop up civilian rule in Paraguay, and they did so automatically.

A third building block prior to the signing of the Treaty of Asunción was a bouquet of peace-sensitive agreements. In November 1990, Argentina and Brazil agreed to forego nuclear weapons. They also signed a nuclear safeguards agreement under the auspices of the International Atomic Energy Agency. In 1991, they established a bilateral institution to monitor their nuclear-energy endeavors intrusively and systematically (Sotomayor Velázquez 2004). Argentina and Brazil are the only two countries in the developing world with three characteristics: They had the scientific and economic capacity to build nuclear weapons, for a time a hostile bilateral political relations that could have led to a nuclear weapons arms race, and yet on their own they stepped back from nuclear weapons proliferation to establish and consolidate an effective and stable bilateral nuclear safeguards regime.

The combination of these elements buttressed MERCOSUR's foundation and it generated continuing incentives to sustain policy coordination. Two decades after the birth of the MERCOSUR integrative processes, the peace-sustaining effects of the wider political relationship would be the most enduring important legacy. They were not a formal part of any MERCOSUR agreement; rather, these were parallel political processes that occurred simultaneously and within the same milieu. In other words, the *process* of integration, rather than MERCOSUR parchment institutions, was the more important explanatory factor and it led to the longest-lasting effect.

The Treaty of Asunción made a key innovation in the history of South American trade integration. With member countries having reached a high level of group comfort for the reasons cited, the Treaty discarded the old product-by-product (LAFTA) or sector-by-sector (1986 Argentine-Brazilian agreement) approach to trade liberalization. Instead, it adopted a tariff phase-out program based on straightforward preprogrammed liberalization schedules that were easily calculable and transparent (see rates and dates in Bouzas and Fanelli 2002). These were quick, automatic, and nearly universal. By 1996, 99.4 percent of all items had been liberalized for trade between Argentina and Brazil (Devlin and Estevadeordal 2001, 9, 30; Peña 1992, 101).

As a result, trade boomed. From 1991 to 1996, the proportions of Argentina's, Brazil's, and Paraguay's exports to their MERCOSUR partners doubled (Table 4). In the mid-1980s, Paraguay sent a quarter of its exports within the Southern Cone; from 1994 onwards, it never shipped less than half of its exports to MERCOSUR countries. In 1985, Argentina delivered 8 percent of its exports within the Southern Cone; in 1998, on the eve of the 1999 Brazilian financial panic, Argentina sent 35 percent of its total exports within MERCOSUR. In 1998, this statistic for Uruguay also peaked at 55 percent. In absolute terms, between 1991 and 1996 Brazilian exports to Argentina more than tripled; Argentine exports to Brazil more than quadrupled (International Monetary Fund 2009). At the end of the 1990s Argentines and Brazilians thought well of MERCOSUR and the parallel political and peace-building accomplishments (Campbell 1999).

During its first decade, MERCOSUR also produced foreign economic policy coordination: member states agreed to negotiate trade agreements with other states or groups of states only as a block. MERCOSUR in the 1990s avoided the proliferation of uncoordinated and supplementary trade agreements that characterized both the CACM and NAFTA and that would in the 2000s contribute to Venezuela's withdrawal from the Andean Community. Thus, in 1996, the MERCOSUR as a block signed separate association agreements with Bolivia and Chile, neither of which became a formal MERCOSUR member. MERCOSUR also launched interminable negotiations with the European Union, which have demonstrated the commitment of both sets of states to persevere in search of a political relationship even if no comprehensive trade agreement has been reached; to be sure, even absent a MERCOSUR-EU agreement, the Southern Cone has long traded extensively with European countries (Doctor 2007). And in the 1990s Spain joined the United States as one of the top two extra-zonal foreign direct investors in the Southern Cone (Total 2008).

The association agreement between MERCOSUR and Chile was also part of the extensive and dense development of relations between Chile and Argentina. During the 1990s, these two countries settled the remaining two dozen distinct territorial disputes that had survived since their independence in the 1810s. Thus this process, parallel to MERCOSUR expansion, furthered the peace agenda in the Southern Cone, further facilitating trade and investment (Domínguez 2003).

What went wrong with MERCOSUR? Intra-MERCOSUR exports peaked at 25 percent of all exports in 1998. In January 1999, Brazil faced a financial panic that threw its economy into recession and would contribute to Argentina's wider and deeper economic crisis in 2001-2002, which culminated in the resignation of its president, Fernando de la Rúa. By 2002, intra-MERCOSUR exports plummeted to 11.5 percent of the total; member countries turned to export to economies not engulfed in such crises. Intra-regional trade would recover, but it settled on a plateau of about 15 percent in 2007-2008, which was about a quarter below the level of the mid-1990s (Table 4).

A bad turn in Argentine-Uruguayan relations also punctured intra-MERCOSUR relations. In 2006, Uruguay allowed the construction of two pulp mills on its bank of the Uruguay River, which is the binational border with Argentina. With the tacit and then explicit support of Argentine President Néstor Kirchner's government, Argentines blocked a busy border bridge between Argentina and Uruguay to compel Uruguay to cancel its authorization of the mills; there were serious losses in tourism and trade. Argentina sued Uruguay for unacceptable cross-border environmental damage before the International Court of Justice at The Hague; Uruguay countersued for economic damages from the transportation blockade (International Court of Justice 2009). The two governments gradually backed off but the experience soured Uruguayan ardor for MERCOSUR, both because of the behavior of the Kirchner government and also because Brazil was slow to help Uruguay (Caetano 2007, 167-168).

In part in anger, Uruguay breached the MERCOSUR obligation to negotiate trade agreements only as a block and, instead, opened free trade negotiations with the U.S. government, signing a Trade and Investment Framework Agreement in January 2007. The previous month, however, Uruguayan President Tabaré Vázquez had decided not to continue with negotiations with the United States toward a full bilateral free trade agreement (Arocena 2009, 210.).

MERCOSUR also weakened as a result of the mid-2000s decision to choose expansion over deepening. Brazilian President Lula's government took the lead to establish, in December 2004, the South American Community of Nations. Its subsequent achievements were modest, besides keeping presidents and foreign ministries busy (Bouzas, Veiga, and Ríos 2088, 335-341). The entity's name was changed in time for the signing of the Treaty of Brasilia (May 2008) that formally founded the Union of South American Nations (UNASUR). Also in 2004, MERCOSUR granted associate member status to Colombia, Ecuador, and Venezuela. In December 2005, MERCOSUR accepted Venezuela as a full member. Also in December 2005, Evo Morales was elected President of Bolivia. Chávez backed the Morales government even when, on 1 May 2006, it announced the nationalization of Bolivia's natural gas sector and the doubling of the price for its natural gas exports to Argentina; one of the companies most affected by the nationalization was Brazil's Petrobras. Argentina and Brazil accepted the Bolivian nationalization, subject to subsequent negotiations, but their enthusiasm for partnership with Chávez cooled (Turcotte 2008, 801-802).

The MERCOSUR decision to include Venezuela as a full member created greater heterogeneity regarding the ownership and pricing of natural resources within MERCOSUR and associated states. It also weakened the MERCOSUR's democratic credentials. By late 2005, Chávez's ongoing autocratic trajectory was clear. The economic policy differences, and the growing concern about undemocratic practices, may explain why Brazil's Congress has yet to accede to Venezuela's full membership. This result creates further institutional complexity within MERCOSUR.

MERCOSUR has been "light" on institutionalization since its foundation. Implementation has depended on relations between presidents, not on supranational organizations. It would also be inaccurate to describe MERCOSUR as having an inter-governmental process (though that is how most writers describe it). Rather, MERCOSUR has been more explicitly inter-presidential than other regional institutions in Latin America or the European Union. In both good and bad years, MERCOSUR presidents have been the decision makers and the dispute settlers, in the latter role often resorting to a change in the rules to accommodate a partner country. Presidents have carved out "special" procedures within MERCOSUR to deal with politically important and economically sensitive sectors, such as automobiles and sugar, and have agreed to peremptory waivers of free-trade rules in the face of economic crises, such as unfolded between 1999 and 2003. The presidents of Argentina and Brazil, in particular, came to see the MERCOSUR partnership as a strategic alliance; economic matters that got in the way would thus be discarded (Malamud 2005; Gomez Mera 2005). Phillips (2004, 96, 99) has characterized it well: “The governance structures of the Mercosur have always been rather informal than rule-based... which left ample space for political whim, unilateral action and non-observance of agreed-upon policy commitments.”

Of the 283 trade disputes that surfaced in MEROCOSUR in its golden years (1995-1997) as an intra-zonal trade-fostering association, none was settled through rule-oriented institutional mechanisms; of the 201 such disputes during the period of economic crisis (1998-2003), only nine were settled through rule-oriented institutional mechanisms. Delich’s study of MERCOSUR dispute settlement procedures concludes that “the MERCOSUR’s no use of its institutional organs clearly undermined its credibility as a bloc.” (Delich 2006, 20, quotation from 14).

The only significant rules-based approach to trade dispute resolution in the Southern Cone has required side-stepping the MERCOSUR framework to resort to the World Trade Organization (WTO) — a path favored especially by Argentina, which has sued Brazil repeatedly for dumping. Between 1987 and 2003, Argentina sued Brazil before the WTO 47 times — allegedly its preferred strategic ally and common market partner. That is more often than Argentina sued China and four times more often than it sued the United States (Sanguinetti and Bianchi 2006, 160).

MERCOSUR has had a Common Market Council, a Common Market Group, and a Trade Commission as venues for decisions, though always subject to presidential deals. These three bodies consist of appointed officials who are not named on a permanent basis to these posts. There are no MERCOSUR purely technical institutions (Floreal González 1999, 84)). The only permanent administrative body in MERCOSUR has been its Secretariat, which has not been a decision making entity and whose principal task is to staff member governments (the change of the Secretariat’s name in the 2000s to call it “Technical” did not make it so). The MERCOSUR Court (2004) and Parliament (2005) have yet to function properly as effective institutions. MERCOSUR has a Permanent Commission to reach out to civil society entities but its work is at most symbolic (for a more optimistic view, Grandi and Bizzózero 1997).

MERCOSUR also suffered from lax implementation of its rules. In the mid-2000s, the MERCOSUR’s common external tariff covered only 35 percent of the value of MERCOSUR imports (and 25 of those percentage points are set at zero tariff over which coordination was not controversial). MERCOSUR subjected to rules of origin all goods that received any preferential treatment. MERCOSUR still lacks a common code to govern customs procedures (Bouzas, Veiga, and Ríos 2008, 321). Between 1991 and 2002, the MERCOSUR Council approved 149 decisions that required their incorporation to the domestic legal system of each member country, of which 70 percent remained unenforced in 2002. The MERCOSUR’s Common Market Group approved 604 resolutions for those same years, of which 63 percent remained unenforced in 2002 (Peña 2003). Similarly, MERCOSUR has barely touched the liberalization of trade in services (Sennes and Mendes 2009, 83). There has been little harmonization of macroeconomic and microeconomic policies, which is also one reason why the economic crises between 1999 and 2003 so enfeebled the organization. There is no competition policy, little coordination of policy toward foreign direct investment, and no coordination of social policy (Phillips 2004). MERCOSUR sponsors no monetary cooperation and ranks well below instances of multilateral financial relationships evident in the Association of Southeast Asian Nations (Mühlich 2009).

- MERCOSUR was Latin America's most successful economic integration agreement during the past half century. It emerged from a multi-year multi-faceted, self-reinforcing process of confidence- and peace-building in the Southern Cone. It was constructed atop, and following on, convergent domestic economic policy changes, specifically unilateral albeit concurrent trade liberalization, and convergent transitions from dictatorship to constitutional civilian rule. Domestic economic and political changes prior to the signing of the Treaty of Asunción facilitated the MERCOSUR negotiations and agreements. Presidents played a decisive role over three decades. Businesses responded effectively to regional integration incentives.
- The two most successful MERCOSUR design features provided for automatic responses. Governments mandated and upheld the automatic removal of trade barriers, and members rallied to the defense of democracy when threatened in some other member state.
- The explicit inter-presidentialist character of MERCOSUR decision making and problem solving procedures, the delayed establishment of a MERCOSUR parliament and court along with the lack of their effective functioning, and the absence of real delegation of powers from the presidents to MERCOSUR bureaucratic institutions were sources of vulnerability. When economic crisis hit in the late 1990s, the presidents solved problems by exempting whole sectors from trade liberalization rules. When political crisis hit in the 2000s, the presidents addressed it by backing away from democracy criteria for membership.
- The decision of MERCOSUR presidents in the 2000s to opt for expansion over deepening weakened MERCOSUR. The MERCOSUR associated with the Andean Community as the latter became impaired, and it may have contributed to the latter's impairment. MERCOSUR admitted Chávez's Venezuela without negotiating the technical details of its trade and other economic integration, overlooking both democratic and economic criteria for membership.
- MERCOSUR's inability to address the Argentine-Uruguayan dispute over the environment and industrial development at the river border, with two founding member states resorting to extra-regional institutions for redress, exposed MERCOSUR's inept problem solving procedures.
- Structural economic asymmetries were just as severe in MERCOSUR as in LAFTA (Table 1). Such asymmetries did not impede MERCOSUR nor do they account for its debilitation.
- The MERCOSUR integration agenda was not ambitious at its founding. It was an incremental step from pre-existing processes. It eschewed ambitious institution building. The MERCOSUR responded to its troubles, starting in 1999, by creating more supranational institutional machinery and formally adopting more mandates: the more the MERCOSUR weakened, the more it resorted to parchment institutions and rhetoric as a substitute for effectiveness and deepening.
- MERCOSUR never succeeded on many dimensions of integration ranging from a barely existing common external tariff to non-existent monetary cooperation or social policy coordination.

- The MERCOSUR's most lasting achievement is not in its charter, namely, its contribution to the very process of confidence- and peace-building from which it was born, creating what Karl Deutsch and associates long ago labeled a "pluralistic security community" in an area of the world where war seemed plausible as recently as the 1970s (Deutsch et al. 1957; Hurrell 1998).
- The MERCOSUR's success in trade integration weakened from the 1990s to the 2000s, but even during the 2000s the proportion of exports from MERCOSUR countries to each other was twice higher in the 2000s than in the late 1980s prior to signing the Treaty of Asunción.
- Despite exemptions and setbacks, the MERCOSUR successfully constructed a free trade area within the founding core group of four states. This successful trade liberalization survived the 1999-2003 crises and the political and institutional distractions of the 2000s. Comparing 1998 (the year before the Brazilian financial panic), when intra-zonal trade integration was at its highest, to 2008, the value of exports from MERCOSUR member countries to each other grew for each of the founding four countries. For Uruguay, such exports increased by 18 percent; for Paraguay, they increased between 2.3 and 3.4 times. Argentina saw its intra-zonal exports jump between 1.5 and 2.8 times while Brazil's intra-MERCOSUR exports grew by factors of 1.5 to 2.5 (International Monetary Fund 2009).
- In the 1990s and the 2000s, the Southern Cone countries built a secure peace and liberalized and expanded trade significantly. That is a worthy achievement for a generation.

The North American Free Trade Agreement (NAFTA)

By western hemisphere standards, NAFTA had it easy, although few thought so on the eve of its establishment. War became unthinkable between the United States and Canada in the late nineteenth century and between the United States and Mexico in the 1940s. The prior construction of peace facilitated the subsequent construction of an effective NAFTA — the consolidation of peace in North America is not one of NAFTA's achievements. In this regard, NAFTA differs from every other inter-state integration scheme in the world.[8] NAFTA did, however, facilitate security cooperation between Mexico and the United States to counter drug trafficking, albeit this specific relationship always remained fraught with difficulty (Domínguez and Fernández de Castro 2009).

By western hemisphere standards, structural asymmetries between member states were not daunting. As Table 1 shows, the GDP gap on the eve of NAFTA's foundation was lower in North America than in MERCOSUR on the eve of the Treaty of Asunción or LAFTA before the signing of the Treaty of Montevideo. NAFTA's GDP per capita gap was about the same as for the Andean Community and LAFTA.

There was some economic policy and political regime heterogeneity but it had been narrowing. In the second half of the 1980s, Mexico sharply reoriented its economic policy. Its new market-conforming framework featured a drastic unilateral reduction in average tariff levels from 34 percent in 1985 to 10 percent in 1988 (the standard deviation narrowed as well, from 20 to 7 percent); Mexico's tariff peak came down from 106 percent in 1985 to 20 percent in 1988 (Devlin, Estevadeordal, and Garay 157).

[8] Much has been written about NAFTA. I will limit this section to those aspects of NAFTA most pertinent to this paper and will emphasize U.S.-Mexican relations.

There was political heterogeneity on the eve of NAFTA because Mexico was governed by an authoritarian regime, yet one where the president was a civilian, constitutionalism mattered in important respects, and levels of repression were low. Mexico's transition to a competitive, democratic political system coincided with NAFTA's consolidation; NAFTA contributed, albeit moderately, to this political regime transition (Domínguez and Fernández de Castro 2009, 106-111).

NAFTA could declare victory even before it was established. In 1989, the year before Mexican President Carlos Salinas proposed its creation, the exports of the three would-be North American partners to each other were already 40.8 percent of their total exports to the world (Table 5) — the highest level of within-region trade integration in the Americas. As in the run-up to the Treaty of Rome, the Treaty of Asunción, or the Protocol of Tegucigalpa, so too with NAFTA: from the year when NAFTA negotiations began (1990) to the year before it came into full force (1993), U.S. exports to Mexico jumped 46 percent and Mexican exports to the United States more than doubled (computed from International Monetary Fund 2009).

Table 5: Exports of the North American Free Trade Agreement (NAFTA) Countries to the Entire NAFTA Region, 1985-2008 (as percentage of the total exports of each country)

	Country			
Year	*Canada*	*Mexico*	*United States*	*NAFTA*
1985	0.755	0.621	0.285	0.439
1986	0.752	0.661	0.265	0.420
1987	0.732	0.661	0.294	0.430
1988	0.707	0.673	0.282	0.408
1989	0.711	0.713	0.284	0.405
1990	0.758	0.702	0.283	0.414
1991	0.761	0.821	0.281	0.422
1992	0.783	0.833	0.292	0.436
1993	0.817	0.863	0.304	0.458
1994	0.830	0.877	0.322	0.480
1995	0.808	0.860	0.295	0.462
1996	0.827	0.863	0.304	0.476
1997	0.837	0.875	0.322	0.491
1998	0.869	0.892	0.343	0.517
1999	0.881	0.900	0.361	0.546
2000	0.880	0.907	0.367	0.557
2001	0.882	0.904	0.363	0.555
2002	0.883	0.899	0.373	0.566
2003	0.872	0.894	0.369	0.561
2004	0.859	0.894	0.366	0.559
2005	0.846	0.878	0.366	0.557
2006	0.825	0.869	0.351	0.539
2007	0.800	0.846	0.331	0.513
2008	0.789	0.793	0.317	0.487

Note: Computed from International Monetary Fund, Direction of Trade Statistics.

The Canadian-US Free Trade Agreement (CUSFTA) had already gone into effect and had cleared the brush for NAFTA's creation. CUSFTA suffered from being an unpronounceable acronym but it had succeeded in committing the two North American giant economies to a free trade agreement, overcoming legislative and electoral obstacles. The CUSFTA provided various operating design features to guide the negotiations over NAFTA and it contributed directly to the final NAFTA text.

NAFTA's negotiations and eventual ratification benefited from leadership from the three heads of government. The CUSFTA depended crucially on Canada's Prime Minister Brian Mulroney. In the United States, the CUSFTA and the transformation of the Congressional Republican Party into the party of free trade owed much to President Ronald Reagan who had articulated his own vision of North American free trade before the 1980 election. Mexican President Carlos Salinas the Gortari launched the NAFTA negotiations (Golob 2003). Ratification by the U.S. Congress would have been impossible without active support from President William Clinton. The NAFTA process was fortunate that the Democrats won the presidency and both chambers of Congress in 1992, making the NAFTA negotiation and ratification a bipartisan undertaking in the United States that could commit the country well into the future (Domínguez and Fernández de Castro 2009). Similarly, the three leading Mexican political parties converged to support NAFTA by the 1994 presidential election. And Mulroney's

Conservative Party won the 1988 national parliamentary election by emphasizing its achievement of CUSFTA (Johnston, Blais, Brady, and Crête 1992). Heads of government with the support of the voters overcame intense interest-group lobbying (Avery 1998; Poitras and Robinson 1994; Thacker 1999) that failed to stop the agreement and, with few exceptions (see below), failed to prevent its functioning.

Two design decisions made the construction of NAFTA easier. The first founding design decision was to agree on what to exclude. There would be no NAFTA free movement of labor and no NAFTA energy policy; the United States cared intensely about the first and Mexico about the second. The second founding design decision was to omit a "democracy clause;" the United States and Canada would become partners of authoritarian Mexico. NAFTA would become a club of democracies in the 2000s but it was not so at birth; NAFTA still lacks a democracy clause akin to those in the European Union and MERCOSUR.

NAFTA's signal design feature is a specific form of legalization that emphasizes high levels of precision and obligation, with extremely limited delegation to supranational bodies and comparably limited room for inter-presidential deal-making or inter-governmental discretion. NAFTA's high level of precision seeks to reduce the transaction costs inherent in inter-governmental bargaining and constrain government strategic behavior. NAFTA's high level of precision and obligation seek to make its trade liberalization procedures automatic and self-implementing. The NAFTA text typically and unambiguously mandates or prohibits behavior, leaving little room for delegation, interpretation, discretion, or continuing bargaining. NAFTA's dispute settlement procedures are rules-based (Abbott 2000).

NAFTA achieved a good record in terms of what it sought to accomplish. From its first year of implementation in 1994, intra-NAFTA trade has consistently exceeded its levels in prior years. From 1998 through 2007, intra-NAFTA exports exceeded 50 percent of the worldwide exports of the three members, reaching a high of 56.6 percent in 2002 (Table 5).

NAFTA did not obligate national governments or central banks to come to each other's rescue in the event of a financial panic. Yet, the U.S. Treasury's Exchange Stabilization Fund had long provided a swap line to Mexico to help the latter manage short-term financial crises. The first of these ESF swaps to support Mexico was activated in 1936. By 1970, Mexico was the only country with which the ESF retained an institutionalized swap line agreement. From 1972 to the eve of NAFTA, the United States provided a swap line to Mexico on average once every five quarters. From 1994 to 2002, the ESF provided a swap line to Mexico on average once every three quarters. Within four months of NAFTA going into effect, in April 1994, the United States, Canada, and Mexico signed the North American Framework Agreement, which brought this long-existing U.S.-Mexico swap line agreement within this regional scheme (U.S. Department of the Treasury 2009). In early 1995, the U.S. government responded to the Mexican financial panic as if it were the lender of last resort; such U.S. response is a key explanation why this panic subsided and Mexico resumed growth within two years of the panic (Kennedy School of Government 1998).

NAFTA did not prohibit its members from signing free trade agreements with other countries or group of countries and all three members, almost from the start, negotiated with other governments to create bilateral or minilateral free trade agreements. NAFTA itself was born, of course, from the U.S.-Canadian free trade agreement. Mexico's butting into that bilateral agreement disrupted it, not unlike how U.S. bilateral free trade agreements disrupted the Andean Community and may have weakened the Central American Common Market.

NAFTA incorporated six dispute settlement processes. Chapter 11 focuses on investment, Chapter 14 on financial services, Chapter 19 on antidumping and countervailing duties, Chapter 20 on the functioning of the agreement, and the two so-called side agreements on labor and the environment. The dispute settlement process has worked well where NAFTA obligations were precise, including most Chapter 19 cases, which were also by far the most numerous. NAFTA has worked much less well on three specific big cases where domestic political forces have blocked treaty compliance — U.S.-Mexico trucking, U.S.-Mexico sugar and high fructose corn syrup, and U.S.-Canada softwood lumber. (The WTO has been no more effective than NAFTA at settling these three disputes.) In those instances where the specific procedures were intentionally cumbersome and relied heavily on consultation such as in the side agreements (e.g. they were not automatic or self-enforcing), most NAFTA-related actions have been hortatory (Hufbauer and Schott 2005).

NAFTA's founding designers would also consider the agreement successful in prohibiting certain behaviors. NAFTA has permitted very little executive or legislative interference with the precise obligations that it has imposed on member states, except for the instances noted just above. NAFTA did not open up rounds of inter-governmental bargaining. NAFTA entities, other than the dispute settlement panels, were designed to have minimal mandates and, in the case of the North American Development Bank (NADBank), minimal funding to finance investments. NAFTA was designed to impede or make difficult the creation of new supranational organizations or to foster state-led NAFTA-wide initiatives. NAFTA was designed to harness the power of the member states to eliminate barriers to cross-border trade and investment in North America and to constrain its states from getting in the way of the resulting transactions between private actors. From the perspective of its proud designers, NAFTA succeeded also because its organizations did not "deepen." It was not to be a "European Union wannabe."[9]

Nevertheless, NAFTA has had vast implications for Mexican legal and administrative adjustments and resulted, in particular, in wholesale legal changes to the Mexican trade regime, spurred as well by the WTO and internal pressures within Mexico. And three NAFTA supranational processes — the Free Trade Commission and the institutions created by the side agreements on environment and labor — have had some noteworthy effects that surprised initial proponents and critics alike (Aspinwall 2008; Clarkson 2007).

- NAFTA was the most circumscribed integration agreement of those attempted in the Americas. It focused on trade and investment. It eschewed a wider or more ambitious agenda.

[9] For the same empirical finding, but to their normative horror, see Capling and Nossal 2009.

- NAFTA built upon prior accomplishments in the construction of peace in North America and the generation of high levels of intra-regional trade and investment.
- Economic policy convergence through prior unilateral trade liberalization helps to explain why NAFTA became possible. Business firms responded enthusiastically to NAFTA even during its negotiation. Political regime differences and wide structural economic asymmetries were not obstacles to its establishment.
- At its origin, NAFTA required the leadership of the heads of government of Mexico, the United States, and Canada. Upon enactment, however, the role of heads of government in NAFTA's operations has been minimal, except for the three politicized disputes on trucking, sugar, and softwood lumber.
- NAFTA's design excluded democracy, movement of peoples, and energy from its agenda. It featured very high precision and obligation in order to become automatic and self-enforcing, leaving little room for delegation or interpretation by supranational entities.
- NAFTA generated two positive externalities. First, it fostered a high degree of central bank and finance ministry coordination across North America, most evident during the Mexican financial panic in 1995 and the worldwide financial crisis of 2008-2009. Second, NAFTA contributed to Mexico's democratization in the 1990s.
- Above all, NAFTA achieved what it set out to do. Between its enactment in 1994 and 2008, Canada's exports to the United States and Mexico nearly tripled, Mexico's to its partners about quadrupled, and those of the United States to the neighbors doubled. Even comparing 2008 to the year of highest within-NAFTA trade integration (2002), the three member countries exported about 50 percent more to their NAFTA partners in 2008 than in 2002.

Continental versus regional economic agreements?

In 1889, U.S. Secretary of State James G. Blaine convened and hosted the first Pan American Conference, among whose goals was the establishment of an American customs union. At that conference, there was also the first inter-American discussion of the establishment of an inter-American bank. None of these ideas prospered. The U.S. and Latin American governments had not developed a trajectory of relations to make such an agreement possible at that time.

Approximately one century later, in 1991 President H. W. Bush proposed the Enterprise of the Americas Initiative to widen the negotiations begun the previous year that had led to the NAFTA (not yet ratified) in order to create a free trade agreement for the Americas. In December 1994, at the first inter-American summit since 1967, the United States proposed the creation of a Free Trade Area of the Americas (FTAA). The moment seemed propitious because the unilateral trade liberalizations, the reactivation of the CACM and the Andean Group, and the creation of MERCOSUR and NAFTA implied significant momentum toward free trade in the hemisphere. Moreover, all hemispheric countries but Cuba featured democratic political regimes.

The negotiations soon bogged down, however, because the U.S. Congress refused to grant the president unfettered trade negotiating authority, known at the time as "fast-track" authority. As noted previously, however, the mid and late 1990s were also the more successful years for the CACM, MERCOSUR, and the Andean Community.

The Latin Americans may have bemoaned Washington's ineptitude but they were making much economic progress without the United States.

After 2001, the administration of President George W. Bush exhibited a preference for bilateral and minilateral rather than hemispheric agreements. In November 2003, the United States and Brazil agreed to kill the FTAA, although this funereal effect would become clearer only two years later. At the Eighth Ministerial Meeting of the FTAA country trade ministers, meeting in Miami, Florida, the governments of the Americas adopted what would come to be known as "FTAA light." All eventual signatories would accept a set of rights and obligations applicable to all countries but, beyond that, a cafeteria menu approach would prevail. Countries would be free to adopt, or opt out of, other provisions in the FTAA (Free Trade Area of the Americas 2003). At the Mar del Plata inter-American summit in 2005, the FTAA idea was noisily buried, opposed by the hosting head of state, Argentina's President Néstor Kirchner and loudly denounced by Venezuela's President Hugo Chávez.

In the interim, as detailed in the previous sections, the United States signed a minilateral agreement with the Central American countries and the Dominican Republic, the Central American Free Trade Agreement (CAFTA), which went into effect in 2006. The CAFTA may already be weakening the CACM. Also in 2006, the United States signed bilateral agreements with Peru and Colombia, though it has yet to ratify the latter, and a framework trade agreement with Uruguay, all three of which rattled the Andean Community and the MERCOSUR, respectively. The United States had also signed and ratified in 2003 a free trade agreement with Chile. The United States was thus accomplishing some of its freeing-trade objectives under rules of its own making through these agreements with one or a small group of weak countries.

For their part, in the first decade of the twenty-first century the Latin American countries experienced significant economic growth thanks to a large extent by the worldwide commodity price boom and China's purchases of their commodity exports. They needed the United States much less. The failure of the FTAA negotiations cannot be blamed on the Andean Community or the CACM, which were too weak and disunited to pose any serious obstacle, and were indeed objects of U.S. disruption. The MERCOSUR lacked the kind of institutional design or *ésprit de corps* that might have enabled it to resist the FTAA. Instead, the preferences of its two most important leaders — Kirchner in Argentina and Lula in Brazil — led them, for different reasons, to oppose the FTAA. Kirchner had very little interest in matters beyond Argentina, and Lula felt confident that Brazil could become the leading country in South America and a significant actor on the world scene, for which entanglement with the United States through the FTAA would be an obstacle; domestic industrialist opposition in Brazil to the FTAA was also a consideration.

In short, the regional economic associations turned out to be neither building blocks nor obstacles for the FTAA. The principal obstacle to the establishment of the FTAA was the proponent government — the United States. U.S. inability to authorize serious trade negotiations in the second half of the 1990s and preference for bilateral or minilateral initiatives in the 2000s are the principal explanation for the failure of the

FTAA. Supporting actor "Oscar awards" in this fiasco go to Presidents Lula, Kirchner, and Chávez, in descending order of responsibility.

Conclusions

Politics, profits, and peace are the key factors to explain the establishment of regional economic organizations in the Americas and the variation in the likelihood of their success. Consider the initial conditions, which are summarized in Table 6.

Table 6: Initial Conditions and Latin American Regional Economic Integration

	LAFTA	*CACM 60S*	*Andean 70s*	*Andean post 90*	*CACM post 90*	*MERCOSUR*	*NAFTA*
Prior liberalize?	no	no	no	yes	yes	yes	yes
Presidents?	no	no	yes	yes	yes	yes	yes
Business?	no	no	no	yes	yes	yes	yes
Peace?	no	no	no	no	no	yes	yes

Note top row: LAFTA = Latin American Free Trade Association. CACM 60s = Central American Common Market in 1960s. Andean 70s = Andean Group in 1970s. Andean post-90 = Andean Community since 1990. MERCOSUR = Southern Common Market. NAFTA = North American Free Trade Agreement.

Note left column: Prior liberalize? = Was there substantial trade liberalization prior to signing the foundational agreement for the regional economic association? Presidents = Did presidents actively foster the regional agreement? Business = Were there incentives for business and did business respond to them? Peace? = Was inter-state peace secure before the integrative agreement was signed or was it built concurrent with the negotiation of the integrative agreement?

Politics mattered in two respects. The first, common to all the reactivations or foundings in the late 1980s and early 1990s, was the unilateral decision of governments across the region to lower trade barriers. These decisions were made in advance of signing or reactivating the integration schemes. In this respect, governments were participants in the worldwide trade liberalization during the decade that preceded the WTO. They anticipated and paved the way for the regional economic associations, enabling them to "declare victory" on their respective birthdays. There were no such unilateral decisions in the 1960s and 1970s, which explains in part LAFTA's failure.

Politics also mattered because presidents mattered. Presidents created the Andean Group in the late 1960s and resuscitated it in the early 1990s. Presidents were key in the establishment of MERCOSUR and NAFTA and the reactivation of the CACM in the 1990s. Presidents mattered little in the establishment of LAFTA and CACM in 1960. As a result, from its start LAFTA lacked a political underpinning and was doomed. The CACM had a successful founding decade but it lacked the political wherewithal to withstand the impact of later wars.

Profits provided a decisive incentive. Businesses played a key role in fostering regional economic integration and making it work. Firms responded to the new incentives created through unilateral trade liberalization. Business increased intra-regional trade in North America, Central America, the Andean region, and the Southern

Cone prior to the respective foundational agreements from the late 1980s or early 1990s. Businesses sustained Colombian-Venezuelan trade even after Venezuela withdrew from the Andean Community in 2006. Businesses had similar effects in engaging Costa Rica, typically a latecomer, in Central American integrative schemed, and they sustained Peru's involvement with the Andean Group even when Peru suspended its Andean Group participation in the mid-1990s. In contrast, LAFTA's failure is explained in part because business firms found fewer opportunities within its framework.

Peace was the handmaiden of politics and profits to construct regional economic associations. The prior provision of inter-state peace as an international public good helps to explain why NAFTA could be negotiated, signed, ratified, and implemented over what seemed at the time difficult odds. The hard work to provide the same public good in the Southern Cone, in advance as well as simultaneous with the founding of MERCOSUR, explains why MERCOSUR survived crises and misguided decisions that might have killed it. Politicians and officials in MERCOSUR countries fashioned over three decades state practices to carry the new subregional work forward. This process became path-creating and eventually path-dependent: NAFTA and MERCOSUR went on to facilitate subsequent political relations, and further consolidate the peace. The absence of a secure inter-state peace distinguished those two more successful cases from all other less successful cases. Threats of war contributed to the operational difficulties of the Andean Community in the 1990s and 2000s and the CACM's in 1969 and since the 1980s down to the present. Regional economic integration runs aground when war or threats of war lurk in the background.

The initial conditions, therefore, sort the cases into three baskets. First, NAFTA and MERCOSUR succeeded in liberalizing and increasing trade while also fostering and sustaining regional peace. Second, the Central American and Andean countries at various times were unsuccessful at using regional integration to sustain peace and thereby foster further economic integration but they were able to liberalize trade and make it grow for periods of time as long as a decade. Third, LAFTA did not succeed by these criteria.

Past the founding moment, the sorting into three categories of broad outcomes remains unchanged. The new question is whether and how design features and political processes facilitate or impede the consolidation of the preliminary outcomes along the paths set at the start (see Table 7). Automatic self-implementing design features worked systematically better than either inter-presidential or intergovernmental processes or the delegation of decision making and implementation to supranational organizations. NAFTA featured and sustained such automatic procedures. MERCOSUR worked best when its automatic trade liberalization schedules were in effect. MERCOSUR was equally impressive as member states leapt automatically to defend constitutional democracy in the face of coup attempts in Paraguay. CACM automatic rules in trade and finance, dating from the 1960s, have been the association's best performing features. Automatic rules worked almost instantly, providing clear incentives to business firms. These firms made trade and the economy grow, providing the positive feedback to sustain the automatic rules. Automatic rules thus provided "quick and easy wins" for politicians and businesses.

Inter-presidential bargaining, so effective to give birth to MERCOSUR, worked as a problem solving device principally by blocking the operation of automatic trade rules and, on balance, weakened MERCOSUR. NAFTA trade failures exist in those few areas where political processes blocked the application of the automatic rules. Inter-presidential politics — particularly poor relations between presidents Álvaro Uribe in Colombia and Hugo Chávez in Venezuela and between presidents Alan García and Alejandro Toledo of Peru with President Evo Morales in Bolivia — significantly weakened the functioning of the Andean Community. The more automatic and important the rules were in the foundational agreement, the more adverse for the integrative scheme is *ad hoc* presidential intervention to block the application of such rules.

Table 7: Operating Features of Latin American Regional Economic Associations

	LAFTA	*CACM 60s*	*Andean 70s*	*Andean post 90*	*CACM post 90*	*MERCOSUR*	*NAFTA*
Automatic ?	no	yes	50-50	50-50	yes	yes	yes
Presidents?	~	~	~	-	~	-	-
Supranat'l?	-	~	~	~/+	~	n.a.	n.a.
Outcome?	-	+/-	+/-	+/-	+/-	+	++

Note left column: Automatic? = Were there automatic rules for trade, finance, democracy, or peace? Presidents = Did presidents play a role regarding trade or peace? Supranat'l = Did supranational entities have an impact on trade, finance or peace? Outcome? = Did the regional association achieve its goals? n.a. = not applicable.

Top row, please see Table 6

Coding: + = Positive impact or result. - = Negative impact or result. ~ = negligible impact on outcome after the founding. n.a. = not applicable because rules prevail, not supranational entities.

The analysis also suggests the lesser significance of alternative explanations. Supranational organizations do not explain outcomes well. Latin American countries created two regional integration schemes in 1960 led by the U.N. Economic Commission for Latin America (ECLA): LAFTA failed and the CACM, relying principally on economy ministries, could not cope with war and political conflict by the late 1960s. More importantly, the regional economic integration scheme with the most splendid supranational entities — the Andean Community — had little impact in promoting intra-zonal trade and little discernible impact in curbing severe inter-state conflict and sustaining the peace between member states. Andean supranational organizations had some positive effects, however, during balance of payments crises, in development finance, and in addressing intellectual property disputes. Comparably elaborate supranational entities in the CACM do not have a better record, though the CACM outperforms the Andean Community as a free trade area and in coordinating some foreign economic policies. The Andean Community and the CACM demonstrate the inability of their supranational schemes to provide sufficient incentives to members to forego the use of military force.

Andean Community delegation of trade liberalization to supranational organizations failed. Andean Community trade liberalization was most effective in that part of its founding design that relied on automatic procedures. Automatic trade liberalization rules served the CACM well in the 1960s and facilitated its revival in the 1990s. In the 2000s, MERCOSUR created new supranational entities that have remained without implementation or effect. NAFTA is extremely thin on supranationality. The explanatory utility of supranational institutions on trade or peace is weak.

Disputes were settled through informal inter-presidential bargaining, as in MERCOSUR, or in other ad hoc ways. Rules-based dispute settlement was the exception outside NAFTA, which possessed the least elaborate institutions. The formal establishment of integration courts in Central America, the Andean region, and MERCOSUR had little impact on trade or peace.

A strong supranational secretariat bears no relationship to regional integration outcomes. NAFTA has been successful without one. The Andean Community has had at various times an excellent secretariat, which has been powerless to cope with the Community's dysfunctions. MERCOSUR has a weaker secretariat than CACM or the Andean Community — all three schemes fostered intra-zonal trade liberalization principally through automatic rules, not their secretariats.

Purely technical inter-state processes have at most temporary or secondary contributions to make to regional economic integration in the Americas past the actual negotiation of the agreements. ECLA at its moment of glory could not make LAFTA work and could not save the CACM in its first incarnation. Technical virtuosity in the Andean Community supranational entities could not address the organization's practical weaknesses. Technocrats in the CACM cannot stop militarized interstate disputes.

Even the changing membership in some supranational schemes had little significant effects on the relationship between those entities and trade, underlining the relative unimportance of supranational organizations as explanations in these regional contexts. Countries became members or stopped being members of regional economic associations without much apparent benefit or cost to membership one way or another.

Other explanations are also not as effective, though they may contribute to understanding in particular cases or serve as background factors. I comment on eight: defensive responses to nonregional actors or processes, political regime convergence, economic regimes and policy convergence, structural asymmetries, the role of regional hegemons, distributive disputes, relations between integration schemes, and the international political economy milieu.

In the late 1950s and the late 1980s, one motivation for the decisions of Latin American governments to create or reactivate economic associations was a defensive response to processes simultaneously under way in European integration in each time period. Concern over the role of the United States was also a secondary factor in the late 1950s but not an issue around 1990. Moreover, the decisions in the late 1980s were part of the collective strategy to overcome the Latin American economic crisis of that decade (in this project, see also Henning 2009). The United States was much less of a factor — neither lure nor fear — in the 2000s.

Convergence or divergence in economic policy is a better explanation for regional economic integration outcomes than convergence or divergence in political regimes. Authoritarian and democratic regimes cooperated within each LAFTA and NAFTA, for example — one failed, the other succeeded, but obviously having mixed political regimes does not explain the difference in economic outcomes between them. LAFTA lacked member convergence on economic policies; NAFTA converged on a liberal economic model. Difference in economic model better explains the difference between economic failure and success for these two. More generally, authoritarian and democratic regimes have cooperated at one time or another in LAFTA, NAFTA, CACM, and the Andean Group. That is not what explains variation in their outcomes. On the other hand, convergence around liberal economic models is clear for the most successful cases (NAFTA) or moments (the 1990s for MERCOSUR, the Andean Community, and CACM). Divergence in economic models is associated with serious setbacks for the Andean Group in the 1970s and 1980s and the Andean Community in the 2000s. The CACM worked less well in the 1980s when economic policy divergence prevailed but it worked better in the 1990s with economic policy convergence.

Economic regime and policy convergence is thus an important background factor for the start of separate processes of unilateral trade liberalization followed by benign state attitudes toward the growth of businesses and profits, which are the more proximate explanations to the launch of economic integration schemes.

Structural economic asymmetries have not prevented regional economic integration schemes in the Americas. Integration worked approximately the same where asymmetries are very wide (MERCOSUR) and very small (CACM). Very wide structural asymmetries existed in both LAFTA and MERCOSUR but the outcomes of these two differ greatly. The two that have worked best — NAFTA and MERCOSUR — may have done so because, at key moments, the strongest power made concessions, thereby behaving as a regional hegemon that incurs some near-term losses for the sake of wider systemic gain.

The United States signed NAFTA in full knowledge that Mexico would reap disproportionate gains and, except in three high-visibility disputes, the United States has complied with adverse NAFTA dispute resolution panel decisions. The process that would come to be MERCOSUR began in 1979 thanks to Brazilian concessions to Argentina and Paraguay. MERCOSUR has been sustained in the 2000s, as Argentina ran into economic head winds, because Brazil has been willing to make further economic concessions. These benign hegemons in North and South America promoted and sustained subregional economic integration. From this optic, LAFTA failed because Brazil was not able or willing to behave in that way, and the Andean Community fails because it lacks a benign hegemon, Chávez not fitting that role. However, this hegemonic behavior has been sporadic at best and thus not a dominant explanation.

Distributive concerns are a constant across all integration schemes, with groups lobbying to protect or to gain privileges. These mattered to some extent in LAFTA's failure and were present in all arrangements but they explain little about the general variation in outcomes. (Distributive concerns do explain Argentina's foreign economic policy behavior, however, including its frequent use of litigation in WTO.)

Inter-scheme relations, for the most part, weakened pre-existing schemes. The Andean Group justified its founding as a response of LAFTA's ineffectiveness, yet the Andean Group's founding helped to kill LAFTA (in this project, for an analysis of inter-scheme relations albeit without overlapping membership, see O'Rourke 2009). Venezuela withdrew from the Andean Community in 2006 on the grounds that the U.S. free trade agreements with Colombia and Peru had altered the content of the Community. The U.S.-Central American free trade agreement (CAFTA) may be weakening intra-CACM trade in the 2000s. The MERCOSUR's conscious choice for expansion over deepening in the 2000s, taking in Venezuela as a member and signing association agreements with the Andean Community and its member countries, may have diluted MERCOSUR. The effect of inter-scheme relations seems secondary, however, to the main explanations; these seemed more to accelerate processes of unraveling that had already begun.

Continental institutions are one variant of inter-scheme relations, yet they do not account well for variation across these regional associations. The Organization of American States, the Inter-American Development Bank, or the ECLAC operate throughout the Americas in various ways. They contribute to a climate of transnational ideas favorable to regional economic associations but, of course, cannot explain the differences between such associations. The FTAA did not much affect regional integration schemes nor benefit from them. The behavior of the U.S. government explains best both the rise and fall of the FTAA.

The international political economy milieu grew more liberal by the late 1950s, facilitating regional economic integration, but that does not explain why the CACM was more successful than LAFTA, both of which were founded in 1960. The international political economy milieu grew even more liberal by the end of the 1980s and the start of the 1990s. Once again, that does not explain the variation between the four regional economic associations created or relaunched at that time, but the argument about politics, profits, and peace along with automatic rules among the more successful cases does explain that variation.

Regional integration may fail (LAFTA) and it may also be reversible, as the experience of the Central American and the Andean countries showed especially in the 1980s. Those reverses came from various factors, especially wars in Central America and political conflicts and some design flaws in the Andean case. Even in the 2000s, regional integration was set back severely in the Andean Community because of inter-state political conflicts, notwithstanding its supranational architecture, and diluted in MERCOSUR by the presidential choice for expansion over weakening. Central American integration may also weaken in the face of the strong embrace of U.S. trade.

Ultimately, all regional economic integration schemes reviewed here have one key outcome in common: Each contributed to significant trade liberalization. In NAFTA, that was the predominant goal. The Latin American regional economic experiences do not demonstrate that only a focus on trade liberalization may work but it suggests deep skepticism that economic integration on topics other than trade liberalization may succeed. The Andean Community, the CACM, and MERCOSUR all attempted and failed to become common markets, and the Andeans and the Central Americans attempted much more far-reaching integration beyond trade liberalization; for the most part, these have not worked. Trade liberalization has worked mainly thanks to automatic rules buttressed by quickly responsive business firms that generate rewards for themselves and politicians. Automatic rules have low transaction costs and near-term gains. More complex integrative schemes on other topics are more complex, challenging, and costly.

Success went to those processes of international cooperation that built both on inter-state conflict resolution and trade liberalization. Trade liberalization works best when it interacts positively with security and peace. NAFTA and MERCOSUR approximate this outcome. They not only liberalized trade within the respective regions but they also built or developed pluralistic security communities in which inter-state war becomes unthinkable. Peace and prosperity are their lasting contributions to their peoples. A lesson for Asian countries is to be distracted less by supranational organizational tinkering and focus more, systematically and consistently, on peace-building and trade growth through liberalization. That is a lesson worth remembering.

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