Robert Schuman

The FTAA and the EU: models for Latin American integration?

-Josè Briceño Ruiz

Jean Monnet/Robert Schuman Paper Series
Vol.6 No.2
January 2006

This publication is sponsored by the EU Commission.

The Jean Monnet/Robert Schuman Paper Series

The Jean Monnet/Robert Schuman Paper Series is produced by the Jean Monnet Chair of the University of Miami, in cooperation with the Miami European Union Center.

These monographic papers analyze ongoing developments within the European Union as well as recent trends which influence the EU's relationship with the rest of the world. Broad themes include, but are not limited to:

- EU Enlargement
- The Evolution of the Constitutional Process
- The EU as a Global Player
- Comparative Regionalisms
- The Trans-Atlantic Agenda
- EU-Latin American Relations
- Economic issues
- Governance
- The EU and its Citizens
- EU Law

As the process of European integration evolves further, the Jean Monnet/Robert Schuman Papers is intended to provide current analyses on a wide range of issues relevant to the EU. The overall purpose of the monographic papers is to contribute to a better understanding of the unique nature of the EU and the significance of its role in the world.

Miami European Union Center
University of Miami
1000 Memorial Drive
101 Ferré Building
Coral Gables, FL 33124-2231
Phone: 305-284-3266
Fax: (305) 284 4406
E-Mail: jroy@miami.edu
Web: www.miami.edu/eucenter

The FTAA and the EU: models for Latin American integration?

Josè Briceño Ruiz*

The Jean Monnet Chair
University of Miami
Miami, Florida

January 2006

* Lawyer (BA): University of the Andes, Mérida, Venezuela. Magister of Arts in International Relations, University of Durham, Durham, England. DEA in Comparative Politics, Institut d'Etudes Politiques d'Aix – en – Provence, France. Professor of the Centre for the Study of Borders and Regional Integration (CEFI), University of the Andes, San Cristóbal, Venezuela. Associate Researcher of Centre of Latin American and Caribbean Studies (CREALC) Institut d'Etudes Politiques d'Aix–en–Provence, France. Member of the Venezuelan Research National System, Ministry of Science and Technology, Venezuela. Editor of the journal Aldea Mundo.

The FTAA and the EU: models for Latin American integration?

Introduction

Latin American and Caribbean integration is at a crossroad. After the successful development of initiatives such as the Southern Common Market (Mercosur) and the Andean Community (ANC) in the early 1990s, these processes stalled in the middle of that decade. In the case of Mercosur, after the conclusion of the transition period in 1996, this integration scheme has failed in achieving objectives such as the customs union or the deepening of regional integration. This situation got worse after 1998 when the real crisis affected the Brazilian economy. Argentina's default in 2001 and the brief crisis in Uruguay also contributed to the stagnation of Mercosur. A similar situation took place in the Andean Community. After a successful period of increased intra-regional trade from 1990 to 1996, the process has been not able to continue in the path of success. The political crisis in the two key countries of the ANC (Colombia and Venezuela) and the position of Venezuelan President Hugo Chavez towards this initiative also explain this situation.

Furthermore, the proposal of creating a Free Trade Area of the Americas (FTAA), launched at the Hemispheric Summit of Miami in 1994, also collapsed in 2003. The differences between the FTAA model proposed by the United States and that presented by Brazil and Mercosur produced a bottleneck in the negotiations. In the Ministerial Summit held in Miami in November 2003, countries decided to allow diverse modalities to promote hemispheric integration such as regional or bilateral agreements the focus of which could be less ambitious than the original FTAA proposal. In the Fourth Summit of The Americas held in Mar del Plata, Argentina, the leaders of the Americas failed to reach a consensus on hemisphere integration. The summit resulted in regional division between 29 countries, led by the United States seeking a resumption of talks toward a FTAA, and five countries (Venezuela and Mercosur: Brazil, Argentina, Paraguay and Uruguay) trying to postpone the decision. The final document reflects two antagonistic positions about FTAA. Twenty Five "remain committed to the achievement of a balanced and comprehensive FTAA Agreement that aims at expanding trade flows …" These countries resolved to instruct their "officials responsible for trade negotiations to resume their meetings, during 2006, to examine the difficulties in the FTAA process, in order to overcome them and advance the negotiations within the framework adopted in Miami in November 2003". By contrast, countries which opposed the FTAA, argued that "the conditions do not exist to attain a hemispheric free trade accord that is balanced and fair with access to markets that are free of subsidies and distorting practices"[1].

Some specialists argue that this crisis of regionalism in the Americas is a consequence of the integration model established in 1999, the ideological basis of which

[1]Final Declaration of the Summit of the Americas "Creating Jobs to Fight Poverty and Strengthen Democratic Governance", Mar del Plata, November 5, 2005, http:// www.summit-americas.org/.../IV%20Summit/Declaracion (accessed December 6, 2005)

was the Washington Consensus and the Programs of Structural Reforms. The collapse of structural reform in countries such as Argentina and Venezuela and the narrow results in terms of improving the standard of living could be the evidence that the neo-liberal model failed. Then, it is not a surprise that regional integration, based on such a model, would have also failed.

The new left-wing governments in countries such as Argentina, Brazil, Uruguay and Venezuelan have accepted this argument and decided to promote a new model of regional integration. These countries have decided to retake some sort of public intervention in their national economic policy. Consequently, integration policy has also been reoriented and the neo-liberal bias has been reduced. The Brazilian proposal of a South American Community of Nations (SACN) is an example of this. The SACN is part of the Brazilian strategy of South American integration, but instead of concentrating exclusively on trade, it also furthers a wide development program. Brazilian government has tried to oppose a "South American agenda" to a "FTAA-US Agenda". While the latter was centered in the new issues of the international trade (investments, intellectual property, governmental procurement, etc), the Brazilian one also proposes the creation of a regional space by investing in infrastructure, energy, telecommunications and border development[2].

The government of Hugo Chavez is the most radical case in this new trend in Latin America. According to Chavez, Latin-American integration must be relaunched because its current ideological basis (neo-liberalism) is "the way to hell". In consequence, Chavez has promoted radical initiatives of economic and political integration such as the Bolivarian Alternative for the Americas (ALBA). ALBA aims to promote regional political and social integration rather than economic integration. Consequently, it would foster goals such as the formation of zones free of illiteracy, infant malnutrition, homelessness, and environmental destruction. Similarly, Chavez has fostered closer links with Mercosur and Venezuela has become a full member of this integration scheme in December 2005. Chavez has also criticized the Andean Community country decision to negotiate a free-trade agreement with the United States (known as AFTA)[3]. According to the Venezuelan government the AFTA is likely to have devastating affects on the Andean community in the political, economic and institutional spheres.

Conversely, other governments in the region have a different approach to the issue. Chile, Colombia, Peru and the Central American countries have maintained the decision to implement a market oriented economic policy. Such a decision has had an impact on their integration strategy, which is also based on the idea of free trade and liberalization. As a result, these countries have strongly supported the FTAA and when this proposal stalled, they accepted to negotiate bilateral free trade agreements with the US, based on the FTAA model. Thus, Chile has free trade agreements in place with the US since 2003, while the Central American Common Market countries and the

[2] Lincoln Bizzozero, "Los cambios de gobierno en Argentina y Brasil y la conformación de una agenda del MERCOSUR ¿Hacia una nueva cartografía sudamericana/interamericana", *Nueva Sociedad*, no. 186, julio-agosto (2003): 132).

[3] Bolivia is not participating in these negotiations. Peru and the US announced in December 2005 that they have agreed on terms for a bilateral trade agreement:

Dominican Republic subscribed an agreement (known as CAFTA) in 2004. Panama and three Andean countries are currently negotiating free trade areas.

Then, two approaches concerning the integration model can be observed. The first one still accepts the premises of the Washington Consensus and structural reform. Consequently, this approach is consistent with the FTAA integration model. The second one furthers a revisionist view, by proposing an increased state intervention. To some extent these revisionist views, the SACN, seem to be inspired by the EU economic model. Chavez initiatives, such as ALBA, have been supported by Cuba. This paper aims at analyzing these two models of regional integration and determines the extent to which they can be implemented in Latina America.

The Economic View: Two models of regional integration

The traditional economic debate on integration models has divided the doctrine between those who are defenders of a neo-liberal approach and those that support an interventionist model. Certainly, eclectic models have tried to combine interventionist and liberal policies, varying the character of the mixture according to the integration process. Furthermore, a centralized planning model also exists, but this one lacks empiric reference after the collapse of the communist world.

The liberal model

Liberal model subscribes to the ideas of traditional theory of international trade. Considering integration as a "second best", this approach conceives custom unions like a local experience of liberalization of borders, "justifiable whereas transitory stage in which tariffs and other restrictions to trade would be gradually eliminated"[4]. Accordingly, regional integration would aim essentially at abolishing barriers and obstacles that prevent the free flow of goods and services between the diverse national economies. Thus, an integrated economic space would be created in which the functioning of laws of the market would allow intensifying the economic interdependence between countries. In this approach, the creation of an economic integrated space and the consequent elimination of all forms of discrimination between factors and products had to be made in a gradual way. This supposed the transit of diverse stages, from a free trade area to a total economic union, previous achievement of a customs union and common market.

For the liberal approach, economic integration has not been always synonymous of welfare. Based on the early Jacob Viner´s[5] contribution on the customs unions theory, liberals make a distinction between those integration initiatives in which trade creation is promoted and those in which trade diversion predominates. Trade creation supposes the displacement of high cost producers by others of low cost producers, thus increasing of welfare in the integrated region. Trade diversion implies the substitution of low cost producers by others of high cost producers, a situation in which a loss of regional welfare

[4]Juan Mario Vacchino, "Teorías, Esquemas y Experiencias de Integración Económica Regional", *Mundo Nuevo*, Caracas, año 5, no. 15-16, enero-junio (1982): 154-182.).

[5] Viner Jacob, *The Customs Issue Union* (New York: Carnegie for Endowment Peace, 1950).

takes place. As nation states are supposedly rational actors, they would further regional integration schemes in which trade creation prevails.

The analysis of the diverse theories of regional integration makes it difficult to classify the FTAA as an integration model. This is not a modality of interventionist integration, because no device of development planning, industrial programming or mechanism to mitigate the asymmetries resulting from the diverse levels of development have been included. This would allow arguing that the FTAA is based upon a classic liberal approach. Nevertheless, a more careful analysis leads to the conclusion that the FTAA proposal moves away in several aspects from the traditional liberal models. FTAA is an example of the new regionalism predominant in the post Cold War world economic system. This new regionalism differs from previous proposals developed in the 1960s and 1970s. Though many of the premises of traditional theory of economic integration are useful to explain and understand current wave of regionalism, the analysis of this latter only based on traditional premises of customs unions theory would be a mistake.

The FTAA is based on the North American Free Trade Agreement (NAFTA) model of integration. NAFTA aims to promote the goal of free trade without intending to extend automatically to other stages of integration, such as customs union or common market. This was specifically rejected by the government of the United States due to pressures of diverse social groups, in particular special trade unions, which have rejected free movement of labor. This *per se* is not the real innovating issue. Other integration schemes such as the European Free Trade Association (EFTA) or the Caribbean Free Trade Area of (CARIFTA) also did not try to surpass free trade. The peculiarity of NAFTA is that the merger of a timid approach led to set up a free trade area with other ambitious economic objectives, such as the regulation of important sectors of the economies of countries' members. This makes NAFTA a scheme that goes beyond of the elimination of the tariff restrictions. FTAA aims to extend this model to the rest of the hemisphere.

The interventionist model

The interventionist model conceives integration like a process that goes beyond commercial issues. Its objective is the promotion of economic development and, specially, industrialization. Harry Johnson made the first contributions to surpass the narrow liberal view of economic integration. According to Johnson, economic integration could be seen as a means to promote public goods. Johnson argues that customs unions are created to protect "a collective preference in favor of the industrial sector". Economic integration is a mechanism to encourage directed investments to promote new industrial developments, capturing economies of scale and promoting competition in the industrial sector of small and relatively undeveloped economies. In addition, integration would allow the achievement of other economic objectives. By fostering industrialization, it could help countries improve their terms of trade with the rest of the world and improve their bargaining power vis-*à-vis* others regions[6].

[6] Brada and Méndez, 187.

Another important interventionist approach is represented by structuralism. For André Marchal, the utmost objective of integration is not to fuse markets but economies, through the progressive union of national economic spaces in a new economic and political organization, characterized by solidarity between its members[7]. Integration could not be based just on market mechanisms but also requires State intervention as director of the process. Furthermore, integration must be promoted among geographically neighboring countries with similar levels of economic development, and governments should further measures to facilitate production in scale, allow in diversification of production which in turn will promote technical progress.

Structuralism does not conceive national economies like a homogenous, harmonic and balance space, but like complex, heterogeneous and structured one. This view is very different from the liberal theory based on the idea of equilibrium and its automatic re-establishment. For that reason, states must lead a socially balanced and harmonious process through public policies. As Vacchino[8] asserts, such policies can use markets and its automatism, but, also and mainly, they must promote deliberate actions and institutions. Integration must make compatible market oriented policies with States led policies and the institutions.

There have been different examples of this model in the experiences of integration in Western Europe and Latin America. In this latter region the influence of the model of integration proposed by the Economic Commission for Latin American (ECLAC) in 1960s and 1970s was important, and centered on the promotion of industrialization at regional scale. Integration was conceived like a mechanism to foster programs of industrial development that some countries had begun to develop in previous decades and that were in danger to be continued in their phase of production of capital goods, due to the narrowness of national markets. The continuation of industrialization in the regional scope, would allow creating factories with a suitable size to take advantage of the reduction in the medium costs generated by the achievement of economies of scale, thus increasing efficiency and avoiding that existed installed capacity was under-utilized. Similarly, integration would allow financing industrial join ventures that required enormous investments in capital and technologies that did not exist in most of the countries of the region.

This strategy would require a strong participation of states in the promotion of new industries and tariff protection vis-à-vis third countries. In the ECLAC´s proposal, industrial goods produced in the first stage of economic integration, must be included in a free trade regime, thus creating a regional market in which the new productions would learn to be competitive, before being exposed to extra-regional competition[9].

---

[7] André Marchal, *Integración y regionalización de la economía europea* (Madrid: Seminarios y Ediciones S.A, 1970).

[8] Vacchino, 166.

[9] Comisión Económica para América Latina (CEPAL), *Transformación productiva con equidad* (Santiago: Naciones Unidas, 1990)

ECLAC'S approach to open regionalism can also be conceived like an interventionist model. A tendency exists to confuse open regionalism with opening of markets in structural adjustment programs. Nevertheless, ECLAC´s version of open regionalism goes beyond commercial liberalization. This modality of regional integration was included in the Latin American debate about the issue when the old ECLAC's ideas on industrialization and regional import substitution lost relevance in the political and academic circles of the region. The Latin American version of open regionalism was delineated by ECLAC in the document "Open Regionalism in Latin American in the Caribbean: Economic Integration as Contribution to Changing Production Pattern with Social Equity" (1994). In the document is asserted that integration policies in Latin America have been dual in the last few years. On the one hand, diverse intergovernmental commercial agreements leading to create free trade areas or, in some cases, customs unions have been promoted. Other integration initiatives include objectives such as regulation of investments, intellectual property, abolition of non-tariffs barriers, and co-ordination of economic policies. ECLAC describes this dynamic as integration furthered by policies[10].

These integration agreements are in line with a parallel process of "*de facto*" integration fostered by macroeconomic and trade policies, the effect of which is the creation of similar economic conditions in the majority of Latin American countries. This has furthered regional interdependence what has been reflected in factors such as a share tendency towards the consolidation of a coherent and stable macroeconomic framework, unilateral tariff reduction, non-discriminatory promotion of exports, elimination and deregulation of obstacles to foreign investments and privatization of public firms.

ECLAC defines open regionalism as a process that results from reconciling "the interdependence that stems from preferential agreements and the interdependence which basically arises from the market signals that are produced by trade liberalization in general. What open regionalism seeks to accomplish is to make explicit integration policies compatible with, and complementary with the promotion of international competitiveness"[11]. In other words, by furthering open regionalism, Latin American countries would be aiming at making compatible formal integration policies with those policies leading to foster a better insertion of Latin American countries in the world economy. Thus, "open regionalism may be understood as a non-multilateral way to move towards an open international system of commerce"[12].

Specialists such as Germánico Salgado, argues that the similarities between open regionalism and neo-liberalism are so considerable, that this could be perceived like a simple return to the Vinerian theory of customs unions, in which integration is a sub-optimal in the way towards the total liberalization of multilateral trade. Nevertheless, this

---

[10] Economic Commission for Latin America, *Open Regionalism in Latin America and the Caribbean: Economic Integration as a Contribution to Changing Production Pattern which Equity* (Santiago de Chile: ECLAC, 1994).

[11] ECLAC, 13.

[12] Andrés Cisneros and Jorge Campell, "El Mercosur: regionalismo abierto o un Building Block", *Boletim de Integração Latino-Americana,* no. 19, julho-dezembro (1990), http: //www.mre.gov.bt/getec/WEBGETEC/BILA (accessed: 12 March, 1998).

criticism forgets the really innovating element of open regionalism: its attempt to incorporate the proposal of a productive transformation with equity within the integration policy. In Latin America an increase of productivity through a process of absorption and diffusion of the acquired technical progress is required. Similarly, the region needs to enlarge national markets and promote a synergy between firms, sectors and institutions and, in general terms, improve the systemic efficiency of the productive structure.[13]

In ECLAC´s ideas, regional integration could collaborate in this process of productive transformation, incorporation and diffusion of technologies available in the world. The widening of markets and increasing links between firms, sectors and institutions at subregional scale, allow the development of joint ventures helping to achieve gradually comparative advantages in sectors in which technological development and learning are facilitated by regional action. Similarly, regional integration would contribute to transform the old imports substituting industries in exporting industries to use regional market as previous phase before their penetration to global competition. Furthermore, integration can be useful in the promotion of the technological innovation. Similar tastes of population and geographic proximity would allow using regional markets like a space in which to promote technological innovations in new products at less cost and with lower degree of uncertainty than in extra-regional markets. Integration can improve the joint bargaining power of the region and help improve infrastructure and facilitation of trade, elements helping productive transformation[14].

European integration can also be described like interventionist, although in a different way from that in Latin America. The objective of the European Economic Community, currently European Union, was never industrialization, a goal long time ago achieved in the old continent. Nevertheless, the European integration has promoted some policies such as protection to consumers, financial support to the less favored regions of countries members and mainly the common agricultural policy, that have implied a strong State intervention. The ideas of Thomas Biersteker on the role of the State in economy allow validating the argument on the interventionist bias of the integration model in Europe. According to Biersteker[15], at least six modalities of state interventionism in the economy can be found:

1. The first modality tries to influence in a positive way the behavior of the private sector through fiscal policy or monetary policy.
2. The second regulates the behavior of deprived economic actors or organize their economic activity through policies leading to protect the environment, social security programs or labor legislation.
3. A third modality of intervention attempts to transform the State into mediator between capital and labor.

[13]Comisión Económica para América Latina (CEPAL), *Transformación productiva con equidad* (Santiago: Naciones Unidas, 1990), 166.

[14] CEPAL, 166-170.

[15]Thomas Biersteker, *Reducing the Role of the State in the Economy: The Politics of Stabilization and Structural Adjustment,* Communication presented in the Annual Meeting of the American Political Science Association, Washington, D.C., August, 1988.

4. The fourth modality is the redistribution of social product by means of subventions or industrial policy.
5. The fifth is the direct production of goods and services.
6. The last modality of intervention of the State is in economic planning.

Accepting Biersteker's ideas, one can observe several types of interventionist policies in the European integration. The communitarian legislation to protect environment and the consumer protection policy are clearly modalities of regulating interventionism. The common agricultural policy and the regional policy are forms of redistributing interventionism. The project of construction of Airbus is an example of interventionism whose objective is the production of a particular good. Consequently, it is valid to describe to the experience of integration in Western Europe like interventionist.

Beyond economics: FTAA and UE as integration types

Based on a categorization made by Di Filippo and Franco[16], one can argue that two different conceptions about regional integration exist in the Americas. For these specialists, some agreements aim at liberalizing the flow of trade and investments in the continent. These are the "Type A" agreements. By contrast, another sort of agreement is designed to promote policies beyond the liberalization of markets. Such agreements are known as "Type B". This classification can be useful to understand current integration schemes in the Americas. However, both Types A and B must be studied not only in terms of the economic model they pursue, otherwise, it would make no sense as a theoretical tool, because it would not be different from that presented in the previous section (models of integration). To understand this issue, the political and social level of these agreements must also be analyzed (see table 1).

Table 1
Types of Integration

Level	Type A	Type B
Political	Intergovernmental	Intergovernmental + Supranational
Economic	Liberal	Interventionist
Social	No Social Dimension	Social Committed

Source: Own elaboration

In economic terms, the Type A is the empirical reference to the liberal model. The economic aspects are centred on the liberalisation of trade and factors of production as proposed by the liberal model. However, this type of agreement does not cover aspects such as coordination of macroeconomic policies, common currency, tax policy or regional policy. Notwithstanding this, type A includes the so-called trade-related issues, such as intellectual property or public procurement.

[16] Armando Di Filippo and Rolando Franco "¿Qué modelo de integración regional puede contribuir a un desarrollo con equidad?", *Socialis, Revista Latinoamericana de Política Social*, Buenos Aires, no. 3, noviembre (2000): 45-62.

At the political level, these agreements are classic examples of intergovernmentalism. There is not a pooling of sovereignty and, consequently, security and defence issues remain at the sphere of nation-states. This intergovernmentalist approach led to a weak institutional framework, in which supranationality has been totally excluded. For this reason, the creation of a regional identity is a difficult goal to achieve.

Finally, the social dimension in this sort of agreement is just limited to the signing of labour treaties, the main objective of which is to make compulsory the execution of domestic law on the issue. These compromises aim at making compatible social co-operation with liberalisation of markets. This would imply a convergence towards a minimum social platform on social and political rights, but without any sort of compulsory legislation.

The Type B is the empirical reference of the interventionist economic model. The Type B agreements propose not only the liberalisation of trade, although free trade is important objective to be achieved. Instead these agreements foster the establishment of mechanisms leading to integrate labour and capital markets. The objective of these measures is to move toward a common market in which free movement of labour and capital would exist. Moreover, this type of agreement entails the co-ordination and harmonisation of policies such as fiscal revenues or taxes. The utmost objective is the unification of some of these policies. By the same token, these sort of agreements further a regional policy leading to aid to less developed regions thus promoting economic and social cohesion.

At the political level, a Type B agreement accepts mechanisms to pool sovereignty and, consequently, the security and defence issues could be included in a common framework, at least as long-term objective. This approach led to a relatively strong institutional framework, in which supranationality could be accepted. This could contribute to creation of a regional identity.

At the social level, co-ordination, harmonisation and unification of social policies become a possibility in these agreements. As a result, aspects such as employment policies and rights, work organization, health, hygiene and safety at work, social protection, equality between women and men, social protection, etc., are covered by the integration process.

Comparing the FTAA and the EU as models and Type of Regional Integration

The FTAA is a Type A agreement. In political terms, the FTAA excludes any mechanism of pooling sovereignty. The overwhelming US hegemony vis-à-vis Canada and Mexico and the fact this country is also a global hegemon does not allow the creation of any mechanism to promote a common security or defence policy.

In the economic dimension, the FTAA is mostly centred on the liberalisation of trade and investments by eliminating progressively barriers to trade in goods, services and capitals. However, the FTAA also covers sectors related to trade (public procurement, intellectual rights, environment, labour, etc) (see table 2). All these issues have been the cornerstone of discussions since the beginning of the pre-negotiation period in Denver, Colorado (1995). The discussions of diverse hypothesis of negotiation started in Florianopolis, Brazil in September 1996. Trade and investment issues were maintained as the most important topics of these debates. Negotiations were launched in the Summit of Santiago in 1998. Previous tendencies that privileged trade and investments were ratified in this summit by creating eight negotiations groups, none of them devoted to social issues. In the third summit of the Americas held in Quebec City, a Draft of the FTAA treaty was presented.

Table 2

FTAA an the EU

Political - Institutional Aspects

Category	FTAA	EU
Relation sovereignty - Integration	**Competitive Sovereignty**	**Pooling Sovereignty**
Defence	**Not covered**	**Members seek to develop a common defence policy**
Security Policy	**Not covered**	**Members seeks to develop a common foreign policy**
Institutionality	**Weak**	**High**
Supranational Identity	**High**	**Weak**
Socio-Political Support	**High (with some reserves: UK)**	**Weak**

Source: Own elaboration but based on ideas of Lazin, 1995 and Curzio 2004.

In the Summit of Miami (1994), a Plan on Sustainable Development and Democracy was approved. However, this social agenda was put in the negotiations. No social proposal was included in the body of the drafts of the agreement and most of their norms were related to trade and investments (see table 4).

The EU is an example of a Type B agreement. As an EU Document asserts, this integration scheme is not a simple organization for co-operation between governments, like the United Nations. Conversely, the countries that make up the EU (its 'member states') remain independent sovereign nations but they pool their sovereignty in order to gain a strength and world influence none of them could have on their own. "Pooling sovereignty means, in practice, that the member states delegate some of their decision-making powers to shared institutions they have created, so that decisions on specific matters of joint interest can be made democratically at European level"[17]. As a consequence, the EU has succeeded in creating a solid institutional framework in which supranational and intergovernmental elements have been merged. Likewise, the EU has tried to define its own political personality by moving forward the creation of a common foreign and security policy (see table 2).

[17] **European Union, *Introducing the European Union*, http://europa.eu.int/institutions/index_en.htm (accessed: November 31, 2005)**

In the economic sphere, the EU is not just a free trade area but an economic union in which is allowed the free flow of services, persons and capital. For example, free flow of workers in the European Economic Community has been granted since 1968. Common policies, such as agricultural policy and regional policy, were established in the 1960s and 1970s. In the 199Os, a cohesion policy was implemented. And more recently was set up an economic and monetary union and since 2002 a common currency: Euro[18] (see table 3).

Table 3

FTAA an the EU

Economic Aspects

Category	FTAA	EU
Goals	**A single market for trade of goods**	**Economic Union**
Integration Model	**Liberal**	**Interventionism (maket + state)**
Integration Method	**Lack of Horizons (Just a FTA).**	**Functionalist (gradual inclusion of new areas)**
Currency	**National currencies**	**Common currency**
Customs	**Each country retains its own customs regulations**	**Single Market (abolition of borders control)**
Transportation	**Trucks and common carries can move between countries**	**Common Policy**
Inflation and Economic Management	**Not included**	**Member states must adhere to maximum limits**
Competition and Quality	**Not covered**	**Common strategies to make all countries equally competitive. Minimum quality regulations.**
Consumer Protection	**Not covered**	**Common standards**

[18] The Euro is the official currency in Belgium, Germany, Spain, France, Ireland, Italy, Luxembourg, the Netherlands, Austria, Portugal, Finland and Greece.

		regulations.
Tax Legislation	**Double Taxation Treaties**	**Standards guidelines for member states.**
Investment	**OMC Plus**	**Free movements of capitals and investments**
Intellectual Property	**OMC Plus**	**Common Policy**
Public Procurement	**OMC Plus**	**Common Policy**
Regional Policy and Cohesion	**Not covered**	**Common regional policy**

Source: Own elaboration, based on ideas of Lazin, 1995 and Curzio 2004.

At the social level, according the article 2 of the treaty of Maastricht, the EU must "promote economic and social progress and a high level of employment and to achieve balanced and sustainable development, in particular through the creation of an area without internal frontiers, through the strengthening of economic and social cohesion and through the establishment of economic and monetary union, ultimately including a single currency in accordance with the provisions of this Treaty" (see table 4). To achieve these goals, the EU has promoted various strategies[19] (see EU 2005b), such as:

1. The creation of a European Social fund.
2. A European employment strategy.
3. The coordination of social security systems.
4. A framework strategy on equal opportunities for men and women (2001-2005).
5. Common educational programs such as ERASMUS.
6. The signing of a European Social Charter.

Table 4

FTAA an the EU

Social Aspects

19 European Union, *Activities of the European Union. Employment and Social Affairs*, http://europa.eu.int/pol/socio/index_en.htm (accessed January 6, 2006)

Category	FTAA	EU
Social Security Policy	**Not covered**	**Standard criteria apply to all countries**
Employment	**Workers are not included**	**Free movement of labour**
Migration and Citizenship	**Only professional, business persons and investors have the to transfer to work in member states**	**Free movement of citizens and right of residence**
Environment	**Common standards established in side agreement**	**Common Policy**
Health	**Not covered**	**Common Program**
Education	**Not covered**	**Exchange Programs**
Gender	**Not covered**	**Policies to promote equality**

Source: Own elaboration but based on ideas of Lazin, 1995 and Curzio 2004.

What model for Latin American Integration: the contribution of the EU

The collapse of the strategy of industrialisation, the debt crisis in the 1980s and the most severe economic recession of the region for decades, supposedly demonstrated that interventionist model was misleading. In consequence, this latter was actually excluded from most of the national economic strategies of Latin American and Caribbean countries and it was substituted by neo-liberal ideas inspired in the structural adjustment programmes recommended by the International Monetary Fund (IMF) and the World Bank.

As a result, integration strategies in Latin America and the Caribbean have been modified and adapted to this new predominant liberal approach. This is essentially centred on the promotion of free trade, excluding any sort of policy leading to promote regional industrial development, as the old Latin American and Caribbean integration proposals in the 1960s and 1970s suggested. For neo-liberalism integration must always be subordinated to multilateral liberalisation of trade and must be oriented to foster trade creation and not trade diversion. This would validate the classical theory that considers that trade creation has positive effects on welfare, whilst trade diversion reduce welfare. Those arguments that emphasised the need for trade diversion in customs unions and those that promoted regional localisation of industries between developing countries were discarded. Integration schemes in Latin America became part of a global strategy to promote the liberalisation, without exception or reserves, of goods and services, the elimination of restrictions to foreign investments, the rejection of policies leading to promote industrialisation and the exclusion of preferential and compensatory measures to assist less developed countries or regions.

Therefore, the liberal model was quite popular in the 1990s in the region. Nonetheless, this enthusiasm with this model was severely affected by the "Real" Crisis in Brazil (1998) and particularly by the Argentina's Default in 2001. Similarly, although structural reform helps achieving a better macroeconomic environment in some countries of the region, its contribution to the solution of problems such as the regional competitiveness, the financial instability or inequity was fairly poor. Finally, since the end of last decade and, at least partially, as a result of the social effects of structural reform, new leaders have come to power in various countries with a political discourse and an economic strategy opposed, or at least critical, to the liberal model. This is case of Hugo Chavez in Venezuela, Luiz Ignácio Lula da Silva in Brazil, Néstor Kirchner in Argentina, Tabaré Vasquez in Uruguay, and more recently, Evo Morales in Bolivia. Despite the differences among them, a common denominator exists: free trade is not enough. Consequently, the liberal model that was the ideological base of the new Latin American integration is currently in crisis in many countries of the region. Obviously, such a situation has had an impact on the political support to a FTAA type of regional integration model.

The crux of this matter is not if the market is good or bad. In reality, the markets are social constructions. Therefore, they cannot be properly analyzed without considering structural factors and institutional variables that differ among societies. Specialists such as Joseph Stiglizt[20] has pointed out that one of the problems of the Washington Consensus was its attempt to promote a single agenda, untailored to the circumstances of each country. This agenda privileged trade liberalization, deregulation and privatization, disregarding factors such as the competition policy, fiscal regulation, promotion of technology, education, the strengthening of institutions and the problem of inequity in the region[21]. There one can find the reasons of the failure. As the FTAA subscribes to this model, could it help promote a regional integration that could further productive transformation with equity?

One must start by asserting that tariff reductions and the promotion of an exporting strategy based on the regional comparative advantages do not guaranteed a suitable insertion of the region in the world economy. An efficient international insertion depends not only on the comparative advantages but also, and in an increasingly important degree, on the competitive advantages based on "non-prices factors". These cannot be created just by the correction of the relative prices through a policy of tariff reductions. Conversely, the new competition requires a state policy that brings about technical progress; improve the quality of human resources and help increase the income and welfare of population (Fürst 1993: 51).

---

[20] Joseph Stiglitz, "Más instrumentos y metas más amplias para el desarrollo. Hacia el Post Consenso de Washington", *Desarrollo Económico* vol. 38, no. 151, octubre-noviembre (1998): 691-721.

[21] This topic is widely discussed in Henry J. Bruton, "A Reconsideration of Import Substitution", *Journal of Economic Literature,* vol. XXXVI, no. 2, June (1998): 903-936; Joseph Stiglitz, *Whither Reform?, Towards a New Agenda For Latin America*, Prebisch Lecture delivered at the Economic Commission for Latin America and the Caribbean, in Santiago, Chile, on 26 August 2002.

Secondly, regional integration must be part of a global strategy leading to promote "high technology exports", in which new knowledge had been incorporated. It is crucial to understand that there must be a symbiosis between exports and learning process at the domestic level. In general, those who support the exporting strategy subscribe to the belief that when developing countries productions are exposed to foreign competition, a jump in their technological development occurs making them internationally competitive. Nevertheless, there is strong evidence against this assumption. The experience indicates that instead of increasing the state of technological development, what happens is that those firms or companies exposed to international competition must experience a difficult process of adaptation. In this process, factors such as firm organization, social institutions, values, incentives, commitment with the growth and other series of factors that define a society play a fundamental role[22].

The EU's experience can be useful in these issues. In the EU European Council held in Lisbon, in March 2000, European leaders placed enhanced competition and innovation as clear aims on their agenda, two aspects that are believed to be key to promote competitiveness and economic growth[23]. Although, the EU is a an integration scheme based on the "principle of an open market economy with free competition", the member states have decided to promote a competition policy regarded as instrumental to make the EU "the world's most competitive and dynamic knowledge-based economy" by 2010[24]. Particular importance has been given to the role of research, development and innovation in the promotion of a competitive economy. In article 163 of Treaty of Union has been established that EU must strengthen the scientific and technological bases of Community industry and encourage it to become more competitive at international level. According to a EU´s document "Scientific and technological development is the driving force of economic and social growth, particularly when it comes to creating job"[25]. Then, the EU recognizes that in a world of increasing economic competition is crucial to promote research and innovation to maintain a role of leader in the international markets.

By the same token, the EU has succeeded in creating an institutional framework (a mixture of supranationality and intergovernmentalism) and a routine of cooperation that stabilize peace in Western Europe. Similarly, because of a long experience of integration, Western Europe has consolidated values such as the defense of democracy, the defense of Human Rights and so called European Social Model. One of the key elements of this "social model" is the idea of solidarity, which has been also part of the EU experience. Thus, the regional policy has been a manifestation on the extent to which

---

[22] Bruton, 930.

[23] Neelie Kroes, "Intellectual Property, competition and the Lisbon Agenda", *IPR-Helpdesk Bulletin*, no 24, November-December (2005), http://www.ipr-helpdesk.org/newsletter/24/html/EN/editorial.html (accessed January 6, 2006).

[24] Commission of the European Communities, *A-pro-active Competition Policy for a Competitive Europe* (Brussels, 20.4.2004. COM (2004) 293 final), 3 (accessed December 28, 2005).

[25] European Union, *Towards a European Research Area*, http://europa.eu.int/scadplus/leg/en/lvb/i23010.htm (accessed December 28, 2005).

richer countries may help in the progress of less developed countries through communitarian institutions.

By contrast, The FTAA does not deal with these crucial issues. NAFTA, after which the FTTA is modeled, neither considered it. In a recent report published by the World Bank (*Lessons from NAFTA for Latin America and the Caribbean Countries: A Summary of Research Findings*), Daniel Lederman, William F. Maloney and Luis Servén have found that after ten years NAFTA has spurred economic development in Mexico, but free trade has been not enough to achieve economic convergence with its two commercial partners. The study asserts that this convergence will be difficult to accomplish even in the long run without investment in innovation, infrastructure and adequate institutions[26].

Similarly, if regional integration wants to become a tool to further Latin-American development, it must include a social agenda. In the Summit of Miami (1994), the social problem was considered by Presidents who recommended the need to pay attention to issues such as education, health, work conditions, etc (Delgado Rojas, 2000). These topics were also discussed in the Summit of Santiago, in which an ambitious Plan of Cooperation was approved, including socioeconomic, political and cultural issues. Nevertheless, these plans did not imply compulsory commitments to the countries[27]. The reality is that trade issues have prevailed, at least until the Ministerial Summit of Quito, and the social aspects have been secondary. This largely explains the rejection that the FTAA has found in important sectors of the Latin American and Caribbean societies and in some governments. On this point, the EU experience is also important. The EU has produced a convergence around an integration model with a social dimension. As Mario Telo[28] points out, the European social model highlights “the fact that, despite the homogenizing tendencies of globalization, Western Europe has developed a dynamic equilibrium between international competitiveness, social cohesion, and democratic society that involves an active role for organized social, actors and relatively generous Welfare State systems and public services, even if these differ from state to state”.

Finally, the new role of the State in the integration process must be reconsidered. It is true than in previous decades the Latin American governments were little efficient in managing economic issues, but this cannot lead to the conclusion that the State is *to per* inefficient. As Bruton[29] points out, “the role that governments can play depends (...) on institutions, history and culture of the community. Some governments are lethal, many are inept and neglected, but there are many things that only can be made by a government.” The role of government in the process of technical learning is crucial and must be strengthened and not weakened by policies that aim to reduce the State.

[26]Daniel, Lederman, William F. Maloney and Luis Servén, *Lessons from NAFTA for Latin America and the Caribbean Countries: A Summary of Research Findings* (Washington: The World Bank, 2005).

[27] Di Filippo and Franco, 53

[28] Mario Telò, *Europe: A Civilian Power? European Union, Global Governance, World Order* (London: Palgrave, 2005), 52.

[29] Bruton, 931.

Conclusion

Arguably, the Type B is a modality of regional integration that could be a more efficient tool to help Latin American integration overcome its current difficulties. Without rejecting the liberalisation of markets, Type B agreements also promote policies, the objective of which is the reduction of internal and international asymmetries. A region Latin American like and the Caribbean in which there is a shocking inequality, needs an integration model, that without excluding the trade aspect, propose the creation of a solidarity space, as it was conceived by the structuralist thought on regional integration. This implies the promotion of measures to address the extreme vulnerabilities and existing asymmetries in the region, which implies, retaking once again the structuralists ideas that the richest partner in the process contributes with the less rich partners, so that all are beneficiaries. Similarly, free trade must be complemented by measures fostering knowledge, institutions and values, key elements to guarantee a successful insertion in the world market. All this shows us that free trade is not enough to promote regional integration, as the EU experience also demonstrates.

Bibliography

Thomas Biersteker. *Reducing the Role of the State in the Economy: The Politics of Stabilization and Structural Adjustment,* Communication presented in the Annual Meeting of the American Political Science Association, Washington, D.C., August, 1988.

Lincoln Bizzozero. "Los cambios de gobierno en Argentina y Brasil y la conformación de una agenda del MERCOSUR ¿Hacia una nueva cartografía sudamericana/interamericana". *Nueva Sociedad* no. 186, julio-agosto (2003): 128-142.

Joseph Brada and Jose Méndez. "Political and Economic Factors in Regional Economic Integration" *Kyklos,* vol. 46, no. 2 (1993): 183-201.

Henry J. Bruton. "A Reconsideration of Import Substitution", *Journal of Economic Literature* vol. XXXVI, no. 2, June (1998): 903-936.

Andrés Cisneros and Jorge Campell. "El Mercosur: regionalismo abierto o un Building Block" *Boletim de Integração Latino-Americana* no. 19, julho-dezembro (1990), http: //www.mre.gov.bt/getec/WEBGETEC/BILA

Comisión Económica para América Latina (CEPAL). *The Latin American Common Market.* Santiago: CEPAL, 1958.

Comisión Económica para América Latina (CEPAL). *Transformación productiva con equidad.* Santiago: Naciones Unidas, 1990.

Jaime Delgado Rojas. "Los temas no comerciales del ALCA", *Estudios Latinoamericanos* nueva época, vol. 7, no. 14, julio-diciembre (2000): 73-95.

Commission of the European Communities, *Some Key Aspects on Europe's competitiveness – Towards an Integrated Approach. Communication from the Commission to the Council and the European Parliament*. Brussels, 21.11.2003, COM(2003) 704 final.

Commission of the European Communities, A-pro-active Competition Policy for a Competitive Europe. Brussels, 20.4.2004. COM (2004) 293 final.

Leonardo Curzio. "La integración en Norteamérica y la experiencia de Europa" in *La Unión Europea y el TLCAN*, edited by Joaquin Roy, Alejandro Chanona y Roberto Domínguez, 159-182. México: Universidad Nacional Autónoma de México, Facultad de Ciencias Políticas y Sociales, Universidad de Miami Centro a la Unión Europea, 2004.

Francisco R., Dávila Aldas. “La Unión Europea y el TLCAN: diferencias y similitudes” in *Uniones Monetarias e integración en Europa y las Américas*, edited by Rosa María Piñon Antillón, 273-300. México: Universidad Nacional Autónoma de México, Facultad de Ciencias Económicas y Sociales, Delegación de la Comisión Europea en México, 2000).

Armando Di Filippo and Rolando Franco. “¿Qué modelo de integración regional puede contribuir a un desarrollo con equidad?”, *Socialis, Revista Latinoamericana de Política Social* no. 3, noviembre (2000): 45-62.

Economic Commission for Latin America. *Open Regionalism in Latin America and the Caribbean: Economic Integration as a Contribution to Changing Production Pattern which Equity*. Santiago de Chile: ECLAC, 1993.

European Union. *Introducing the European Union*. http://europa.eu.int/institutions/index_en.htm

European Union. *Activities of the European Union. Employment and Social Affairs* (2005b), available on line http://europa.eu.int/pol/socio/index_en.htm

European Union. *Towards a European Research Area*, http://europa.eu.int/scadplus/leg/en/lvb/i23010.htm.

Edgar Fürst. “Centroamérica en los años noventa: libre comercio e integración regional ante el reto de una transformación productiva con equidad y desarrollo sustentable”, *Ciencias Económicas* vol. XIII, no. 1-2 (1993): 45-67.

Manuel Gutiérrez Vidal y Sárah Marínez Pellégrini. “El Tratado de la Unión Europea y el TLC: un análisis comparativo”, *Frontera Norte* vol. 7, no. 13, enero-junio (1997): 109-127.

Harry Johnson. “An Economic Theory of Protectionism, Tariff Bargaining and the Formation of Customs Unions”, *Journal of Political Economy no*. 73 (1965): 253-283.

Neelie Kroes. “Intellectual Property, competition and the Lisbon Agenda”, *IPR-Helpdesk Bulletin,* no 24, November-December (2005), http://www.ipr-helpdesk.org/newsletter/24/html/EN/editorial.html.

André Marchal. *Integración y regionalización de la economía europea*. Madrid: Seminarios y Ediciones S.A, 1970.

Olga Lazin. “Emerging World Trade Blocs: The North America Free Trade Area and the European Union Compared”, in *Statistical Abstract of Latin America,* edited by James W. Wilkie, Carlos Alberto Contreras and Catherine Komisaruk (Los Angeles: UCLA Latin America Center Publications, University of California, 1995).

Daniel, Lederman, William F. Maloney and Luis Servén. *Lessons from NAFTA for Latin America and the Caribbean Countries: A Summary of Research Findings*. Washington: The World Bank, 2005.

Joseph Stiglitz. "Más instrumentos y metas más amplias para el desarrollo. Hacia el Post Consenso de Washington", *Desarrollo Económico*, vol. 38, no. 151, octubre-noviembre (1998): 691-721.

Joseph Stiglitz, *Whither Reform?, Towards a New Agenda For Latin America*, Prebisch Lecture delivered at the Economic Commission for Latin America and the Caribbean, in Santiago, Chile, on 26 August 2002.

Mario Telò. *Europe: A Civilian Power? European Union, Global Governance, World Order*. London: Palgrave, 2005.

Juan Mario Vacchino. "Teorías, Esquemas y Experiencias de Integración Económica Regional", *Mundo Nuevo* año 5, no. 15-16, enero-junio (1982), pp. 154-182.

Viner Jacob. *The Customs Issue Union.* New York: Carnegie for Endowment Peace, 1950.