Economic regionalism under the FTAA and MERCOSUR: James Monroe or Simon Bolivar?

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Introduction

Regional trade is everywhere on the rise and much more so than international trade proper. As a case in point, on a thirty to thirty-five year period, the world economy has witnessed the consolidation of a double process: that of a slower growth in extra-regional trade on the one hand (+ 3,2%), and a much more important growth in intra-regional trade (+10%) on the other.

If we take a closer look at this process, we see that the growth in intra-regional trade is quite important in Western Europe and in Asia, much less so in North America, whereas the situation, as far as extra-regional trade is concerned is more contrasted with a reduction in Western Europe, a virtual standstill in Asia, and, finally, a marked advance in North America (+ 7%), an advance imputable essentially to American foreign trade, and not, as we shall see to either Canada or Mexico (see Table below).

Table 1: Extra and intra regional trade

	Extra regional trade (% of GNP by region)		Intra regional trade (% of total trade by region)		
	1958	1990	1958	1973	1993
Western Europe	15,8	12,8	52,8	67,7	69,9
North America	6,3	13,2	31,5	35,1	33,0
Latin America	24,8	23,7	16,8	27,9	19,4
Asia	15,5	15,2	41,1	41,6	49,7
World	12,9	16,1	40,6	49,3	50,4

Source: WTO: *Regionalism and the World Trading System,* Geneva 1995.

If we now turn to regional agreements as such, we see that the importance of intra-regional trade in relation to extra-regional trade is even greater in three cases in particular : In the European Union (EU), intra-regional trade accounts for 69% of total trade in 1994, among the Pacific Rim countries, for 67,2% in 1993, and for 48% of total for the three partners of the North America Free Trade Agreement (NAFTA)[1].

Furthermore, since the so-called "end" of the Cold War in 1989, and since the subsequent collapse of trade relations within Central and Oriental Europe, and the ex-URSS, a collapse that saw intra-regional trade there fall from 57,3% in 1983 to 19,7% in 1993, the tripolarization of the world economy between North America, the European Union (EU), and Japan with its neighbouring Newly Industrialized Countries (NIC) is very much a major trend of the present world trading system.

If we look more closely at the three economic regions of the EU, the Free Trade Agreement of Americas (FTAA) and the Asia Pacific Economic Cooperation Forum (APEC) -- excluding Canada, the US, Mexico and Chile which are also members of the FTAA -- we see that all three regions account for more than 86,7% of world exportations and 86,4% of importations. But these figures are, to a certain extent, misleading since the three so-called regions do not have the same institutional status, nor do they have the same standing in world economic affairs. In fact, it seems difficult, in realistic terms, to ignore to such a degree the hegemonic position of the US within two of the three economic regions and to ignore furthermore the simple fact that the US are, for all intent and purposes, the only country to command so diversified a network of international exchanges as we shall underline presently.

Consequently, and even though regionalism appears to be emerging as a fundamantal economic process at a global level, we propose in the present paper to concentrate our analysis on one region in particular, the Americas, because we have here all the ingredients that will allow us to investigate some of the challenges confronting regional integration nowadays, not only in this particular context but in the world context as well. . To this end, we will tackle three related questions: the first has to do with US trade relations, the second, with the trend of economic regionalism within the Americas, and the third with the issue of the possible emergence of an alternate bloc, the Mercosur, in South America.

In conclusion, we will try to tie together these strings so as to offer an overview of regionalism in the Americas, and through this, a picture of regionalism on the world scene.

1.The US :

Over all, 91,4% of American exports and 91,1% of imports are concentrated within the three areas that are the EU, the Americas and the APEC countries respectively, which together represent a total of 68 countries (15+33 without counting Cuba and, obviously, the US themselves+20) out of a grand total of 184, according to United Nations estimates.

More fundamentally, the US is the only country which maintains such diversified and balanced trade relations with all three areas even though the degree of interdependence varies from one region to the other. In the case of the EU, for instance, exports to the US represent only 7% of total exports, and imports from the US 7.7%. In the case of the Americas, on the other hand, 61,7% of exports and 50,8% of imports are made with the

US. But these figures are misleading to a certain degree since the low level of American exports to the EU is more than made up for by the important percentage of foreign direct American investment there : in 1995, the EU accounted for 51,1% of total American foreign investment.

On the other hand, the percentages of US foreign trade within the Americas are misleading as well since Canada and Mexico alone account for 65,4% of total continental exports and 57,9% of imports. Consequently, foreign trade between the US and the countries of the Americas varies greatly from one case to the next and from one sub-regional group to another. If proximity plays an important role as far as Canada and Mexico are concerned as we have just seen, countries of Central America are highly dependent on US trade which accounts for 62,8% of their total exportations, whereas, in the case of Mercosur, the percentage drops to 15,6%.

All in all, US exports and imports with the three major economic blocs are as follows: 7% of total exports and imports for the EU, as we have noted earlier, 29,4% of total exports and 27,4% of imports with Canada and Mexico, and 32,1% of exports and 40,3% of imports to and from APEC countries, excluding Canada and Mexico.

This leaves us with 8,6% of exports and 5,9% imports for the rest of the Americas, percentages that should be set up against high dependency levels for each and every country concerned, except Brazil.

If we were to sum up at this point, we should insist on the inescapable fact that the US are the only country that occupy such dominant and diversified position in the world trading system.

2.Trends in the Americas :

US foreign direct investment in Latin America and the Caribbean has remained stable over the years: 18,4% of all foreign US investment in 1980 and 17,3% in 1995. Besides Bermuda (3,9%) and Panama (2,2%), the others two major recipients are Brazil (3,3%) and Mexico (2%).

But this area of the world is much more important to the US if we take into counsideration the data on international commerce. Continental subsidiaries of American multi-nationals firms (MNF) account for a quarter of all revenues, one third of total employment and over half of intra-firm exchanges. Furthermore, profitability of US continental subsidiaries of MNF (measured in percentage of sales to assets) is much higher than average, everywhere in the Americas, with the notable exception of Canada where they are definitely lower.

If the Americas account for 29% of total US foreign direct investment, it is in this area that are concentrated the highest percentages of exchanges between MNF'S and their subsidiaires: 50% of exports and 55,4 of imports, and within the Americas, Canada and Mexico have the highest percentages of intra-firm trade.

At the same time, we witness a growth in intra-regional trade within the Americas under each and every regional agreement except the Central American one, MERCOMUN, where intra-regional trade has declined over the years, from 26% in 1970 to 14,2 in 1993.

If we take NAFTA as a case in point, and analyse the international trading relations of the three partners, we see that the shares of US exports as well as imports grow in each and every instance and, concurrently, that those of Canada as well as Mexico, decline. More to the point, in trade with the EU, percentage of US exports rose from 86,6% to 90,8% between 1988 and 1994; in trade with Japan and four NICs of South-East Asia (Korea, Hong Kong, Singapour and Taïwan), from 86,4% to 90,4%; and, in trade with the rest of the world from 84,9 to 90,7%. This implies, conversely, that both Canada and Mexico do not fare as well, in relative terms or, in other words, that their respective trade flows are more and more concentrated on one dominant partner, the US. In this sense, NAFTA has impeded trade diversion for both US neighbours with the result that the strategic dimension of economic regionalism does not have the same effects for the three partners in NAFTA. In this case, the dominant partner was able to diversify under free trade whereas the other two could not. For Canada and for Mexico, securing access to the US economy through free-trade was gained at the expense of multilateral diversification of their respective trade flows and, consequently, at the expense of the maintenance of their relative position in the world trading system. We are, in all probability, seeing in both cases the deepening of a process of satellisation of these economies to that of the US.

From a US perspective, on the other hand, the strategic dimensions of NAFTA are quite different if such an agreement can at the same time offer a secured access to both neighbour's resources, provide a newly defined political economy along the lines of a so-called "level playing field", and give the US a freer reign to establish a more favourable position vis-a-vis powerful trading partners and their trading blocks on a world-wide scale.

In this perspective, NAFTA offers and interesting blue-print and creates an important precedent. And instead of admitting willing partners one by one, as was at one time envisaged when Chile was in the ranks, the new overall strategy which seems to have taken the forefront for the time being, a strategy which calls for the negociation of a Free Trade Area of the Americas (FTAA) by the year 2005 would allow the US to push further the same kind of approach on a pancontinental basis.

Given the number of partners in the Americas (34 without counting Cuba), and given most of all the complexity of the existing scheme of things with the proliferation of bilateral, trilateral or minilateral trading agreements (up to a grand total of 72 according to the Organization of American States (OAS) estimates) between countries, the only viable solution seems to lie, in the eyes of the US, in the negociation of an overall and overarching agreement without giving too much counsideration to existing regional or sub-regional agreements.

This approach seems all the more legitimate from a U.S. perspective since, as we have pointed out earlier, none of these agreements -- with the notable exception of

MERCOSUR -- have effectively diverted trade flows outside the US's perimeter of influence.

Finally, the strategy resorted to on the part of the US has another quite important implication which is that, by convening heads of States and by proceeding swiftly through the more efficient channels of executive powers, the American approach could probably effectively forestall intervention on the part of the legislatures at both the national and subnational levels. We should be reminded here that addressing the 34 "democratic" partners -- this excludes Cuba -- of the Americas (7 in Central America, 12 in South America, 13 in the Caribbeans and 3 in North America) through their executives is one of the most efficient way to tackle market reform without opening up the process of lengthty discussions on the floor of numerous legislative assemblies whose members receive their mandates directly from their electorates. Since there are, all in all, besides the 34 countries, some 164 sub-state (or sub-national) legislatures (twelve in Canada including its two territories, 50 in the USA without counting the District of Columbia, Puerto Rico or the Virgin Islands, 31 in Mexico, 23 in Argentina, 26 in Brazil and 22 in Venezuela), as well as five inter-state (or supra-national) parliaments (the Latin American Parliament, the Andean Parliament, the Centro-American Parliament, the Parliamentary Assembly of the Caribbean Community and the Joint parlementary Commission of the Mercosur). To contend with, the whole democratic process could prove quite cumbersome indeed if one were bent on negociating quick returns out of a complex agenda.

To sum up, with NAFTA as its precedent, a FTAA could prove to be a strategic move of profound world and trans-continental significance and impact of the part of the US. First, a FTAA could allow for an unraveling of the complexity of the present state of economic regionalism in the Americas, and in this regard, a hemispheric agreement would be most advantageous for the US since they could then emerge as the undisputed hub for each and every economy in the Americas, a strategy which could establish as undisputable their rôle in world economic order.

Secondly, a FTAA could serve to marginalize a World Trade Organization (WTO) ascendency in the Americas by submitting continental grievances to a continental conflict resolution mechanism. We have already seen this approach put to use the first time around through the Canada-US Free Trade Agreement (CUFTA) signed in 1989, whereby the two partners agreed to settle economic grievances through bilateral expert groups, thereby undercutting GATT red tape and long delayed processes of decision reaching. This solution is the one that was also resorted to in the case of NAFTA a few years later, in 1994.

Thirdly, a FTAA can be seen as a strategy on the part of the US to implement a new and revised Monroe Doctrine steeped in economic reform after decades of political and military wrangling. But this approach to pan-american integration is far from being unanimously shared in the three America, and there are signs, albeit timid, that an alternate vision, a more radical one steeped in the Bolivar heritage, could be slowly emerging within the only one of the economic regionalism that would pose a potential threat to US complete hegemony, and this alternative is represented by the Mercosur.

3.Mercosur :

The economic region comprising Brazil, Argentina, Paraguay and Uruguay represents an interesting and original case. First, and foremost, and contrary to what is happening, or has happened, elsewhere in the Americas outside trade relations with the US, intra-regional trade has progressed notably between the four partners over the years. Hovering between 9,4% and 8,9% from 1970 to 1990, it then advanced at a rapid rate after the signing of the Asuncion Treaty in 1991, from 14% in 1992 to 19,3% in 1994. By comparison, over the same short period, intra-regional trade between the NAFTA partners went from 41,9% to 48%.

Second, contrary to what is happening elsewhere in the Americas where the growth in intra-regional trade under regional agreements such as Caricom or MERCOMUN in Central America proceeds alongside the deepening of an economic dependence vis-a-vis the US economy, such is not the situation for the MERCOSUR partners. Here the percentage of exports to the US have actually declined from 21,1% of total exports to 15,7% in 1994, while imports have remaned stable at 21%. This situation leads to the idea that economic integration in this case creates a diversion of commercial flows in favour of the partners to the agreement, but this diversion can either be the result of a deliberate strategy or the consequence of mounting competition coming out of asian markets, in particular.

This being said, could MERCOSUR actually emerge as a relatively autonomous socio-political entity in the world economy?

To answer this question, we should consider two issues: first, how is MERCOSUR different from other regions in and outside the Americas? and, second, how are the MERCOSUR partners strategically positioned in transcontinental, as well as in world economic affairs?

Concerning the first point, it is interesting to recall that the main influence on regional economic integration frameworks in Latin America comes from Western Europe. Such was the case for the Asociacion latino-americana de libre comercio (ALALC) of 1960, as well as for the Asociacion latino-americana de desarrollo y integracion (ALADI) of 1980. As in previous instances, the Treaty of Rome was an important source of inspiration for the drafters of the Treaty of Asuncion of 1991. Nevertheless this influence was not the sole or the main one, since the drafters borrowed from other EEC and GATT treaties, as well as from the Benelux Convention of 1944 and The Hague Protocol of 1947. These multiple references have led some analysts to sum up the result, MERCOSUR, as being but a "conceptual hybrid" (Almeida, in: Faria 1993, ix)

But there is an important difference in this case which is sometimes ignored, because the Treaty of Asuncion of 1991 is not only a synthesis of other treaties, it is also the result of a process of economic integration between two partners, Argentina and Brazil, that had first been set up in July of 1986 with the implementation of a Program for Integration and Economic Cooperation (or PICF). And it is precisely the positive results that come from the implementation of the first stages of economic integration that led to the signature of a Treaty on Integration, Cooperation, and Development two years later, in 1988. Twenty four protocoles will subsequently be signed by both partners with the result that, on July 6th 1990, the signature of the Ata de Buesnos Aires sets the deadline for the creation of a Common market for the 31 st of December 1994. In the meatime Paraguay and Uruguay will have joined the other two in 1991.

At a more substantial level, what is quite original about the process now underway within MERCOSUR, is that we have here a double process of integration covering both the economic and the political spheres of activity, somewhat along the lines of the European integration process. In this regard, the setting up of a common market on the part of the signatories relies on a complex set of institutions including, among others, a Parliamentary Assembly, an Economic and Social Council, as well as ten Working Groups.

These elements are quite important since they point toward a new, and original, approach to regional integration, an approach which is committed to the setting up of common institutions along a path more similar to that of the EU, and quite at odds for that matter, with the informal approach resorted to in the case of NAFTA.

Second, and as far as the other dimension is concerned, the drawing power of MERCOSUR proper, here again we can cite two interesting examples: the signing of a so-called 4+1 treaty with Chile, and the signing of another treaty with the EU. This was made possible because MERCOSUR now exists as a legal entity with the result that each member is henceforth committed to the deepening of its international relations through this new entity. The main consequence of this is that further integration will not be done on a bilateral basis, at the instigation of one member or another, but must procede through the MERCOSUR entity. Furthermore, and contrary to the EU approach, MERCOSUR has not led to the setting up of a distinct bureaucracy since each partner has agreed to embed regional issues directly within its own State bureaucratic system.

Conclusion :

We see, from this general overview, that tripolarization is still the fundamental caracteristic of world trade and investment patterns. This being said, the US is, more than any other country, at a strategic junction, it is in fact the major market and the dominating economic power in all three regions, and no other hub, either Germany or Japan, comes even close to commanding such world status.

On the other hand, we have tried to show that things are moving in a somewhat different direction in South America and that MERCOSUR could be a contender in the formation of an alternate economic bloc. This idea has led some analysts (Hirano and Won Choi, 1994) to treat MERCOSUR as an emerging fourth economic bloc. For sure, MERCOSUR's status and position are not comparable to that of the other three blocs but there are serious indications that it could very well move along such lines and offer a most interesting alternative for other countries of South America if ever they should choose to resist the US attraction and its model of region building.

The more MERCOSUR grows along the lines of an alternate model of integration, the more the region will be in a position to resist being swallowed up by a FTAA. Considering the negative effects of free trade in the NAFTA context for both Mexico and Canada in terms of employment and distribution of income, in particular, an alternate project would be most welcome in the present circunstances indeed.

Finally, this strategy on the part of the MERCOSUR partners could lead to the retrieval of the Bolivar vision of integration in the Americas, a vision seeped in a more radical and equalitarian approach to region building and that had been all but obliterated by the dominance of the Monroe Doctrine since the beginning of the XIXth Century. It is probably worth recalling, in this regard, that Pan-Americanism is a much older project on this continent than European federalism ever was since the first Pan-American Congress was convened by Simon Bolivar in Panama back in 1826. And it is finally due to internal dissensions between the Latin countries, among other reasons, if the Monroe Doctrine finally prevailed at the First International Conference convened by James G. Blain, US Secretary of State, in Washington in November of 1887.

Now, after more than a hundred years of undisputed US hegemony over continental affairs, MERCOSUR could well signal the reemergence of a Bolivar Doctrine in the Americas. As an alternative to the mega hub and spoke vision of the Americans, the new economic regionalism of MERCOSUR is a most interesting and promising option. But only the future will tell how far the architects of MERCOSUR can carry their vision.

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Notes

[1]. Most of statistics used in this paper come from Deblock et Brunelle (1996), and Deblock et Brunelle (1997). This two texts are available on our Web-Site.