



Comparative Analysis of regionalism in Latin America and Asia-Pacific

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Summary

The growing participation of developing countries in multilateral trade liberalization, as well as the boom of free trade agreements that grant exclusive preferences to its members, are both closely related to what has been denominated as “open regionalism”. Additionally, this regionalism is associated with a process of “deep integration” that transcends free trade issues.

The concepts of “deep regionalism” and “open regionalism” do not have a precise definition and rather refer to a range of strategic decisions which governments might resort to in the process of regional integration. The first concept refers to the degree of sovereignty in economic policies that governments are willing to sacrifice in the design and implementation of national economic policies, especially when they try to harmonize national policies at a regional scale. The second relates to the relationship that will be established with countries that are left out of a preferential trade agreement.

These new elements in trade diplomacy have stimulated a wide and heterogeneous literature dealing with projects of economic integration. In fact, for the first time, this literature increasingly includes comparative analysis of regions that such as Latin America and East Asia are believed to have similar experiences in their modern economic development. Sharing this general view, this paper seeks to explore the differences and similarities among the initiatives of regional economic cooperation, as they appear in the still scarce comparative studies on the subject. This implies dealing with three fundamental questions: (1) how can this sharp rise in regional integration projects be explained?

(2) What is the “depth” of its institutional design in terms of favouring major and more complex levels of economic integration between countries? And (3) why has each project defined itself as “open regionalism”, and thereby how have they justified their compatibility with the multilateral rules of the World Trade Organization (WTO).

I. Introduction: the revival of studies on regionalism

Towards the end of this century the multilateral trading system accomplished a great deal of its founding goal, thanks to its ability to multilaterally promote free trade among the developed countries that were protagonists of the rival regional blocks of the 1930s. However, none of the architects of the General Agreement on Tariffs and Trade (GATT) were able to foresee the unexpected increase in membership, specially the massive participation of developing countries, many of which were its most renowned critics of the international forum. This increase in membership was coupled with an equivalent boom in regional projects that pertained to be consistent with GATT's founding principles, appealing to its controversial Article XXIV. According to the latest estimates, in its five decades of existence, at least one hundred and fifty three regional agreements have been notified to GATT and the World Trade Organization (WTO), and almost half of them were created after 1990 (OMC, 1995).

The growing participation of developing countries in GATT, as well as the boom of free trade agreements that grant exclusive preferences to its members, are both closely related to what has been widely denominated as “new regionalism”. This new series of economic integration projects have identified themselves as the second or third wave of regional projects, depending on whether they take in account the regionalism inspired by the mercantilism of the 1930s, and the protectionist and industrializing regionalism of the 1950-1970s.

The new regionalism clearly differentiates itself from the previous schemes because it is defined as “open regionalism”, since it proclaims its consistency with GATT norms. Additionally, it is associated with a process of “deep integration” because it transcends free trade issues by promoting wide economic liberalization projects, which include other areas of the international economic arena. These areas include the removal of a wide range of non-tariff barriers from production, commerce, trade in goods and services, and the establishment of rules that enable the trans-nationalization of production factors. These elements may lead to higher levels of integration, provided their management is accompanied by the harmonization of national policies.

The protagonists of this new regionalism are varied. They include countries that up to ten years ago were strongly reactive against regional groupings, like the United States and Japan. Others are Latin American countries that, after the difficult decade of the 1980s, revised their old regionalist dreams. Yet others include countries that had practically no tradition of regional economic integration policies, like those in East Asia, either because of their past colonial dependency or due to the bilateral relationships imposed in the region by the United States after World War II, at a time when these countries became sovereign states.

These new elements in trade diplomacy have stimulated a wide and heterogeneous literature dealing with projects of economic integration. In fact, for the first time, this literature increasingly includes comparative analysis of regions that such as Latin America and East Asia are believed to have similar experiences in their modern economic development. Sharing this general view, this paper seeks to explore the differences and similarities among the initiatives of regional economic cooperation, as they appear in the varied and still scarce quantity of comparative studies on the subject. This implies dealing with three fundamental questions: (1) how can this sharp rise in regional integration projects be explained?

Regionalism in itself is an elusive concept open for debate. And the same occurs with the two new attributes, the “depth” and “openness” that characterize the third wave of regional economic integration. To answer the previous questions one should consider the diverse current perspectives on the subject, of the regional identity sought by each regional group. This pluralist approach should also include a sequential and comparative analysis of regionalism in Latin America and Asia-Pacific.

In this sense, it would be useful to review the different authors who have been studying the Latin American and Asia-Pacific regionalisms, analyzing their fundamental approaches and theoretical backgrounds. The purpose is to expose the body of literature associated to three major academic traditions. First, it is the approach that emphasizes the political process and state rationality, and whose theoretical arguments arise principally from the terms of international relations. Second, it is the fact of the literature that puts emphasis on the trans-nationalization phenomena and the relationship between globalization and regionalism, and therefore is closely associated with international political economy. Finally, there is the approach that stresses international competitiveness and opening of national markets, and whose immediate relationship is with neo-classical economic liberalism. This pluralist approach responds to the three above-mentioned questions without forsaking the worthy contributions of each perspective. It also permits the analysis of a wide spectrum of facts that characterize different regional experiences in terms of political process, regionalization and trade liberalization.

In the first place, there are several authors (Higgot, 1993; Hurrell, 1995; Katzenstein, 1997) who analyze regional economic integration through the concepts and questions that arise from international political theory. They stress the political processes that lead to cooperation between states in the international system, and they try to explain the economic behaviour of each state within the global framework of its foreign policy. From this perspective, the resurgence of new regionalisms is closely linked to the end of the Cold War. It was the end of the bipolarity scheme in the international system that permitted the resurgence of regional forces that were earlier

constrained. This analysis of regional institutions of economic cooperation tends to disassociate itself from the optimistic progressivism of the pioneering functionalist theories of integration. This optimism considered regionalism as a continuous process starting with technical and economic cooperation and ending with the creation of political communities (European style). Likewise, the above-mentioned group of authors is far from the liberal optimism that considered regionalism as a natural result of the processes of regionalisation conducted by the market (Ravenhill, 1998).

Their central argument is that major economic interdependency does not necessarily lead to major cooperation between the states. The cooperation would depend on the costs and benefits associated with the creation of international institutions. It is a complex political process in which states have a central role because only they can articulate changes that occur in the international system with national demands (Katzenstein, 1997). In this analysis, the discussion on what constitutes a regional space, and the state's interests and identities are not taken for granted. On the contrary, both are part of the problem, which is basically to define a regional integration project. The subject of economic cooperation is not defined by the market, and therefore depends on the type of socialization that the state undergoes when it participates in a multilateral institution (Higgot, 1994). For these authors, the subject of leadership and the hegemony in the international arena, the rivalry between established and revisionist states, are all factors that must be considered in the creation of regional institutions. This requires an analysis that adequately considers neo-realist contributions on the nature of power in the international system, as well as neo-liberal contributions on the role that international institutions play in supporting inter-state cooperation (Hurrell, 1995; Ravenhill, 1998).

A second group of authors (Axline, 1994; Stallings, 1995; Sideri, 1996) considers the new wave of regionalization to be closely linked to the world economy's transnationalization or globalization phenomena. Stallings (1996) for instance, has briefly characterized this approach in a comparative study, through a group of five elements which appear simultaneously on the international level: end of the Cold War; differentiation and competition of three regional capitalist models: European, American and Asiatic; the predominance of production and trade transnational networks; the sharp growth and volatility of financial flows; and the generalized acceptance of policies that stress macroeconomic stability, a diminished role of government, and the openness of national markets.

From this second perspective, regional cooperation responds to the demand for a national development whose viability is threatened by the contradictory pressures of the global political economy and the national socio-political system (Axline, 1994). As part of the globalization process, states must not only adapt their national economy to international trends, but they must also respond to the erosion of their national sovereignty. States are questioned internally and react to the parallel process of a growing transnationalization of social demands and the fragmentation of their national identity. Through a regional integration project, states may find the necessary legitimacy to reorient sub-national demands (Sideri, 1996).

On the other hand, the new regionalism offers to small economies the opportunity to reduce the pace and speed of the globalization process and minimize the costs of integration, as well as to improve the benefits of world economic growth. Therefore, as a way of responding to the pressure of globalization, states take on defensive strategies that allow a partial retreat from competition in some areas, and thus gain time to reorganize their industrial sectorial policies on a regional scale. However, the regional strategy chosen by the state must be acceptable to the multilateral system, and to its own domestic corporate basis (Payne, 1996). In this new scenario, regionalism appears as a means of rebuilding an international space for the collective and multilateral management of commercial conflict, as is the case of regional North-South projects (APEC, FTAA). Also regionalism is regarded as a way of strengthening an international bargaining capacity, especially in the southern sub-regionalism (ASEAN, Mercosur).

Finally, a third group of authors (Bergsten, 1994; Bhagwati, 1993; and De Melo, 1993) considers the new regionalism as a phenomenon related to the difficulties that free trade development has met a world wide. The debate is focussed on whether regional initiatives contribute to further development of the multilateral system of GATT-WTO (“benign regionalism”), or if these initiatives lead to competition between antagonistic regional blocks (“malign regionalism”). In either case, the boom of regionalism is explained by the unsatisfactory outcomes of the GATT Rounds in terms of the pace of its progress and the coverage of issues. For this reason, a regional institutionalization refers, in the first place, to the range of issues included in any economic agreement. In this case, a developed regional institution, the so called “deep regionalism” includes aspects that transcend free trade goods, such as a mechanism of dispute settlements, liberalization of productive factors, and a non-discriminatory treatment of investments and services. Secondly, regional institutionalization refers to the application of the principle of reciprocity in trade bargaining, or the exclusiveness or inclusiveness of the principle of “most favoured nation”. The treatment of these two principles defines the degree of “openness” of the regionalism being debated. The critical point is whether the principle of most favoured nation (Article I of GATT) is automatically extended to outsider countries, or if its application is restricted to a preferential agreement, that only benefits member countries that participate in the regional initiative.

This third perspective interprets the rise of regionalism as an outcome of changes in United States trade policy due to a lack of progress in multilateral negotiations. Indeed, the United States Administration has distanced itself from the exclusive and unconditional support of the multilateral system as a privileged space for resolving trade problems. A second factor that explains the expansion of this regionalist wave is the eventual threat that United State regionalism and the consolidation of the European Union implies for other regions. This concern is related to a change in the very nature of the protectionism of these developed countries, that is mirrored on increased unilateral measures and the use of several mechanisms that operate in the “blind zones” of GATT, such as the Voluntary Export Restraints, Anti-Dumping regulation, or other non-tariff barriers (De Melo, 1993).

However, there are no immediate answers to the question of whether regional initiatives are consistent with the multilateral trade system. Therefore, the very definition of “open regionalism” becomes a controversial subject. Whereas some author stress the enhancement of GATT norms but accept a certain degree of reciprocity in trade policies, others stress the non-discriminatory character that trade agreements ought to have. For the first group of authors, the reciprocity principle is seen as a necessary element to obtain the national support that liberalization policies require, in such a way that each country can be sure that other countries contribute their fair share (“specific reciprocity”) to the process. However, for regionalism to be successful or “benign”, a series of measures that ensure complete opening of national markets to global competition must be included. For instance, policies that regulate competition and behavior of companies in the market, non-discriminatory treatment of services and investments, and the elimination of competitive advantages derived from lower labour and environmental standards. By including this set of issues, new regionalism might not only be consistent with GATT-WTO multilateralism, but it may also provide a satisfactory model for future multilateral negotiations (Bergsten, 1995).

On the other hand, there are some authors that argue that the principle of reciprocity is contrary to the definition of open regionalism and hence inconsistent with the spirit of GATT-WTO (Drysdale, Elek and Soesastro, 1998). In this case, the principle of non-discrimination against outsider countries is vital when defining the degree of openness of a regional project. Actually, regional free trade agreements that have been acknowledged by GATT do not guarantee indiscriminatory openness. On the contrary, it is argued that a true “open regionalism” does not need to appeal to Article XXIV, and that it is enough to unconditionally enforce Article I. In this case, the processes of voluntary concordance that promote the unilateral elimination of free trade

barriers replace the demands for reciprocity in negotiations, as in the case of APEC. Therefore, the benefits of cooperation agreements are not the outcome of specific concessions granted on a “sector-by-sector” basis, but the benefits are a result of aggregate of negotiations, whereby each country’s interests become a necessary condition for all other countries’ welfare.

II. The deep regionalism of the North

The new form of “deep regionalism” is associated with the integration experiences in North America and Europe towards the end of the 1980’s and during the 1990’s. It reflects a trade diplomacy that has progressively changed its focus towards greater coordination at an institutional level, in order to respond to a growing demand for harmonization of national policies as a necessary condition for further trade integration (De Melo, 1993).

In the European case, the coordination of macroeconomic policies was the stepping stone to create a unique currency and a regional monetary policy regulated by a single European central bank. In North America, apart from the application of traditional free trade policies on a regional level, the environmental and labour standards that regulate competitiveness of member countries’ industries were included. In general, “deep regionalism” tends to expand the range of considered issues in the second regionalist wave, expanding them towards four new axes of liberalization: labour, companies, services and capital (De Melo, 1993). These issues become elements that renew the previous policies underpinning free trade areas, customs unions or single markets.

However, the European Union’ s regionalism can be considered as a logical continuity of its original regional strategy, whereby the different stages of economic union sequentially lead to a never-ending integrating political community. According to the pioneering theories of regional integration (neo-functionalism) by Puchala (1984) that

refer to the unprecedented forms of economic cooperation between European states, regional integration is built from the least controversial technical and economic issues and progressively “spill over” onto political and security issues. It is in this way that European regionalism in its different periods (sectorial cooperation, common external tariffs, single market and monetary union) always maintained as its distinctive characteristic the building of supra national institutions, which contrasts remarkably with the intergovernmental features that all other trade integration agreements have at a regional level.

From its beginning, when creating the Copper and Steel European Community, European states aimed to internationalize the industrial military complex that had sustained the war efforts that twice devastated the continent. Integration gained further momentum when, during a second stage, the European Economic Community created new supranational authorities in three areas: agriculture, commerce and transport (Katzenstein, 1997).

This peculiarity has made the European Union a necessary reference to evaluate the degree of “depth” of other regional integration proposals, in terms of the levels of sovereignty that states are willing to sacrifice as a contribution towards a common project. This project presumes that as well as accepting supra national institutions, states also concord that within the rationality of a regional integration project there should be the creation of a secure political community that values economic cooperation not only as a medium for creating wealth, but also as a way of ensuring peace.

Despite the fact that The North American Free Trade Agreement (NAFTA) also includes economic and security objectives, it is considered a model of intergovernmental agreements whereby states do not have the goal of creating a political community. However, the launching of NAFTA innovates economic integration projects and gives a new meaning to “deep regionalism”. Indeed, the depth of NAFTA’s agreement is measured by: its capacity to eliminate a wider number of national trade barriers (tariff and non-tariff); its proposal to harmonize the policies that regulate competitive advantages of member countries; and the acceptance of supra national institutions that rule the settlement of disputes concerning NAFTA.

NAFTA and the European Union have a global impact on other regions, as their rationality becomes a model that motivates the new “deep regionalism” of the 1990s. Bhagwati (1993) stresses the importance of the conversion of the United States to regionalism in order to explain why NAFTA shifts the global balance of forces from multilateralism to regionalism. The United States had been the main defender of the GATT multilateral system since the end of the Second World War, and indeed had been strongly recalcitrant and opposed to any regional projects, except for the European Community (which was clearly benefited as a result of the Marshall Plan).

NAFTA reflects a shift towards regionalism on the part of US policy, that according to Bhagwati (1993) is the result of the convergence of a heterogeneous group of interests. These include internal pressure to quickly reverse trade deficits, the presence of non-economic objectives linked to the issue of illegal immigration and drug trafficking from the Mexican border, and a need to promote a global policy towards Latin America that would extend beyond the immediate handling of its external debt crisis, (as was reflected in President Bush’s Initiative for the Americas). The positive assessment of regionalism was paradoxically analyzed from completely antagonist perspectives. While for some, regionalism was an alternative to multilateral policy that excessively benefited from the “altruist spirit” of the United States, and therefore represented a turn towards a necessary national interest as opposed to internationalism; for others, new regionalism was the useful complement for a multilateral policy on a global scale. Even for the most optimists, a NAFTA style of regionalism could accelerate the process of world economic liberalization.

Bhagwati (1993) concludes that the underlying rationality of the US regionalist strategy (according to the first declaration of Ambassador William Brock within the spirit of President Bush’s initiative) is the vision of a “pragmatic regionalism” that would progressively open the

path towards multilateralism. In this scheme the United States would become the axis for an open regionalism that would progressively increase the number of participants. This will of this country to be a hub of the new regionalism was tested in its resistance to accept other regional initiatives, as was manifested in its initial rejection of the Australian government's policy to create a regional path of economic cooperation in Asia-Pacific.

In this striking change of US policy towards world multilateral trade, free trade agreements became a strategy to exert pressure on GATT progress, while at the same time the United States regionally advanced its policy of trade liberalization. In this way, the NAFTA experience proves that it is possible to regionally implement those issues in which GATT fails to make progress. Additionally, the US Administration gained further legitimacy with NAFTA for its strict reciprocity policy.

The new “deep regionalism” of the United States can be inversely interpreted as a distancing from the principles of multilateralism originally held by the Bretton Wood System. Drysdale (1988) argues that during the 1980s there was a noticeable increase of defensive-protectionist measures that, amidst a weak industrial growth, ended up threatening the GATT heritage and reducing confidence in an open trade system.

The principle of non-discrimination had been eroded on different fronts. In the first place, the establishment of the EEC created a discriminatory wave in world trade. In the second place, there was a strong tendency towards “aggressive bilateralism” on the part of the United States. Protectionist tendencies sharpened due to the recession in the 1980s, affecting a wide range of manufactured products, such as textiles and clothing, and later extended to steel, automobiles and electronics, specially harming the faster growing economies of the Asia Pacific.

During the Reagan Administration, basic principles that conducted US trade relations were reformulated. According to Drysdale (1988), the US Administration traditionally encouraged a policy that differed and distanced itself from two of the founding principles of GATT multilateralism. First, countries enter into negotiations according to expectations of “diffuse reciprocity”, and second, that countries pursue “uncertain benefit” through a total balance of concession. On the contrary, the new strategy of Reagan's government defined the principle of “specific reciprocity” to guide its trade bargains, that doctrinally sustained and promoted bilateral country-by-country and sector-by sector negotiations, attempting to resolve its increasing trade deficit outside GATT rules.

The US Administration was convinced that if GATT failed to adopt significant reforms it would be outdated by the new world economic reality. Not only because protectionist measures were proliferating within and outside GATT, but also because within the world economy, aspects that had never before been considered became predominant, such as an increasing importance of services in international trade, intellectual property rights, and the sharp growth of capital movements. Additionally for the United States, its trade deficit made it necessary to review the privileges granted to newly industrializing countries by the Generalized System of Preferences (GSP), (Drysdale, 1988).¹

The distancing of the United States from its past unconditional and excluding adherence to multilateralism was justified as widening the range of its trade policy options. Therefore, the country complemented its trade diplomacy resorting to unilateral and bilateral policies while supporting the multilateral trading system. In fact, during that period, the United States increased its ability to unilaterally enforce concessions on behalf of its trade partners by using Section 301 (Trade Act 1974), and later, its successor the so called “Super 301”. Also, in the field of bilateral

¹ They were able to benefit from it until 1989 when the USA ended these privileges for the Chinese Province of Taiwan, the Republic of Korea and Singapore. In the years of US “aggressive bilateralism”, its trade deficits increased from US\$ 6 billion surplus in 1981 to 86 billion deficit in 1986.

agreements, the United States progressively signed treaties with Israel in 1985 and Canada in 1988 and later implemented the NAFTA at a regional level (Hurrell, 1995). The bilateral agreement with Canada in the Western Hemisphere was the first of a new generation of preferential trade agreements. Its content became the foundation of the trade diplomacy that the United States would later launch as a hemispheric initiative, where it would regionally anticipate the issues of strategic interest within GATT (Bulmar-Thomas, 1998).

According to the mainstream theory developed by neo-liberalism to explain cooperation among states, the complex levels of interdependence among economies have led to the creation of international regimes. In this sense, NAFTA (particularly with the incorporation of Mexico into the bilateral agreement previously signed between the United States and Canada) may be considered a typical example of an international cooperation regime that emerges to regulate the transnationalisation of relationships in the USA-Mexican border.

From this point of view, NAFTA is the consequence of a process of continuous elimination of border barriers between both countries, either because of illegal trafficking and labour immigration or due to the rising trade flows. This process was speeded up by the liberalization policies begun by Mexico in 1986. Previous to the signing of the NAFTA Treaty, these measures led to an accelerated process of regionalization that was reflected in the establishment of approximately 2000 “maquiladoras” with United States capital. At this time, these industries employed half a million people to export assembled products from Mexico to the United States (Grugel, 1996). NAFTA offered the country the opportunity to regulate this diversion of investments, which profited from low labour costs and negative environmental externalities on Mexican soil, by proposing to upgrade the environmental and labour requirements to a regional policy level. NAFTA on its southern border, as well as being a free trade agreement with a character of “deep regionalism”, can also be considered a highly complex state strategy, aimed at resolving national interest issues between the two states that have been protagonists of a conflictive vicinity on varied degrees of violence in their history.

NAFTA goes beyond GATT negotiations by including specific measures to harmonize national policies through “lateral agreements” on environmental and labour issues; by granting national treatment to investments from other member countries (except for petrol, gas, and communication networks); by including specific intellectual property rights and by incorporating the openness of financial sectors. It also imposes more complex rules of origin and it expands the mechanisms for dispute settlements, extending them to include private parties (Sideri, 1996; Grugel, 1996). Additionally, NAFTA becomes the first “symmetric integration” scheme between developed and developing countries (Di Filippo, 1998). It considers a complete trade liberalization within a specific time frame (10-15 years) without granting positive discrimination to the weaker associate (Mexico), except for the pace of commitments that a temporal agreement can withhold, specially for sectors defined as “sensitive”, such as agriculture and automobiles.

Finally, the characteristic of NAFTA as an “open club” has been progressively wearing itself out despite its greatest initial expectations. On the one hand, the membership clause does not formally restrict the incorporation of future members to a geographic region. Hence no reference to Latin America was made. This explains why countries as far as from North America as Singapore and Chile have shown the same interest in becoming members. But, as is well known, the United States Congress denied President Clinton the faculty to grant the “fast-track” mechanism. However, United States policy found a new level of formulating “programmatic regionalism” by proposing a Free Trade Area for the Americas (FTAA). This issue will be reviewed in this paper through a comparative analysis of APEC and FTAA, as two of the most outstanding examples of “open regionalism”.

III. The open regionalism of recent initiatives in Asia and in Latin America

1. Open regionalism in the Asia Pacific Economic Cooperation Forum (APEC)

a) The political process in APEC

One of the characteristics that distinguishes Asia Pacific regionalism from others is its development in a region with practically no tradition of regional policies. The vitality that it has shown in the 1990s has created an immediate interest to explain why intergovernmental cooperation institutions had not evolved, during a period when the majority of regions were trying to develop multilateral regionalism in one way or another. On the contrary, the Asia-Pacific region appeared to be overwhelmingly concerned with security issues, strongly divided by world ideologies, and as a territory where superpowers exerted their antagonism. The influence of the Cold War characteristically aligned the belligerent parts into countries that still had a weak and developing state because their sovereignty had only just been conquered, after centuries of colonialism. The predominance of the Cold War was the historical context in which Asian countries became integrated to the international system. Therefore the end of the Cold War has been referred to as one of the immediate causes of the emerging regionalism (Katzenstein, 1997).

On the one hand, the end of the Cold War permitted the development of regional organizations that welcomed countries that until then had been antagonists; and, on the other hand, it allowed economic issues to progressively replace security issues on the region's international agenda.

A second factor that explains the absence of institutions of regional cooperation is the influence of the United States policy. In the first period, during the Cold War, a group of bilateral treaties were signed by the United States in the Asia-Pacific that were considered satisfactory by its signatories (Japan, the Republic of Korea, the Chinese Province of Taiwan, Thailand, Australia and New Zealand). This policy was very different from the North American stance towards Europe, where a regional strategy was supported, appealing to the same security threats posed by the Soviet Union. All these bilateral treaties, as well as the Five Powers Defense Agreement which included countries associated with the British Empire (Singapore, Australia, Malaysia, and New Zealand), were military alliances whose main objectives were to create a security network against the threat posed by other countries within the same region (Ravenhill, 1998).

In spite of this prolonged deficit of economic cooperation institutions, since the 1970s, Australia and Japan systematically attempted partial initiatives to deal with regional integration within an economic context. Later, the cumulative progress of these efforts led to the creation of the Asia Pacific Economic Cooperation Forum (APEC), and contributed significantly to the rationality of this institution. However, the United States, as the region's principal trade partner, remained reluctant towards these economic cooperation initiatives for a substantial period of time. It was not until President Clinton's Administration that a regionalist policy for the whole Asia-Pacific was positively embraced, as occurred in the Seattle Summit of Heads of State in 1993.

This change has been explained as part of one strategic adaptation of the United States's foreign policy due to the progressive decline of its economic hegemony in the region, even though in military terms its absolute and military power had increased. The loss of its hegemony was measured in terms of the growing competitiveness that Asian economies gained in the 1980s, and the subsequent depth of trade deficit of the United States. This qualitative change in the structure of the economic geography was led mainly by the growth of Japan in terms of trade, the volume of its direct investment and the financial aid towards other countries in the region, at a time when Japan became the main source of credit on an international level.

Towards the end of the Cold War, Asia-Pacific became one of the regions with most economic and financial dynamism on a world level, with an endogenous competitiveness that created strategic difficulties for US foreign trade. This economic dynamism in Asia stimulated a radical change in the trade diplomacy of the country towards Asia-Pacific. The 1980s were the end of a prolonged period during which the United States led its trade relationship without demands of reciprocity from countries in the region, attempting to strengthen its allies with economic concessions, mainly with Japan, the Republic of Korea and the Chinese Province of Taiwan (Ravenhill, 1998). Instead, the United States began an "aggressive bilateral" policy, whereby it employed all its negotiating weight to regulate trade with the same countries that had led the Asia-Pacific growth. East Asian countries saw their privileged access to US markets threatened and experienced a notable impact when the Newly Industrializing Countries (NICs) lost the benefits gained through the GSP (Ravenhill, 1998).

The increase of world trade disputes forced Asian countries for the first time to evaluate regionalism as a form of regulating their commercial relationship with the United States. Although this relationship was conflictive, it was still necessary in order to maintain the dynamism of regional exports. Additionally, regionalism had to be consistent with the multilateral system seeking to advance towards the liberalization of other key markets, as was the case of the European market.

Crone (1993) explains how the changes in power structures have influenced the emergence of cooperation policies in Asia-Pacific by modifying the strategic incentives of states. He argues that

after the Second World War, the hegemony of the United States contributed to inhibit regional institutional development. In a second stage, characterized by the continuous loss of US hegemony, regional economies found new incentives for multilateral cooperation. Within a context of hegemonic crisis, the great superpowers found a space to continue exercising influence through multilateral institutions, whereas small- and medium-sized states viewed these institutions as a chance to maintain the presence of the major states in the region and, at the same time, improve their negotiating conditions. On the other hand, in situations of extreme hegemony, as was the case in past decades, Crone demonstrates that mutual benefit rests on bilateral policies.

The theories that the benefits provided by a hegemonic power are indispensable for the building of economic cooperation institutions opened the discussion on the kind of leadership that has boosted the rise of Asia-Pacific regionalism. One of the main characteristics of Asia-Pacific regionalism is precisely that the main powers had seen their credibility and their capability to exercise leadership restricted (Higgot, 1994). On the one hand, there was the distancing of the United States from multilateralism, the employment of unilateral measures on foreign trade by the country, and the new emphasis on hemispheric regionalism through the creation of NAFTA. All elements were perceived as a threat by the rest of the Asia-Pacific countries. On the other hand, Japan's growing external trade surplus, and the difficulties in accessing its markets due to non-tariff barriers, as well as the "legitimacy deficit" derived by its imperial past within the region, were aspects that also made Japan's leadership difficult. Even though APEC reflected the interests of the United States and Japan in maintaining an open trade region instead of being geographically divided by trade blocks (Higgot, 1994). APEC also expressed the interests of secondary states that were increasingly affected by the bilateral conflicts between the two great commercial powers within the region (Cooper, Higgot and Nossal, 1993).

Therefore, the performance of small- and middle-size powers (secondary states) must not be seen as opposing the leadership of both superpowers, but as a plan to "restrain" and induce the main powers into cooperative and pluralist leadership (Cooper, Higgot and Nossal, 1993). The economic cooperation of Asia-Pacific has therefore been the privileged space for the development of a new form of leadership to steer international regimes located in secondary states. This strategy has been applied by Southeast Asian countries through ASEAN, or through the multilateral diplomacy of Australia and Canada (Rapkin, 1994). This "entrepreneurial" leadership aimed at complementing the shared hegemony of the United States and Japan has been pointed out as a distinctive quality of APEC regionalism (Rapkin, 1994; Cooper, Higgot, Nossal, 1993). From this perspective, APEC is the result of a "pluralist leadership" more closely associated with persuasion abilities and with technical and intellectual skills developed by the trade diplomacy of secondary states, than with structural factors on which hegemonic leaderships rests (Cooper, Higgot and Nossal, 1993).

Against this background, secondary states found a set of incentives to create APEC because of the threatening presence of northern regional blocks, the difficulties in the Uruguay Round of talks and its negative effects on the credibility of the multilateral system, and finally because of the prospects of greater conflict between the United States and Japan (Cooper, Higgot and Nossal, 1993). These tendencies indicated that in spite of the growing interdependency at a global level, an international space was being created for increasing "managed trade" that could lead to a scenario of growing trade disputes.

In this sense, APEC regionalism was thought to be the best approach to the role of the United States in the region, by avoiding its unilateral and bilateral trade diplomacy; and collectively advancing towards a new regional consensus on controversial issues. Through APEC, secondary states improved their capacity to impact upon the political behavior of the main protagonists of the world economies, with a new understanding that the supply of public goods in multilateral institutions and their stability does not necessarily require a hegemonic leadership (Cooper, Higgot and Nossal, 1993).

b) APEC: regionalism and globalization at the same pace

The regionalization process on which APEC is founded, can be described by two major characteristics that stand out in its process of economic integration: its dynamic, highly integrated and unstable trade structure; and a process of regionalization that has been intensified through production networks and an extensive technological diffusion. It can be said that APEC's trade structure is unstable because it includes countries whose foreign trade is extremely unbalanced, due not only to the enormous Japanese surplus, but also to the huge deficit of the United States with the countries of the region. It is dynamic because the region's influence on world trade has grown steadily, representing more than half of the world trade in the 1990s. A similar trend is observed in the growing participation of intra-regional trade in comparison to respect to trade flows to countries outside APEC (Gangopadhyay, 1998).

However, despite certain negative aspects posed by the unbalanced trade of the two regional economic superpowers, this trade imbalance has also certain positive outcomes for other states. On the one hand, Japan's trade surplus has made it one of the main sources of finance for most countries in Asia-Pacific. On the other hand, the huge trade deficits of the United States is what have allowed the majority of Asia-Pacific countries to develop an outward-looking, export-led growth strategy.

Although this trade pattern has been observable for the past two decades, the relative weight of the United States has been decreasing in the foreign trade of Asian economies especially after the Plaza Accord in 1985, which allowed a high revaluation of the Japanese yen and other NICs currencies with respect to the US dollar. As a result, Japan's surplus has notably grown in its trade relationship with East Asian countries. These tendencies are part and parcel of a regionalization process through production networks, whereby Japan remains the main supplier of capital goods, technology and intermediate products for the region (Gangopadhyay, 1998). However, exports of manufactured goods from East Asia continue to worsen the US trade deficits. Trade surpluses of the East and Southeast Asian economies, in which the Newly Industrializing Countries (NICs) have had an increasing participation, have come to represent 50% of US trade deficit in the last decade (Gangopadhyay, 1998).

Thus, Southeast Asian countries register trade deficits mainly due to the import of capitals, components and technology from Japan which strengthen the exports of Asian economies from the supply side, making them more competitive in the US markets. They compensate this deficit with the trade surplus from manufactured goods exported to the United States. The concerns regarding the instability of this triangular trade structure has been present since the origins of APEC. In fact, the United States carrying the burden of being the main source that absorbs regional exports from East Asia has been one of the most conflictive trade disputes with Japan, and more lately with the NICs. The expectations that Japan might partially replace US demand for imported goods would intensely change the current pattern of trade within Asia-Pacific region. This would imply a radical shift in the domestic economic policies of these dominating countries. It is estimated that if Japan had such an open market as other OECD countries, it would be able to import 40% more in manufactured goods (Gangopadhyay, 1998). However, Japan, instead of substituting the role of the United States in creating a strong demand for regional exports, has continued to increase its trade surplus with the countries in Asia-Pacific. This issue is the logical outcome of the very nature of productive integration between Japan and the rest of the Asian economies.

The process of Asian regionalization has been frequently compared to the "flying geese" model that attempts to explain how the changes of comparative advantages cause the industrial relocation within the region. This model assumes that products have a life cycle that determines the evolution and localization of industries, which allows countries to progressively advance towards higher levels of technological developments while they discard previous stages. The underlying idea is the repetition and diffusion, on a regional scale, of the Japanese development model in

several regions and countries. However, Mitchell and Ravenhill (1995) have questioned the model's presumptions of product and technological growths; the idea that exportable products go through a stage of import substitution, and that in a final stage companies migrate towards other countries whose exports satisfy the demand in the original markets.

On the contrary, Ravenhill and Mitchell state that the region has not seen either the replica nor the homogenization of industrial structures, which the "flying geese" theory predicts. Instead, technological diffusion has been unevenly distributed and has remained linked to the avant-garde country through the continuous renewal of components, capital goods, and material supplied by Japanese industries. This partial diffusion of technology has created a hierarchical network of production within the region (Ravenhill and Mithchell, 1995). In contrast to the pioneering experience of the Republic of Korea and the Chinese Province of Taiwan, the new exports of manufactured goods from South East Asia have not depended on import substitution policies. Also, these exports have not been developed from South East Asia's own endogenous capacity of production of capital goods, as the theory predicts. Hence, in this case the exports industry has relied completely on technology imports and components from foreign transnational companies (Ravenhill and Mitchell, 1995).

The consequences on intra-regional trade are immediate. In fact, empirical data show that there has not been a reversal in Japan's exports like the model originally predicted. Conversely, there is a clear trend to strengthen a triangle in which technology and components are supplied by Japan, and the final production of goods are exported from other East Asian countries to the United States and Europe. This tendency was increased after the "Plaza Accord", when the spatial expansion of production networks boosted the growth of Thailand, Malaysia, and the Coastal Region of China (Ravenhill and Mithchell, 1995).

In conclusion, Mitchell and Ravenhill say that the uncompleted nature of the product cycle has not led to an increase of imports from Japan, and on the contrary, added production has been absorbed by the United States and the EEC, in spite of the currency realignment which followed the Plaza Accord. Even when many countries including the Republic of Korea, the Chinese Province of Taiwan, Malaysia, and Thailand are exporting in industrial sectors that Japan had primarily developed, the production network is not like the one that involves industrial relocations predicted by the "flying geese" model. Rather, it is part of the transnationalization of companies on which Japan's advanced technology relies, and therefore Japan becomes the main provider to maintain the competitiveness of the new export platforms of East Asia.

c) APEC: regionalism and multilateralism beyond WTO

Open regionalism is regarded as the main characteristic of APEC. However, within the organization there are different interpretations of its meaning, and therefore of the way in which APEC policies can be considered consistent with the WTO. In fact, a consensus formula has been reached to define APEC as an association committed to free trade and investment in the region (Bergsten, 1994), instead of associating it with a traditional free trade area (FTA), in which the privileges that member countries grant themselves discriminate against third parties. In APEC, this has been carried out through unilaterally concerted measures to liberalize foreign trade, a formula that allows the elimination of barriers in a country to benefit APEC members as well as non-members.

This mechanism has been possible due to a consensus policy in which each member voluntarily declares the way it can approximate the goals agreed at the Bogor Summit of 1994. This scheme supposes achieving a complete free market area by 2010 and 2020 if the plan of action corresponds to a developed or developing country, respectively. In spite of this initial group of propositions, the subject of reciprocity and non-discrimination continues to divide fields within

APEC, especially when policies about markets as important as that of the European Union need to be resolved.

For some, “open regionalism” implies interpreting, in an inclusive way, the principles of Most Favoured Nation (MFN); for others, it seems appropriate to interpret it in a way similar to that of WTO, where the benefits (MFN) are extended exclusively to members. According to Soesastro (1995), “open regionalism” skeptics believe that APEC’s “diffuse reciprocity” allows “free rider” economies to benefit from regional liberalization policies without signing liberalization commitments. In fact, Bergsten (1994), who has been chairman of the APEC Eminent Group of Persons, has argued that distributing APEC benefits to non-member countries should imply reciprocal obligations, otherwise these countries would lack incentives to advance in multilateral negotiations. For this reason, he proposes the principle of “temporary MFN condition” in such a way that APEC might advantageously employ its economic influence to obtain maximum liberalization throughout the world. With respect to WTO, this principle would be consistent with the procedure that was employed in the Tokyo Round and later in the Uruguay Round of talks.

In addition, Bergsten (1995) argues that the political economy of commercial liberalization requires reciprocity to gain the national adherence that is needed. Export sectors that benefit from liberalization may have sufficient incentive to mobilize domestic opinion. Even though Bergsten considers it a necessary political principle, he acknowledges that the reciprocity concept requires more flexibility, specially when negotiating non-tariff barriers, since the concessions that countries grant each other are qualitatively different, and practically incomparable when trying to weigh tariff reduction with competition policies. Furthermore, Bergsten considers that the experience of the new “deep regionalism” (which is based on preferential free trade) has proven useful for global negotiations as an element of pressure on WTO, and also because it offers a leading model for issues that WTO has not yet developed, as is the case of dealing with NAFTA’s investment measures.

In contrast, Drysdale and Garnaut (1994) argue that the main incentive for lifting trade barriers in Asia-Pacific countries is the “prisoner’s delight” theory (as opposed to the “prisoner’s dilemma” theory). This is because the governments of the region have appreciated the benefits that have been gained from unilaterally liberalizing their foreign trade. In this way, governments consider that whatever policy others might follow, an economy increases its benefits by keeping its frontiers open instead of resorting to protectionism. At the same time, every step a country takes towards its own liberalization process increases the potential benefits that its trade partners obtain vis-a-vis from their own liberalization policies. The “prisoner’s delight” theory becomes a successive series of steps towards more open and favourable trade for the countries involved. These authors conclude by stating that what is really new in Asia-Pacific is the political perception of the benefit matrix that is obtained through an unilateral and concerted liberalization policy; any disadvantage in the global distribution of benefits is less important than the absolute gains that each country obtains.

2. Open regionalism in the Free Trade Area of the Americas (FTAA)

a) The political process of the FTAA

The idea of a Free Trade Area of the Americas (FTAA) is linked to the new regionalism of the United States. Simultaneously to the NAFTA negotiation process, President Bush proposed in 1990, the Initiative for the Americas (IA), which contemplated, on a long-term basis, the creation of a free trade area on a continental scale. In addition to trade barrier liberalization, the initiative included issues that were constantly dealt with during the external debt crisis in the 1980s. These

issue included not only the renegotiations and reduction of external debt but also the demand to intensify economic liberal reforms as a basic condition for attracting greater foreign investments and normalizing the flows of capital toward the region (Hurell, 1995).

NAFTA and the Initiative for the Americas have constituted a historical shift in US trade diplomacy towards the Western Hemisphere. These initiatives not only gave further legitimacy to the demands of US Administration for specific reciprocity, but also had the benefits of proposing a foreign policy that would adequately deal with other urgent issues in its relationship with the continent. Such issues included, among others, drug trafficking, immigration, environmental standards and support for the revival of democracies in Latin America. Hurell (1995) stresses that the United States regionalist options mirrored the convergence of liberals and conservatives that hold quite opposite perspectives. For some, the decline in its hegemony in the world has in hemispheric regionalism its natural refuge. For others, the need to reaffirm United States hegemony has a privileged space in Latin America, so that the United States may carry out its vision of the new world order. On the other hand, these initiatives constituted immediate alternatives to the difficulties that bogged down the agreement with Japan and the European Union in the Uruguay Round.

The Initiative for the Americas may be considered the direct predecessor of FTAA. Its proposals generated a speedy approximation between Latin American countries and the United States via a framework of bilateral agreements accorded between 1990-1991. This diplomatic offensive rebuilt a new level of convergence within the hemisphere. However, despite its strong initial attraction, the Bush Administration never managed to clearly define how to advance towards the proposed goal, whether by placing the United States at the hub of a series of bilateral agreements or by expanding NAFTA country by country (Payne, 1996). After this initial enthusiasm, the initiative was postponed with respect to the approval and implementation of NAFTA, to such an extent that not even during NAFTA's inauguration, nor in its access clause did it explicitly mention the potential projection of this agreement for all of Latin America.

It was not until the America's Summit of Miami in 1994, that the Clinton Administration returned to the course commenced by President Bush, proposing by 2005 the launch of a FTAA (Payne, 1996). The interest manifested once again by Latin American countries towards FTAA reflected the deep changes that had occurred in their economies due to the adjustment processes aimed at complying with the demands of foreign debt payments. In an advanced stage, these reforms created a new framework of economic governance characterized by outward-looking strategies; priority of macroeconomic balance over sectorial industrial policies to achieve growth, and the reduction of the state's role, allowing the private sector to expand its participation in public services. This process was supported by a radical program of unilateral trade liberalization, which initially avoided any concerted form of economic cooperation at a regional level, in an environment of strong criticism towards regional integration projects that had predominated for decades (Bulmer, 1998). In sum, the Latin American reactive attitude towards regionalism at the end of the 1980s changed with the influence of the Initiative for the Americas and NAFTA, because these experiences contributed to a model of regionalism compatible with the new development strategy of Latin American economies.

Hemispheric regionalism can be considered as a political response to the relatively low and declining levels of interdependence between the North and South America. However, as a central characteristic, this new scenario repeated the old conflicts between the United States and Latin America. The former was guided by its world trade interests reaffirming its autonomy and independence; and the latter was led by the search for forms of multilateral engagement and a more institutionalized cooperation with the United States (Hurell, 1995). It can be stated that Latin America responded quickly to the hemispheric regionalism that was aspired by the United States, in consideration of the experiences in the debt crisis, as well as Central American conflicts and the

Malvinas war in the early 1980s. On the other hand, the United States tried to reconstruct hemispheric hegemony by replacing its former security policies with the boosting of liberalization of political and economic institutions in Latin America. In this process, a growing flow of trade converged with an increase in the relative weight of US trade in Latin America, and a shared interest to protect democratic transitions.

According to Hurell, these hemispheric realignments need to be viewed both within the context of a changing external environment and as the result of changes in social and economic power within Latin American society. In the first place, the shift in direction of US policy coincided with the fact that the relatively weak states of Latin America shifted from a strategy of constrained balance or diversification in foreign relations in the 1970s to one of sub-regional alignment in the 1980s (Hurell, 1998). This convergence was facilitated because Latin American countries experienced a substantial change in the orientation of their economic development strategies, while the United States reassumed its pivotal role due to its position as the major export market.

Notwithstanding this compatibility of interests, it is also certain that new regionalism expressed a substantial change in of Latin American foreign policies, since the region completely abandoned the policies to reduce dependence and the goal of greater autonomy in its development strategies. In contrast, Latin America turned towards a speedy integration with the world economic system. Grugel (1996) suggests that Latin American development strategy ended with a long history of conflict between those who argued that it should adopt a growth model similar to that of developed western countries, reasserting its occidental identities instead of its own attributes; and those who defended a different development model stressing the very dependence of Latin American capitalism and, particularly, features of its own history and culture. Grugel asserts that this conflict during the 1990a appears to have been resolved towards a clear assimilation and integration process with the West, an issue that had always been resisted through the “third-worldist” policies that Latin America supported in the international relations.

b) FTAA: regionalism and globalization in the Western Hemisphere

The manifest interest of Latin American countries to subscribe to President Bush’s initiative can be readily understood when the trade structure of the Western Hemisphere is taken into account. This initiative was assessed by governments as a privileged opportunity to reverse the declining tendency of regional trade with the United States, in contrast to the simultaneously increasing weight that East Asian foreign trade was achieving in the same period. Just as US markets had absorbed the growing export from East Asia, Latin American economies placed their expectations on the new regionalism undertaken by the United States hoping to obtain a similar advantage.

In fact, since World War II, Latin America has steadily lost its relative trade share in the United States markets. The participation of Latin America in United States imports decreased from 33.3% in 1955 to 9.4% in 1988, the years previous to President Bush’s Initiative for the Americas. During the same period, US exports declined but at a lower pace: from 22.7% to 13.7% (Fishlow & Haggard, 1992). However, seen from the Latin American perspective, during this century there was an absolute predominance of the importance of trade with the United States in relation to other parts of the world. According to Bulmer-Thomas (1998), in the middle of 1990s, United States proportion of exports to Latin America was greater than 45%, in contrast to its imports whose relative size was approximately 40%. With respect to capital flows, the United States persistently represented over 50%. Between 1990-1995, 70.3% of foreign direct investment in Latin America came from the United States.

Also, with respect to the trade structure of the Western Hemisphere, Bulmer-Thomas stresses that on a global level, intra-regional trade has been significant but excessively concentrated in the bilateral trade of a few countries: the United States with Mexico and Canada, and between

Argentina and Brazil. This means that when the total exports from the 34 countries of FTAA is considered, more than half the trade is intra-regional. However, if NAFTA countries are excluded, intra-regional exports only reach 20% of total Latin American exports, and of this percentage, the trade between Argentina and Brazil alone represents 50%.

It should be mentioned that in addition to being characterized by the high trade concentration in the regional group of NAFTA, the Western Hemispheric region stands out for the trade surplus that the United States holds with Latin America. This feature contrasts markedly with the trade structure with Asia-Pacific. Also, when the trade relationship of Latin America with the United States is analyzed excluding NAFTA, a great asymmetry on the trade exchange level is also found. There are Latin American countries, mostly located in Central America, whose major export market is the United States that absorbs more than 50% of their exports, and those countries in the Southern Cone whose exports to the United States constitute less than 25% of their total exports.

The renewed Latin American regionalism has been founded on the basis of an opening of economies towards foreign investment and unilateral market liberalization. Its result has been a major integration of Latin America, though trade and investment integration, with the rest of the world, a process that has not been reversed with the evolution of preferential trade agreements. It should be reminded that this integration is led by higher growth rates of imports. Between 1990 and 1996, while the share of total trade as a percentage of Latin America's GDP grew from 24% to 36%, imports increased 127% and exports only expanded 76% (Iglesias, 1997). Similarly, Perry and Burki (1997) show that during the first half of the 1990s, while intra-regional trade in Latin America increased rapidly, the rate of growths in intra-regional trade was surpassed by the growth rates of imports from the rest of the world. At the same time, the latter was superior to the growth rates achieved in exports to the rest of the world. On the other hand, regional subgroups such as MERCOSUR and the Andean Community achieved an import growth rate inside the pact greater than their exchange with rest of the world, both growing at rates notoriously higher those achieved in the 1980s.

Therefore, there has been a scenario whereby Latin American countries have found a greater market for their exports within the region, while they increase their dependence on imports from outside the region. Observed from the viewpoint of exports, when the countries of NAFTA included, 70% of region's exports during 1995 were destined to the American Continent, compared to 60% in 1990. In contrast, imports from economies outside the continent increased their participation from 33% to 35% (Iglesias, 1997).

These tendencies are also reproduced in trade flows between the countries of Latin American Integration Association (LAIA) and Asia-Pacific ones. On the one hand, growth rates of foreign trade between both regions rapidly increased compared to the standstill of the previous decade. Only from 1990 to 1995, bi-regional trade between Latin America and Asia-Pacific doubled from US\$25,000 to US\$50,000 million (Kuwayama and Mattos, 1998). However, according to the same authors, LAIA's imports from Asia-Pacific increased at a faster rate than its average imports, and on the contrary, Asian imports from LAIA countries increased at a lower rate than the annual growth of their total imports. Moreover, these bi-regional flows are known to be highly concentrated in a few countries: from the LAIA perspective, close to 75% of its trade with Asia is concentrated in Japan, China, the Republic of Korea, and the Chinese Province of Taiwan while Brazil, Chile, and Mexico represent roughly 70% of the total exchange with Asia-Pacific.

The balance of payments has been deteriorated by the growing rate of imports and by the characteristics of external financing (Tavares and Gomes 1998). Between 1990 and 1996, foreign debt costs increased to an annual rate of 4.6%, practically doubling that of GDP which grew 2.7% a year during that period. Foreign direct investment has only represented a minor fraction of capital flows, thereby not contributing greatly to productive expansion. Rather, capital flows have focused on acquisition of existing assets through the privatization of state companies, or they have been

oriented towards mergers and acquisition of private companies that were previously owned by national capital. Additionally, export diversification has been harmed by competitive devaluations of the currencies experienced in the 1990s, such as the European currency rate crisis in 1992, Mexico in 1994, and the recent Asian Crisis in 1997 (Tavares and Gomes, 1998). In sum, Latin America has been undergoing a speedy integration with the world economy that has been led by: i) its increasing imports; ii) a massive injection of short-term capital and investments which are focused on assets acquisitions, and, iii) its export basket which is highly vulnerable to financial crisis and currency devaluation in other regions.

In relation to this regional scenario, sub-regional agreements have allowed for a moderate balance between trade growth inside the region and trade with the rest of the world. Notwithstanding, MERCOSUR has incentivated the diversion of investments in sectors of major international competition, as in automobiles, chemicals, and textiles and clothing. From a macroeconomic perspective, these agreements have been insufficient for correcting the current account imbalances; Brazil has become a paradigmatic case with a spectacular growth of the current account deficit from US\$ 1,700 million in 1994, to US\$24,300 million in 1996 (Tavares and Gomes, 1998).

c) FTAA: regionalism as one United States-led multilateralism

According to Fishlow and Haggard (1992), a direct precedent of the Initiative for the Americas is the model that President Reagan boosted for Caribbean countries during the 1980s. Similar to the Caribbean initiative, economic integration of the American continent rested on three axes: investment promotion, external aid by debt reduction, and elimination of trade barriers. However, in contrast to the Caribbean model, the United States did not consider subsidizing investment via tax incentives as a way to promote American capital in the area, but applied a scheme whereby investment flows would be reestablished in function of how radical the economic reforms would be implemented in accordance with the requirements imposed by international financial institutions.

In the version later proposed by President Clinton, FTAA was established on the same trade program that the United States applied during NAFTA negotiations. Among the issues discussed were foreign investment standards, the treatment of services and intellectual property rights, and government procurement. According to the definition given by Di Filippo (1998), FTAA corresponds to open, vertical and symmetrical regionalism. Open, because of its compatibility with WTO standards, vertical because it includes northern developed countries and southern developing countries, and symmetrical because it establishes a condition of strict reciprocity between all participants. Furthermore, Di Filippo classifies FTAA as “*mercadista*” (market-oriented) because it does not propose an institutionally deep economic union, which implies abdicating a degree of sovereignty, specially in economic, trade, and taxation harmonization policies.

Finally, the FTAA initiative is consistent with the regionalism promoted by LAIA, because it takes into consideration the degree of freedom that member countries gained through partial “side agreements”, in such a way that bilateral commitment of liberalization does not necessarily have to be extended towards other countries. This policy has been quite effective since it has allowed a network of bilateral free trade agreements, which has been led by Mexico and Chile as individual countries, and at sub-regional level by the bilateral agreement adhered to by MERCOSUR and the Andean Community.

The ECLAC document (1994) on open regionalism in Latin America and the Caribbean defines accurately the transition from a first unilateral liberalization stage to a second one characterized by preferential trade agreements. In this way, “open regionalism” articulates what countries have been doing individually in terms of unilateral openness and economic deregulation in order to boost their outward-looking, export-led growth strategies, and the political process of

regional integration. Therefore, “open regionalism” defined by ECLAC embraces the two trends which are predominant in Latin American economies during the 1990s: the openness and deregulation of Latin American economies and the growing number of preferential trade agreements that seek a greater international competitiveness for the entire region.

Among the economic policies that enhance a major interdependence in the region, ECLAC emphasizes the following set of policies: convergence towards a coherent and stable macroeconomic framework, unilateral commercial liberalization, non-discriminatory promotion of exports, deregulation and elimination of foreign investment barriers, the privatization of public companies and the elimination of payment restrictions. This set of policies shapes the new national economic policies that support “open regionalism”. However, regionalism presents its own elements that facilitate major regional interdependence through preferential trade agreements, as long as they are compatible with the former national policies. In this sense, ECLAC proposal meets WTO requirements for an “open regionalism”, indicating that each regional project should aim to eliminate all trade barriers in goods and services and be willing to accept new members as an “open club”.

IV. Parallel roads to regional liberalism in the South

Both in Latin America as well as in Southeast Asia, the 1980s saw the creation of an ambiguous situation in which old integration philosophies co-existed alongside with the new economic policies. This was partially reflected in the programs of economic recovery that Brazil and Argentina attempted in the mid-1980s that had little relation to neoclassical orthodoxy. In the Asia-Pacific as well, the proposals to create a sub-regional customs union was made for the first time by the Philippines in 1985. According to Bowles (1996), at the time, measures for regional cooperation were still seen as a way of reducing dependence from the world economy and particularly from developed countries. However, during the 1990s they were clearly considered to be a way of achieving a greater world economic integration rather than an alternative to it. This was a fundamental change in the identity of national states and regional multilateral organizations.

These changes in thinking challenged fundamental concepts of the former policies that promoted regional economic cooperation among countries of the Third World. There appeared the paradox of the very same countries which had been encouraging "Third World" perspectives in international economic relations, suddenly adopting a liberalism which – at least in trade of goods - was more radical than that of the developed countries themselves. What had happened in these two regions which, within a few years, would embark on an integration of such a radically different character? Although the multilateral regionalisms of Southeast Asia and Latin America had converged towards a liberal rethinking of their economic cooperation, they had in fact arrived by routes that were very different. In the case

of Latin America, the new thinking owes much to: the failing developmental regionalism of the era based on import-substitution industrialization (ISI); the search for a solution to the foreign debt crisis; the renewed bilateral relationship between major countries in the region, and a convergence of interests with the new regional policy of the United States.

On the other hand, ASEAN has undergone a process involving the redefinition of its identity within the context of the moderation of international tensions associated with the Cold War and the redirection on its cooperation policies away from security considerations towards those of economic integration. A non-traditional regionalization process led by Japan gave new export impetus to Southeast Asian economies. In fact, the region's productive and financial integration has taken place at a greater pace than its trade relations that continue to be highly dependent on Western developed countries. Finally, the threat posed by the trade diversion resulting from the new regionalisms practiced by Europe and the United States.

1. Latin American roads to regional liberalism

a) The political process: from renewed bilateralism to hemispheric regionalism

As been argued earlier, in Latin America, the motor driving the new regionalism of the 1990s no longer consisted of rounds of multinational negotiations as in the past, but rather the increasing number of bilateral agreements being forged in the region. These agreements follow on the heels of the unilateral opening of Latin American economies. Their make up was determined by the need to generate sufficient export income to cover the financial deficits that were aggravated by current account imbalances and the spectacular growth of the foreign debt. From this perspective, the new agreements differed radically from the industrialization efforts of the past. In the beginning, the aim of unilaterally lowering tariffs was to progressively bring domestic prices in line with international prices thereby improving the competitiveness of exports. Later, these countries began moving towards bilateral and multilateral trade concessions and creating from them new forms of regionalism. These initiatives were given an additional boost by the growing intraregional trade, following its recovery from the recession cycle. These agreements take place once the unilateral opening of the economies has been taken to the limit. Therefore, it was reasonable to think that the new trade liberalization policies had to be designed within a multilateral strategy context, whether they are hemispheric, sub-regional, or part of the WTO commitments.

In fact, the new regionalism was born from a thick network of initiatives, which combined all forms of integration from unilateral tariff reduction, bilateral trade agreements, sub-regional pacts, to hemispheric initiatives. This integration process has been quite less formal than the previous experiments in Latin America, and equally less precise in its strategic horizon. Really, it can be said that bilateralism appears as the most convenient alternative for boosting a regionalist ideal which does not yet have a clear content in a fragmented continent.

President Bush's Initiative for the Americas acted as a catalyst within the strategy to bilaterally build a process of regionalization by means of areas of free trade. Within this context a series of framework accords were initiated between the United States and the countries of Latin America. In fact, in 1990 alone, seven countries signed the agreements with the US government. Therefore, the launch of the Bush Initiative opened up a wide field of options for bilateral regionalisation. Many of these are still valid and the process of regionalisation as a whole has been characterized by the alternatives ranging from two extremes: the successive integration of new countries into NAFTA, or regionalisation through bilateral negotiations between regional subgroups. A first analysis carried out by Fishlow and Haggard (1992) found that the results of these bilateral networks for hemispheric cooperation was uncertain, because agreements negotiated

bilaterally do not necessarily lead to an imminent political integration among Latin American states and towards regional multilateral policies. In contrast, the issues handled bilaterally grant the United States a bargain advantage where it can impose its differentiated interests within the continent.

On the one hand, it is clear that the fate of Latin American regionalism continues to be closely linked to hemispheric initiatives, hence the regional scenario is strongly determined by the pace and agenda of the US. Administration. Proof of this is the unresolved dispute about the Fast Track faculty between the Congress and the Clinton Administration, whose positive resolution would modify the whole strategic framework of integration. On the other, though the horizon appears to be limited by the hemispheric initiative, sub-regional efforts have built a different integration pole. Mercosur has become one of the newest and most outstanding experiences of this Latin American sub-regionalism. Its evolution shows how a bilateral integration policy may lead to forms of multilateral coordination at the regional level, just as in North America the bilateral relationship between the United States and Canada made way for NAFTA, when Mexico was incorporated. Mercosur, in a not very different context, has strongly rested on the bilateral relationship between the two trade powers in the Southern Cone, and from there has achieved adhesion from neighboring countries.

From an internal South American perspective, as said earlier, the predominance of the bilateral accords is consistent with the agreements signed during the renewal of LAIA in 1980, which exempted member states from having to enter into extensive agreements with third countries. This process of bilateralization of the trade relations has also led to a strengthening of the existing regional organizations, such as the Andean Pact and Mercosur. These have been made stronger as the result of a wide range of bilateral agreements among themselves, which allowed the convergence of the trade policies among the countries of the region.

It can be said that Mercosur, one of the new and striking products of this new Latin American regionalism, has been strongly rooted in the bilateralism of the economic powers in southern Latin America. In fact, Mercosur was built on the foundations of a significant change in the foreign policies of Brazil and Argentina leading to both countries to sign a first agreement, which did not initially include the concept of a customs union. Rather, the cooperative relation between Argentina and Brazil in 1986 was strongly motivated by the common desire to nurture their fledgling democracies. Later, in 1989, the bilateral agreements were used to resolve a number of trade liberalization policies destined to integrate their economies. Before the launch of MERCOSUR, between 1985 and 1989, Argentina and Brazil signed a series of bilateral agreements which, in addition to topics relating to economic cooperation, included new subject matters such as energy cooperation and issues relating to security, and the development of their nuclear capabilities. Above all, the move towards a greater transparency in dealing with their nuclear projects was a key element in the building of mutual confidence (Hurell, 1995).

It was not until 1992, following the inclusion of Uruguay and Paraguay, Mercosur embraced a comprehensive program of tariff reduction and elimination of non-tariff barriers that was to be completed in 1995. Along the way, in spite of its “mercantile” focus, the construction strategy of Mercosur can be assessed from its multiple purposes that included, among others, a strategic realignment of Brazil and Argentina’s foreign policies. In addition to the shared goal of speeding up a regionalisation process, Mercosur has given its members a new international stance. From the perspective of the strategic balance within the Western Hemisphere, Mercosur strengthens a negotiation position in case of a likely NAFTA amplification, or it can also be the major obstacle for Hemispheric integration. In fact, during this process, Mercosur’s construction strategy had several aims in view: in addition to regionalization, there was also the positioning on the international stage of the countries that integrated the organization. From the viewpoint of the hemispheric balance, MERCOSUR was seen as a means of bolstering negotiating strength with the eventual opening up of NAFTA and other trading blocks such as the European Union.

In the view of Hurell (1995), the closer relations between Brazil and Argentina reflect the convergence of their foreign policies, arising from common external pressures and the erosion of other political options. Also important have been changes in ways of counterbalancing the political domination of the United States, by building a sub-regional power group of limited influence which would operate on the basis of substantive agreements with the "dominant power" relating to military (nuclear) matters and economic cooperation. This contrasts with previous eras in which American dominance had long been challenged through "Third-Worldist" policies and by a strategy of diversification of foreign relations; Brazil and Argentina strengthened their trade links with the Soviet Union at times of strong belligerence between the superpowers.

In the domestic domain, it is interesting to note that the bilateral relationship between Argentina and Brazil was marked by the development of parallel experiences in the political and economic fields. On the one hand, both countries were in the process of consolidating their transitions towards democracy, and, on the other, in a strongly liberal international context, both countries attempted the heterodox stabilization policies under the Plan Cruzado (Brazil) and the Plan Austral (Argentina).

In conclusion, against a difficult world economic background, with the growing protectionism of the countries of the North, both countries tried to build long term cooperation policies. In the economic sphere, these had the aim of reversing the downward trend of their bilateral trade and creating a single market, which is able to attract international investment and reactivate their economies. Politically, the cooperation was supported by similar difficulties in their transition toward democratic governance. Without the renewed bilateral policies between Brazil and Argentina, MERCOSUR would have been an impossible experiment.

b) Latin America: regionalism and the bitter lessons from globalization

There are two remarkable aspects that allow to understand the new liberal stance of Latin America during the period of debt-crisis. First, the failure of the Latin American regionalism in achieving multilateral negotiations, and, second, the shift toward liberal domestic policies in order to cope with the debt payments and trade deficits. With respect to the latter, following two decades (1960s-1970s) of diversification in foreign relations, Latin America suddenly turned again, in late 1980s and early 1990s, to more strictly financial and commercial dependence on the United States.

A decisive fact was the external debt crisis and its later evolution described earlier. At that moment, both European nations and Japan recognized Latin America as a special economic sphere of influence of the United States, given that most of the creditor banks had their Headquarters in the United States. Indeed, multilateral financial organizations representing American economic hegemony acted jointly with governmental officials, and the private banks. They managed to impose the conditionalities to renegotiate the Latin American external debts. The IMF and the World Bank played an active role, and the American Secretary of State and Congress provided a political framework. The result was global adjustment of Latin American economies toward liberal orthodox standards and therefore a new relation with the world economy (Roett, 1988). Admittedly, the Latin American political leaders achieved to establish the organization of the "Cartagena Consensus" group in 1984, as a result of a growing solidarity among the debtor countries. Although Latin American countries stated that they would honor their debts, refusing any possibility of a cartel of debtor countries, these initiatives could not change the strong demand from Northern powers to severely adjust domestic economies (Roett, 1998).

The diagnosis of the debt crisis was that the entire economic development strategy of the debtor countries needed to be changed. The Baker Plan announced in 1985, which devised the framework for bilateral negotiations between debtor countries and international financial organizations, stressed the need for a set of policies on macroeconomic stability, a reduced role of

the state in the economy, and a greater openness to international trade and capital flows (Varas, 1996). These transformations included, on the public side, reforms of the state involving the privatization of public-sector companies, fiscal restraint reforms, severe austerity in compensatory social spending and elimination of subsidies. On the private side, sweeping market-oriented reforms such as deregulation of the private sector, increasing flexibility in labour market and competitive reinsertion in the world economy promoting trade liberalization and foreign investment were encouraged (Varas, 1996). These conditional measures were also meant to defeat the decades of import-substitution industrialization policies.

It should also be mentioned that in the re-negotiation process, Latin American debtor nations found themselves operating in a new international division of labour, wherein globalization had produced profound changes in trade, production, finance and investment. Therefore, the process not only resulted in a new set of domestic policies, but also achieved a new strategy to adapt Latin American countries to the new global economy. The governments in the sector quickly became aware that a new wave of internationalization of the world economy was shifting the patterns of domestic policies. Dealing with the debt problem, governments assessed how autonomy in the domain of macroeconomic policy had been undermined or constrained by new external forces. Furthermore, the rising globalization, with the increasing importance of the international trade and foreign investment in relation to the domestic product, had magnified the vulnerability of the economy to external economic shock. The old barriers to prevent shifts in international prices from affecting domestic economies had proved to be outdated. The increasing mobility of capital had become very significant to influencing domestic policy management, while the economies could not opt out of the system unless they would pay unbearable costs.

c) Latin America: regionalism and the re-encounter with multilateralism

The new regionalism of Latin America can be largely explained by the fact that its previous experiences were exhausted. Indeed, when the importing substitution industrialization (ISI) strategies were in an advanced stage, they encountered increasing domestic difficulties. In attempt to solve the domestic constraint, the governments sought a market at regional level, where they could develop their national industries. As a result, protectionist policies were tried through the formation of a customs union with high common external tariffs. However, the regional policies encountered a number of difficulties that mirrored the internal economic problems. Namely, over-protected national industries, maintained for a long period of time, were falling into increasing losses of efficiencies and competitiveness. Substituting industrial imports in favour of national industries caused a sharp deterioration in agriculture and impacted on exports. Latin American economies ended with both uncompetitive exports and industrial sectors.

The extension of the state activities through ISI policies added political instability to this process and increasing macroeconomic imbalances. With high inflation and rising current account deficits, governments were unable to deal with restrictive anti-inflationary measures without sacrificing social welfare. A permanent and reiterative circle was experienced. Indeed, inflation fuelled due to more intensive ISI policies and an uncontrollable public spending to support economic development. As a consequence, the altered macroeconomic equilibrium would require more financial containment, but the social cost was so high and policies of monetary restraint had to be eased again, creating a new wave of inflation.

According to Edwards (1995) the export sector was further damaged by the regional policies. Its competitiveness declined because the high tariffs increased the cost of imported intermediate materials and capital goods used to produce exportable goods. In addition, the ISI policies resulted in an acute overvaluation of the real exchange rates, which reduced additionally the degree of competitiveness of the export sector. High-import tariffs and prohibitions generated a serious anti-

export bias that was a disincentive to the growth of the export sector and its diversification. Therefore, reversing ISI policies would be the principal aim of any attempt to reformulate Latin America's development strategy. Indeed, the 1980s marked the departure from economic nationalism and states-led policies, which had ruled the economic development since the 1930s. Therefore, the fundamental objective of a new liberal trade reform would be to transform international trade into the engine of growth. In the view of Edwards (1995), the following four basic elements characterized the new trade reforms in Latin American countries:

- Reduction of the coverage of non-tariff barriers, including quotas and prohibitions, which were replaced progressively by a system for smoothing price fluctuations based on price bands;
- Reduction of the average level of import tariffs, with most of the countries reducing tariffs unilaterally and with an accelerated implementation;
- Reduction of the degree of dispersion of the tariff structure toward a system of more uniform tariffs, so that authorities could hold less power to grant special treatments to particular firms or sectors; and
- Reduction or elimination of exports taxes coupled simultaneously with the implementation of large devaluation pursuing to reduce the degree of anti export-bias.

While Latin America's current regional integration policies are now widely recognized as very different from the former ISI strategy, regional integration remains as an instrument, though the purpose has shifted from import-substituting industrialization to export-led growth. The major concern is that integration contributes to the regional competitiveness through cost reduction, increasing market skills and bargaining power. Today, initiatives of regional integration are based on an outward-looking, export-led model, to enhance relationships with the world economy (Sideri, 1996).

The aim of Latin American regionalism is to generate a surge in exports, with a more open economy, boosted additionally by depreciated real exchange rates. This growth is also accompanied by the flow of intra-regional direct and indirect investments. Trade integration is at present incorporated as a complement to the outward orientation, instead of inward-looking development. In addition, regional networks in production are combining forces to compete at the international level and to rapidly reinforce the expansion of the export sectors. Increased interdependence in the region is maturing not only by preferential intra-regional agreements, but also by a set of convergent macroeconomic and trades policies that have thereby fostered reciprocal trade and investment, without necessarily enforcing discriminatory measures respect to third countries (Bulmer-Thomas, 1997).

According to Iglesias (1997), the logic of Latin American sub-regionalism may be described as the third level of a combined liberalization process. In the first level there is unilateral openness of economies. Reduction of trade barriers commenced by unilateral measures meant that the average tariff dropped from 45% in the second half of the 1980's to 13% in 1995. The second level is external openness through multilateral action, which placed Latin America as the only developing region that bound 100% of its tariffs, and with the entry of Panama (1995), it has all the countries conditioned to obligations and rights that emanate from WTO. Finally, the third level is that of regional agreements of integration, which can be seen as a complement of the two previous commercial liberalization processes, and therefore its evolution necessarily corresponds to what has been referred to as "open regionalism".

2. The Association of South East Asian Nations (ASEAN) roads to regional liberalism

a) ASEAN political process: a search for new identity

During the 1990s, regional economic cooperation policies in ASEAN moved in the same liberalizing direction as Latin America. The first proposal came from the Philippines during the Economy Ministers' Summit meeting in 1986. The Philippine government called for the reduction of tariffs between member countries and for the introduction of a common external tariff. Indonesia and Singapore initially rejected the proposal for radically different reasons. In the case of Indonesia, the reason was its protectionist policies whereas Singapore saw the idea of a common customs policy as being incompatible with the level of openness achieved in its economy. Nevertheless, only five years later a renewed proposal by Thailand for an ASEAN Free Trade Area was accepted.

It should be stressed that ASEAN did not have a policy of regional economic cooperation so characteristically developmentist as that adopted by Latin America. From the foundation of ASEAN in 1967, and during a decade, ASEAN focused on security issues. Only in 1976, with the ASEAN Concord Declaration, various regional initiatives were activated aiming to increase regional trade. A policy of lowering tariffs by products was promoted under the Preferential Trade Agreement (PTA) signed in 1977.² In contrast to Latin America, however, the projects of economic integration in ASEAN were clearly marginal and they had a scarce impact on the evolution of its trade structure. Even when they officially announced a policy of economic integration, Southeast Asian countries did everything possible to avoid lowering tariff barriers of their major products. At the end of the 1980s the PTA covered only 5% of intra-regional trade.

Therefore, their regional industrial projects were scarce and irrelevant. As Bowles and MacLean (1996) argue, the PTA proposal was attractive to ASEAN members because they offered the possibility of a larger market to support domestic industries. However, the integration process encountered the same difficulties of Latin American sub-regional experiments because each state wanted to grant domestic market protection to its own industries. The cooperation policies were often swamped at the implementation stage without reaching a successful market compromise. In this sense, Thambipillai (1994) concludes that the ASEAN countries are not exceptions to the rule that national interest determines all forms of external interactions.

Despite the fact that this regional organization emphasized trade agreements, according to Axline (1994), expansive and distributive policies through specific industrial projects were also included. These policies attempted to ensure a more equal distribution of regional benefits to be reaped from economic integration. In fact, several industrial development policies were implemented, allowing member governments to decide on industrial locations through sectorial negotiations. This was the case of the ASEAN industrial projects, which tried to assign different projects to member countries through a governmental bargaining process. The ASEAN Industrial Complementation Program (AIC), created in 1981, had as its aim to motivate private sector participation through vertical integration. Finally, ASEAN Industrial Joint Venture (AIJV) Projects, established in 1983, sought to protect regional interests by reducing dependency through the integration of foreign investment with local partners. However, the skepticism on the part of member governments regarding the positive effects of regional cooperation was evident in the negotiation process from the beginning, as each tried to protect the vested interests of their own

² These initiatives, like those of Latin America, were promoted by the United Nations economic regional teams during the early 1970s. Their programs focused on a selective intra-regional trade liberalization through the PTA and its auxiliary programs. These proposals were brought to light in 1972, and the differences among member countries were deferred to a negotiation process that would take place in a summit of Heads of State, in 1976. These negotiations were prolonged for one decade, until a complete agreement was signed in 1980.

industries. Governments were concerned about the eventual damages that could take place as a result of commitments with neighboring countries.

The change of its course towards a more liberal regionalism by ASEAN, whose centerpiece is the launching of AFTA, was seen primarily as a re-defining of its *raison d'être*. New economic concerns appeared following the reduced importance of security related subjects with the end of the Cold War. The major subregional events were the Vietnamese withdrawal from Cambodia and the signing of the Paris Peace Agreement in 1991, which smoothed the way for an acceptable solution to the problem of Cambodia. Also, the Thai and Malaysian governments signed a treaty with the Communist Party of Malaysia that ended decades of guerrilla wars. The new security environment changed the perception of ASEAN countries concerning what were its major regional threats, although security issues continued to be important. ASEAN governments found that steady economic growth lessened internal threats and the traditional external enemies could become enthusiastic trading partners (Acharya and Stubbs, 1995). On the other hand, it should be reminded that this new interest in regional economic cooperation owed much to the rapid economic growth experienced by Southeast Asia at the end of the 1980s. In a trend of increasing economic interdependence with the world economy, the region turned their attention on the need to defend its economies from the threat of the eventual trade diversion generated by NAFTA and the European Community, as well as by the uncertainties hanging over the Uruguay Round.

b) ASEAN: welcoming East Asian globalization

The debt crisis of the 1980s coincided with the most far-reaching process of regionalization, which had been seen in East Asia. The region became productively integrated by the transfer of Japan's export capacity, which helped to mitigate the effects of the financial crisis in Southeast Asia, with enormous inflows of capital that strengthened its foreign trade. Under the so-called "Flying Geese" model (Okita, 1989), Japan rapidly expanded its links with ASEAN's founding countries, principally Thailand, Malaysia and Singapore. In accordance with the new "division of labour" strategy, advanced high-tech products would be exported from Japan, while skilled labour-intensive products from the NICS and labour-intensive products from ASEAN (Bowles, 1997).

The previous process of regionalization had been bolstered by the substantial increase in development aid and by direct foreign investment. Both aspects were complementary in that the former helped to create the infrastructure capacity, which would enable the establishment of industries that were also financed with Japanese capital, and later with investment from the NICs. This allowed a process of regionalization that was very different to the one initially sought through the expansion of intra-regional trade. It also transformed the traditional role of the ASEAN countries as suppliers of raw materials for the Japanese market, and placed them on a new footing with world trade, in particular developing a manufactured goods industry whose aim was to export to US markets and targeting other developed countries.

As suggested earlier, a determining moment in this new insertion of the ASEAN countries into the international division of labour came in 1985. In that year the Finance Ministers of the G-5 countries reached the Plaza Accord which coordinated macroeconomic policies in order that the yen be significantly re-valued against the US dollar. According to Stubb (1992), this allowed Japan to begin exporting its trade surplus with the United States, shifting its production base from Japan to the ASEAN region. In this way, Southeast Asia unexpectedly benefited from the trade disputes of the two Pacific powers. In market terms, the countries of ASEAN received the additional benefits of a greater opening-up of the Japanese economy to imports and they gained competitiveness with respect to the Newly Industrializing Countries (NICs) (Hong Kong, the Republic of Korea, the Chinese Province of Taiwan and Singapore) who maintained their currencies overvalued.

Stubb (1992) also states that a series of factors made this change possible which included the coinciding of the revaluation of the yen with massive direct investment coming from Japan. Firstly,

a number of the recipient countries enjoyed reasonable levels of infrastructure (Thailand, Malaysia and Singapore), especially a well-educated work force and efficient bureaucracies. Secondly, the Japanese investment reached sectors that were already playing a highly productive and dynamic role in international trade such as electrical machinery, electronic components, and precision machinery and transport equipment. Thirdly, the Japanese multinationals moved to the ASEAN region with a large number of small- and medium-sized companies which acted as subcontractors for the large companies and who had the capability of gradually becoming independent and launching their own exports.

All these factors, unforeseen in the original design of ASEAN's economic cooperation programs, contributed to regionalisation dynamics that created new bases for the integration policies. Perhaps one of the most outstanding features was a fresh drive towards a more liberal diplomacy in international trade, with ASEAN having its own interest in the success of the GATT Uruguay Round and its integration into APEC and, regionally, with the launching of a free trade area (AFTA).

c) ASEAN: global competition, as quest for multilateralism

In this international scenario, the Fourth Summit of Heads of State of ASEAN took place in Singapore in 1992, which considered the creation of an Asian Free Trade Area (AFTA) in a period of fifteen years. The mechanism of integration would be CEPT (Common Effective Preferential Tariff), which would be negotiated by sector, and which marked an important difference from the previous mechanism of PTAs where product by product negotiation had led to the exclusion of the greater part of intra-regional trade. Under the new system, at least 88% of the region's trade would benefit from tariff reductions.

AFTA can be considered as a source of additional external pressure on individual member countries to adopt accelerated liberalization programs. These definitions, according to Lee (1994), allowed the launching of AFTA as a transition phase, where the region's internal tariffs were reduced more rapidly than external tariffs. This way, ASEAN economies could gain some degree of protection while at the same time increasing the competition within the subregion. This perspective is not far different from the Latin American quest for protection under the infant industry theory on a regional scale in the sixties and seventies.

In contrast to a customs union, AFTA's proposition allows member countries to freely set their own tariffs with the rest of the countries. However, negotiating a common preferential tariff inside the group commits all its members with a trade liberalization process has global repercussions in each national economy. In fact, under CEPT, all manufactured and capital goods plus processed agricultural products are included. Originally 15 product groups committed themselves to a speedy drop in tariff (0-5%) to be completed in 10 years starting from January 1993 if they exceeded 20%, and 7 years if their average before that date was lower than 20%. To ensure an effective tariff reduction, the average tariff rate was to be reduced to 15% by 2003, to 10% by 2005, and to 5% by 2007. The differentiation between products whose tariffs would be reduced by the fast track and others that proceed through a normal track had the objective of extending the capacity of countries to control the pace and degree of economic integration. With the introduction of CEPT, 38,308 new items were included, which represented 88% of the existing tariffs schedules in ASEAN countries. In the case of Singapore, 98% of its tariff schedules were committed, and the lowest participation was observed for Indonesia with 80% (Bowles, 1997).

During the last economic crisis in Asia-Pacific, the ASEAN countries decided to advance the originally planned goals. According to the new plan, by the beginning of 2000, 90% of goods traded within ASEAN will have tariffs lower than 5%. The acceleration of the trade liberalization process is part of the agreements signed in Hanoi in December 1998, whereby the tariff reduction plan was accelerated from 2003 to 2000. During this meeting, a series of measures were also adopted in

order to attract more foreign investment, under the scheme of the ASEAN Program of Industrial Cooperation. In this way each foreign company establishing in the region between January 1999 and December 2000 will be eligible for this cooperative program. This means they will be able to enjoy all the benefits contemplated in AFTA, by exporting to other ASEAN countries at preferential rates.

In the view of Okamoto (1995), the effects that AFTA might produce in trade diversion are minimal, since the trade structure of the region is more competitive than complementary, therefore the main trade partners will continue to be extra-regional (United States, Japan, NICs, European Union). Furthermore, trade between industries has a similar pattern, since it is dominated by multinational companies whose main trade relation is with their home countries outside AFTA. From this perspective, intra-regional trade within AFTA will not likely to grow substantially. The advantages of AFTA countries are to be found in the effects of consistent trade liberalization policy. That is to say, AFTA demonstrates that ASEAN countries whose growth has been based on an export-led industrialization strategy have a vital commitment to maintaining their liberal regimes at the international level. As a consequence, AFTA might completely fail as a project if it is not backed by the progress of a non-discriminatory multilateral trade on a world level.

According to the theories developed by Bowles (1997), the principal reason of ASEAN countries for wishing to promote AFTA has been no longer trade creation but the growing competition for capital on a global level. At the end of the 1980s and beginning of the 1990s there were at least several factors that were perceived as threats that could imply an important investment diversion to other regions of the world economy, at a time when international financing was in great need to sustain the extraordinary rates of economic expansion. Namely, these concerns were the growth of China, the opening of Eastern Europe, European integration and NAFTA.

International phenomena impacted decisively on ASEAN preferences. Bowles (1997) argues that between 1985 and 1991, the whole rationale for a regional trading area had changed; the primary economic purpose was to avoid investment diversion to other parts of the world economy. The aim of increasing intra-regional trade was not a priority when AFTA was launched, but instead it was the desire to modernize the economies searching further legitimacy for the governments that heavily depended on their economic performance. There was also the negative assessment of the previous regional integration experiences and the recognition of the strong exporting character that the ASEAN countries had acquired, mainly to markets outside the sub-region such as the United States, Japan and Europe. Against this background, AFTA was proposed as a means of promoting increased economic regional efficiency and consolidated the Southeast Asian export platform as well as to make the region more attractive within the context of competition for investment capital. This framework AFTA would go further than the reduction of tariffs, through the so-called "AFTA-Plus" complementary packet of measures, to embrace the liberalization of investment and other non-tariff barriers (NTBs), as well as policies for industrial cooperation and macroeconomic consultation.

In this way, according to Akrasane and Stife (1994), the new regionalism attempts to deal with the criticism of its most liberal detractors. The critics maintain that free trade areas founded on a discriminatory basis generate less well being, and also that ASEAN obtained high growth rates because of its previous market driven strategies and unilateral liberalization programs. In reply, the new ASEAN regionalism has been carefully defined as consistent with GATT, given its outward looking philosophy and a policy of not raising tariffs against non-ASEAN countries.

This new regionalism is closely linked to the dramatic increase in capital flows at an international level, which had been taking place since the 1980s. As a consequence, the regional groups are becoming attractive, not so much for their market size, but for the guarantees they offer to keep opening up their economies to international trade. In the same way, the aim of this new regionalism is to be more consistent with recent trends within international groupings, where countries belong simultaneously to different organizations from fear of finding themselves marginalized from the dynamics of economic globalization (Akrasane and Stifel, 1994).

V. Conclusion

The concepts of “deep regionalism” and “open regionalism” well represent the current concerns of the countries that are seeking a greater economic integration. The first refers directly to the degree of sovereignty in economic policies that governments are willing to sacrifice, especially when they try to harmonize national policies on a regional scale. The second concept relates to the kind of relationship that is to be established with countries that are left out of preferential trade agreements. However, these concepts do not have a precise definition and rather refer to the range of strategic decisions which governments possess in a process of regional integration.

Both concepts have an operational character. For this reason they do not represent an ideal model which can be reached, but rather reflect the adaptation policies of the states under the new economic world tendencies. This can be seen by the way in which each regionalism has defined its degree of “openness” and “depth”. These definitions are highly consistent with the patterns of trade integration that were present before the launching of a regional project, and with the policies that governments have promoted on a national scale to improve their individual insertion in the world economy.

In the case of APEC, this pattern can be observed in the strategy that was followed by the Asia-Pacific governments through concerted measures of unilateral liberalization. This process upgrades national policies (which have been applied since the 1980s) to a regional level. In the case of FTAA, this policy is reflected in the convergence of Latin American economic policies with the policies boosted by the

United States during the 1980s. In both cases, regionalism to generates an adequate context for handling a trade relationship inside each regional space, while the inter-regional dialogue between Latin America and Asia-Pacific is playing an unimportant role in the whole strategy. When APEC countries have looked towards other regions, the most important initiatives have not come from the most inclusive multilateral organization, but from the subgroups within. This was observed in the dialogue that East Asian countries sustain with their European trade partners, as well as the MERCOSUR initiative with Europe. In the case of FTAA, while it can be defined as inward-looking project on a hemispheric scale, in contrast with the former Latin American regionalism (heavily “Latinoamericanist” and protectionist), now the strategy is strongly liberal.

These characteristics make it difficult to think that those regional, open and extended organizations such as APEC and FTAA can act as an appropriate bridge to strengthen economic and social relations between Latin America and Asia-Pacific. On the contrary, it can be said that both APEC and FTAA have left the majority of Southern countries in Latin America looking up towards the North. In any case, these views must be weighted because APEC has contributed to a historical shift in the trade, diplomatic relationship of Latin America and East Asia, with the participation of the Mexico, Chile and Peru.

To promote policy dialogues between Latin America and Asia-Pacific, the role that sub-regional groups and individual countries might play may be more important. On the one hand, as has been shown in the different experiences of the new regionalism of the 1990s, the development of integration projects strongly depend on individual initiatives and the networks of bilateral relationships. A considerable role in this process could be played by the countries that have been leading the current economic integration wave on both sides: Japan, the Republic of Korea and China, and in Latin America, Argentina, Brazil, Chile, and Mexico. On a sub-regional level, ASEAN, MERCOSUR and the Andean Community have a privileged opportunity to extend their agendas to include an inter-regional dialogue between Latin America and East Asia. A strategy of this kind would make it necessary to have a “pluralist leadership”, as in the “Asian way”.

Similarly, the governments of each region are called upon to have a protagonist role. An inter-regional dialogue cannot be seen as logical results of the regionalization process that links both sides of the Pacific. Even though it is true that between both regions there is a flourishing economic exchange, this has a lower weight when it is compared with the rates of intra-regional trade and with the trade that each region has with the rest of the world. However, it does not necessarily constitute a difficulty because a growing trade exchange can be foreseen due to the interests to the parties to diversify the trading partners. This interest has been strengthened by the current economic crises, which involves periodical currency devaluations.

During the 1980s, which from the standpoint of many southern countries were a lost decade (Latin America and Africa) and for others, a period of extraordinary growth (Southeast Asia), many changes of direction in international co-operation policy were conceived. In fact, the rise of a new pragmatism in the management of economic relations became a common characteristic of the different regional organizations.

The southern regionalisms in Latin America and Southeast Asia were equally affected by this global trend. The shift is not only characterized by the abandonment of the strategy of constructing a new international economic order, when southern regionalism attempted to exercise their relative political strength in the international system through the United Nations. But, there is also the acceptance of the definitions imposed by the developed countries and jointly with the multilateral financial institutions policy prescriptions. The policies of stabilization and structural adjustment imposed by the IMF and the World Bank while focusing on the internal problems of individual countries in a "case by case" strategy, ignored exactly those elements which had previously characterized the search for common interests on southern regionalisms.

The changes in the international economic environment substantially affected the countries' domestic policies and the patterns of governance. The southern regionalism radically changed its identity in the course of the new development strategies, which demanded the full implementation of a program of liberal reforms. The AFTA initiative promoted by ASEAN, and the MERCOSUR are the best examples in this way. Nevertheless, in spite of these changes, the new regionalism is still seen as a path to creating greater interdependence by strategies that involve a high degree of state rationality. The result of this is that most southern regionalism experiments may still not conform to the most classically neo-liberal concepts of integration.

It may be said that the new regionalism is less Latin American in nature and more hemispheric. Quite a widespread acceptance of this new identity exists as long as there are no governments or political oppositions of significance who are against this new course of events. Under these new circumstances, the sub-regional groups themselves appear keen to strengthen integration with the US economy. In contrast, the ASEAN countries seem much more concerned about their identity with respect to the West, the frontiers of their regionalism or about transforming part as a new regional economic entity.

On the other hand, a common aspect in both regional experience is the resistance by participating countries on embarking on regional policies that might demand some degree of sovereignty loss. This is still a notable characteristic, which contrasts to the more complex institutional building of the regionalisms of the North, like NAFTA and the European Union. In the southern sub-regional schemes, the proposal for free trade areas has led to regionalism as primarily a means of reaffirming states' sovereignty and of providing them with a degree of autonomy vis-à-vis the processes of economic reorganization. In this sense, the liberal option is seen as an adaptation strategy to enjoy the advantages offered by international trade, but still allow the state to play an active role in world trade.

Likewise, in the growing process towards multilateralism, a strong influence is still exercised by defensive state rationality which tries to establish a balance in the face of the unilateral and bilateral policies of the economic powers. Both in Latin America and Southeast Asia, regionalism allows the construction of positive strategies in the face of the uncertainties that might derive from the roles played in the region by the major trading powers. Undoubtedly, there exist tensions between this renewed "Third-Worldist" regionalism that attempts to integrate itself into the world economy, and the character of the United States and Japan who, as global powers, define their strategic interests away from the region. In the end, both regional experiences find it difficult to define their long-term interests and are more likely to adapt their projects of regional economic integration to those of the major economic protagonists.

Although the pragmatism of the new regionalism makes sense because it allows the states to play a part on the economic stage and exercise their leadership, it also weakens them. The other face of the pragmatism coin is the rejection of a strategic vision for the development of the world economy. This pragmatic policy ends up undermining the very issues that it claims to uphold because it seriously de-politicizes the state, which finds itself unable to imagine horizons beyond the preoccupation to establish free trade areas. In this way, regionalism is weakened because it would be subjected to a highly controversial issue of economic efficiency. Nevertheless, paradoxically this regionalism is sustained insofar as the states abandon their economic rationality, and accept it as an important change in the levels of mutual confidence and solidarity among regional countries. In order to comply with the regional goals, the states need to adapt the entirety of their foreign policies vis-à-vis their neighbors. Therefore, this new regionalism is likely to continue being less multilateral and to depend much more for its development on the sum of all the bilateral policies that are created within the region.

It is possible to conclude that in both regions a pragmatic and flexible regionalism, is the result of the reshaping of their entire foreign policy, with the purpose of managing the new

economic trends on a scale that is adequate to the states involved. Any future dialogue between both regions will have to consider how economic integration becomes part of the priorities in Latin American and East Asian foreign policies.

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