Integrating Regions

ASIA IN COMPARATIVE CONTEXT

Edited by Miles Kahler and Andrew MacIntyre

Stanford University Press • Stanford, California

Stanford University Press
Stanford, California

Printed in the United States of America.

Printed on acid-free, archival-quality paper

Library of Congress Cataloging-in-Publication Data

Integrating regions : Asia in comparative context / edited by Miles Kahler and Andrew MacIntyre.

pages cm

Includes bibliographical references and index.

ISBN 978-0-8047-8364-4 (cloth : alk. paper)

1. Regionalism—Asia. 2. Asia—Economic integration. 3. Regionalism (International organization) 4. International economic integration. I. Kahler, Miles, 1949– editor of compilation. II. MacIntyre, Andrew J., 1960– editor of compilation.

JZ5333.I57 2013

337.1'5—dc23 2013013480

ISBN 978-0-8047-8930-1 (electronic)

Typeset by Classic Typography in 10.5/13.5 Bembo MT Pro

Contents

Contributors vii
Acknowledgments ix

Part One. Introduction

1 Regional Institutions in an Era of Globalization and Crisis 3
MILES KAHLER

Part Two. The Design of Regional Institutions

2 Institutional Design of Regional Integration: Balancing Delegation and Representation 31
SIMON HIX

3 Regional Judicial Institutions and Economic Cooperation: Lessons for Asia? 58
ERIC VOETEN

4 The Potential for Organizational Membership Rules to Enhance Regional Cooperation 78
JUDITH G. KELLEY

Part Three. Regional Comparisons: Latin America and Europe

5 Regional Economic Institutions in Latin America: Politics, Profits, and Peace 107
JORGE I. DOMINGUEZ

6 Why the EU Won 142
KEVIN H. O'ROURKE

5

Regional Economic Institutions in Latin America

Politics, Profits, and Peace

JORGE I. DOMÍNGUEZ

Why, when, and how have Latin American states endeavored to create regional economic institutions, and what explains the results of those efforts?[1] My analysis asks two questions: Do regional economic associations in Latin America foster trade within the association's region? Does regional economic integration increase the likelihood of generating positive public-good externalities such as interstate peace and does such peace increase the likelihood of better economic results? I examine seven cases: the Latin American Free Trade Association (LAFTA), the Southern Common Market (MERCOSUR; MERCOSUL, in Portuguese), the North American Free Trade Agreement (NAFTA), the Central American Common Market (CACM) in the 1960s and 70s, the Central American Common Market since 1990, the Andean Community in the 1970s, and the Andean Community since 1990.

Four outcomes are noteworthy. First, each region achieved substantial trade liberalization; the value of trade grew within each region and between the countries of each region and countries outside the region, especially after 1990, notwithstanding some severe economic crises and various militarized interstate disputes in the 1990s and 2000s. In 2008, the value of trade in each region was the highest in their respective histories (International Monetary Fund 2009). Second, the level of trade within each region varied greatly. In 2009, within-NAFTA trade was 48 percent of the total trade of its member countries but within-region trade was just 9.3 percent for the Andean Community, 15.2 percent for MERCOSUR, and 22.3 percent for CACM. (By the same measures, the peak years and amounts for trade integration were

56.6 percent in 2002 for NAFTA; 12.8 percent in 1998 for the Andean Community; 25 percent in 1998 for MERCOSUR; and 24.8 percent in 2008 for CACM.) Third, NAFTA and MERCOSUR were built on, and the latter contributed to, pluralistic security communities to ensure inter-state peace, whereas the CACM and the Andean Community still suffer from militarized inter-state disputes. Fourth, no region achieved a common market. And in practice none established supranational entities that had a significant impact on trade liberalization, growth, inter-state peace, or advancing much beyond a trade liberalization agreement.

What explains these outcomes and the variation across cases? I formulate three arguments about the establishment of these regional associations. Domestic politics mattered in two senses. The inter-presidential level explains the start and the founding design of these institutions and also the common benign economic outcomes. And, in the late 1980s and early 1990s, domestic political economy coalitions succeeded in all regions at unilaterally lowering trade barriers in advance of the new regional arrangements. Second, businesses responded to the profit opportunities created by unilateral trade liberalization. In the late 1980s, intra-zonal value and shares of trade grew across the cases, preceding the new or renewed inter-state agreements. Third, where inter-state peace had been established before creating a regional economic association (NAFTA), or where such an association was an outcome of a process simultaneous with peace building (MERCOSUR), the resulting economic arrangements proved more effective at both peace and trade. Where governments paid less attention to securing inter-state peace (Andean Community, CACM), the regional economic associations could not prevent militarized interstate disputes and regional trade suffered.

After the regional associations had been launched, two arguments address the variation in performance. The more "automatic" the trade liberalization rules are, the more comprehensive and effective the trade liberalization will be. By "automatic," I mean a high level of precision and obligation, with extremely limited delegation to supranational bodies and comparably limited room for inter-presidential or inter-governmental discretion (Abbott 2001). Precision and obligation matter not just to undertake the original commitments but also with regard to the timetable of implementation (see O'Rourke's chapter, for the European Economic Community). Second, domestic inter-presidential politics matter as well after an association has been established. The ongoing role of presidents as decision makers in NAFTA was minimal, limited to a handful of contentious issues. In MERCOSUR, in

TABLE 5.1.

Economic asymmetries in the Americas

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

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

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

contrast, presidents were the only significant decision makers, at times stopping the enforcement of some of the automatic rules.

By "institutions," I mean shared norms, rules, and obligations whose adoption within each region is fostered by formal agreements, though they may be supplemented by informal understandings. Institutions vary depending on their organizational content. Institutions with precise and binding legal rules are at one end of the spectrum; they do not include inter-governmental or supranational regional organizations with substantial delegated authority. At the other end are those that include both rules and supranational or intergovernmental organizations, where these organizations have substantial authority, as in the European Union.

Other factors play some role in the analysis that follows. Liberal economic regimes and benign hegemons are helpful background factors. Supranational organizations matter but as secondary elements. Changing association membership had disruptive but also secondary effects. The political regime homogeneity or heterogeneity and various structural asymmetries (see Table 5.1) did not account for variation between the cases.

Over the past half century, Latin American integration efforts have been much less successful than those of the European Union. Moreover, Latin America's growth record has markedly lagged East Asia's. In 1950, Latin American countries looked successful in comparison to East Asian countries: as a proportion of the per capita GDP of the United States, Argentina's per capita GDP was 52 percent, Brazil's 17 percent, and Mexico's 25 percent—South Korea's and Taiwan's were 8 and 10 percent, respectively. By 2000, Argentina's GDP per capita had fallen to 30 percent of that of the United States; Mexico held at 26 percent, while Brazil rose to 20 percent. In contrast, by 2000 South Korea's GDP per capita as a proportion of the similar statistic for the United States had risen to 51 percent and Taiwan's to 59 percent (computed from Maddison 2003, tables 2c, 4c, and 5c). Readers beware! There is much in the Latin American story that should not be emulated. Domestic politics and policy errors may trump gains from regional economic integration.

The Latin American Free Trade Association (LAFTA)

In 1960, through the Treaty of Montevideo, Argentina, Brazil, Chile, Mexico, Paraguay, Peru, and Uruguay founded LAFTA; Ecuador and Colombia joined in 1961, Venezuela in 1966, and Bolivia in 1967. Their governments responded principally to technical and economic considerations, although the signing of the Treaty of Rome in Europe was a background factor and

some individual Latin American leaders thought about the political utility of economic integration as a means to cope with the United States. The United Nations Economic Commission for Latin America (ECLA) was the driving force for the establishment of LAFTA in order to create sufficient economic scale for more effective import-substituting industrialization (Prebisch 1959, 18, 378). In 1960, ECLA's fundamental proposition was that Latin America would be unable to develop economically unless it established capital goods industries, for which it "need[ed] a common market" (quoted in Wionczek 1970, 52). LAFTA was founded to decouple Latin America from the world economy.

Emulating early European integration processes, LAFTA privileged intergovernmental negotiations as its chief means of operation. It envisaged only the elimination of barriers to intra-regional trade. The 1960 Treaty of Montevideo contained no provisions to coordinate external commercial policies, nor rules to harmonize the domestic economic policies of member countries.

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

LAFTA failed. Even in the early 1960s, governments scarcely mentioned it in their development programs. Only one common list was ever approved (in 1964) and it never went into effect; national lists had little practical importance and were abandoned by the end of the 1960s. No attempt was made to coordinate investments, or to provide special benefits for the lesser-developed members. LAFTA also lacked the funds to finance projects of regional importance and scale (Griffin and Ffrench-Davis 1965).

In the face of such unsatisfactory early results, ECLA, the Inter-American Development Bank (founded in 1959), and the presidents of several countries attempted a rescue, establishing LAFTA's Council of Ministers; the inter-American conference held in 1967 called for the establishment of a Latin American common market by 1985. Nothing of the sort happened and, instead, meeting in Caracas in 1969 the LAFTA governments postponed their goal for establishing a free trade area, slowed down the pace of tariff

negotiations, and suspended the implementation of the common list of products. LAFTA for practical purposes ceased to matter (Wionczek 1970, 58–59).

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

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

In 1980, the Latin American Integration Association (LAIA), an even looser association with more limited scope, replaced LAFTA just before the outbreak of the Latin American debt crisis in 1982, which started the region's decade-long economic collapse. Regional integration had thus failed before the debt crisis, though the subsequent deep recession delayed the recovery of intra-regional economic relations. The new LAIA had no better success than LAFTA (French-Davis, Muñoz, and Palma 1994, 223) but it still exists as a broad framework for bilateral trade agreements.

In the late 1970s, war and its threat made regional integration less likely. In 1978, Argentina and Chile came to the brink of war over the disputed Beagle Channel islands; Argentina prepared a declaration of war, stopped only by the Pope's mediation (Mares 2001, 138). Also in 1978, Bolivia broke diplomatic relations with Chile over the continued impasse in negotiations to give Bolivia some access to the Pacific Ocean—access that Bolivia lost a century earlier, following war with Chile. In 1981, Ecuador and Peru went to war over territory that Ecuador had lost in 1942. Argentina and Brazil faced deteriorating relations over the management of the Paraná River system waters until an agreement in 1979. These factors better explain LAFTA's failure at the time than its institutional design flaws, technical reasons, or economic concerns. One may have supposed that the political homogeneity of dictatorships in Argentina, Bolivia, Brazil, Chile, Paraguay, and Uruguay may have led to collaboration. They did collaborate through Operation Condor (McSherry 1999) to murder some adversaries but otherwise remained hostile toward each other. This milieu impeded deepened economic integration in South America.

The LAFTA failure illustrates that economic integration is a political endeavor; a multilateral agency like ECLA could not make it work. It requires the active engagement of presidents, without whom there was also no proactive peace-building intergovernmental work. After the founding, intergovernmental product-by-product negotiations were unwieldy and ineffective; middle-level bureaucrats lacked sufficient political support. Business incentives were few or absent. These were serious design flaws.

Alternative explanations are unpersuasive. LAFTA's mandate was limited; its scope does not explain the failure. LAFTA never progressed enough for structural asymmetries between big and small countries or distributive disputes to account for its failure. Intra-LAFTA Latin American trade increased but despite LAFTA, not because of it. Businesses traded with each other within the region when it was economically profitable, not because of LAFTA inducements.

The Andean Group, 1969–1985

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

The Andean governments created an executive body with significant powers, set out a schedule for trade liberalization and the gradual establishment of a common external tariff, agreed upon a system of preferences to benefit the least developed members (Bolivia and Ecuador), and proposed to harmonize many economic policies. Internal tariffs were to be phased out entirely by 1981. Once within-area tariffs and other barriers to trade were removed, these

would become irrevocable decisions. The Andean Group also established an automatic mechanism for tariff dismantling but it covered only about half of all tariff lines. By 1981, the average intra-regional tariff had dropped to 14 percent, which was one-third of the 1969 value. The share of intra-Andean exports in all exports from the Andean countries rose from 8 percent in 1970 to 15 percent in 1980 (Ffrench-Davis, Muñoz, and Palma 1994, 217–219; Inter-American Development Bank 1984, 51). A common external tariff was never completed (Devlin and Estevadeordal 2001, 23–27).

The Andean Group incorporated Venezuela in 1973 but Chile defected in 1976; President Augusto Pinochet's Chile found the Andean Group too statist. In 1979, in response to perceived poor outcomes, the Andean Group created the Andean Parliament, whose members are elected by the legislative organs of each member country; the Andean Council of Foreign Ministers, designed to foster the coordination of foreign policies; and the Andean Court of Justice, composed of five judges from the five member countries.

Notwithstanding, during the economic crisis of the early 1980s, Andean country trade with the "rest of the world" dropped less than Andean country trade with each other. Alas, just two years after the creation of these Andean regional entities, in 1981 two member states—Ecuador and Peru—went to war. Six years after the creation of these supranational organizations, intra-Andean Group trade had dropped to 3 percent. The Andean Group's adoption of greater institutional complexity at the end of the 1970s was an act of desperation that failed to stop the Group's weakening. Decision 24 regarding foreign investment was also repealed. The Andean Group achieved neither trade integration nor peace.

In short, engagement by Andean presidents enabled the Group to achieve at the outset very high economic policy coordination, notably regulating foreign investment (Avery and Cochrane 1973). Other initial conditions were less propitious. There was no prior trade liberalization; the statist bias provided disincentives for business. There was no simultaneous peace-building work. After the launch, trade liberalization implementation was in the hands of middle-level bureaucrats with insufficient authority. The trade liberalization design, more agile than LAFTA's, was still cumbersome. Design obstacles impeded integration.

Political homogeneity among members facilitated the Group's launch; increased political heterogeneity generated difficulties by the 1970s. Other alternative explanations mattered little. Structural asymmetries were modest and the lesser-developed economies benefited; distributive disputes were not serious obstacles. The Andean Group's agenda was very ambitious from the

start yet agenda complexity was not why the Group stumbled. Intra-Andean trade grew in response to the Andean Group's policies but the achieved level of trade integration always remained modest.

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

Between 1951 and 1961, Guatemala, Honduras, El Salvador, Costa Rica, and Nicaragua launched several compartmentalized integrative processes. In 1951, ECLA created the Central American Committee for Economic Cooperation to foster economic integration, and the Foreign Ministers of the five countries created the Organization of Central American States (ODECA) to engineer their political unity. In 1961, the War Ministers of the five countries independently formed the Central American Defense Council. In 1951, those responsible for economic policy stopped the diplomats from subordinating them to ODECA. That enabled the Economy Ministers to fashion the plans to sign the General Treaty for Central American Integration, which established the CACM in 1960 (Costa Rica joined in 1963) (Schmitter 1970, 1–4; Nye 1968).

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

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

In 1969, Honduras and El Salvador went to war. Honduras formally pulled out from CACM agreements. The underlying cause of the war was directly related to issues of regional integration. Capital movements had long been rather free across Central America and the CACM freed nearly all regional trade, but there was no free movement of labor. Demographic pressures in El

Salvador had stimulated Salvadoran migration to Honduras; in 1969, Honduras began to deport some of these Salvadorans. In July, El Salvador's army attacked Honduras.

By 1970, intra-CACM exports reached 28 percent of total exports and 96 percent of total manufactured exports—this 28 percent level still held in 1980 (Ffrench-Davis, Muñoz, and Palma 1994, 222). In 1980, the regional central bank Clearing House registered nearly all intra-regional trade transactions and automatically cleared 84 percent of such transactions (Inter-American Development Bank 1984, 57). CACM agreements remained effective notwithstanding the Honduras-El Salvador war.

Central America's integrative success had limitations. The intra-regional trade increase resulted almost exclusively from intra-industry specialization in textiles and shoes; CACM's greater scale induced this import-substituting industrialization but it was also its only significant example (Balassa 1971, 72). Only about one-seventh of the regional economic growth rate during the 1960s was attributable to the CACM. Moreover, the common external tariff was set higher for a number of industrial products than the previous tariffs on those products in the individual countries (Wionczek 1970, 55). On balance the CACM of the 1960s and 1970s was mainly a trade-diverting customs union for non-durable consumer goods (Willmore 1976).

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

In short, CACM Economy Ministers and technocrats insulated integration to launch in the 1960s, helped by multilateral organizations and CACM governments. Thus CACM's success was political at its birth. However, there was no prior unilateral trade liberalization and few business regional incentives outside the textiles and shoes sector. Governments did not undertake simultaneous peace-building efforts; CACM's agreements were de-linked from foreign policy and military coordination. CACM integration withstood the effects of the 1969 Honduras-El Salvador war but not the prolonged war in the 1980s.

After birth, the most successful design feature was the rule of automaticity for intra-regional trade and intra-regional payments via the Clearing House. The treaty commitments as well as the timetable for their implementation were precise and binding. They were not delegated to supranational organizations or to inter-governmental or inter-presidential processes.

Alternative explanations matter little. Structural asymmetries between CACM members were small, perhaps contributing to success. On the other hand, Honduras and Nicaragua—the smallest economies in 1960—bore asymmetrical burdens during the 1960s (Cochrane and Sloan 1973, 27) and this was one factor that led Honduras to pull out from CACM institutions after the 1969 war. Distributive disputes thus were a secondary explanation.

CACM's integration agenda was ambitious. CACM was most successful in creating a free trade area and facilitating financial transactions—even poor countries with limited technical capacities in the 1960s integrated successfully.

The Andean Group, 1985–Present

The first of the integrative schemes to be reborn from the 1980s Latin American economic catastrophe was the Andean Group as part of the wider effort to reactivate Andean economies. Andean states were also undergoing tumultuous domestic changes. In the 1980s, incumbent political parties lost every presidential election in Bolivia, Ecuador, and Peru, while the new presidents in Colombia and Venezuela brought to office economic teams with much stronger market-oriented views. A frenzy of nine summits occurred from 1989 to 1991 between the new heads of state. Peru remained an outlier—facing high levels of domestic violence, wrenching economic policy changes, and a more authoritarian regime than its neighbors; between 1992 and 1997 Peru withdrew from Andean trade negotiations.

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

As was the case in the 1950s leading to the Treaty of Rome and as it would be in North America preceding the start of the NAFTA, so too with the

Andean Community: the prior growth of trade between businesses generated the incentives for governments to adopt measures to consolidate the new economic behavior and to lock in their own policies against the risk of future reversal (see also Baldwin 2009). Intra-Andean exports, which had plummeted to 3.2 percent of the total exports of the five Andean Group members in 1985, rose to 4.1 percent in 1990 and 12 percent in 1995.[2]

This trade growth responded to the redesign of domestic economic policies in the five Andean countries in the early 1990s (in Bolivia since 1985), which included impressive unilateral trade liberalization, contributing to a burst of economic growth. In 1988 average tariffs in Colombia, Ecuador, and Venezuela ranged between 42 and 46 percent; Peru's average tariff exceeded 70 percent. In 1991, all four countries had reduced average tariffs to between 15 and 17 percent—Bolivia's average tariff had fallen to 9.2 percent (Devlin, Estevadeordal, and Garay 2000, 157). The flurry of Andean presidential summitry and proliferation of integration-friendly talk led enterprises to anticipate measures to lock in these gains from tariff reduction. Thus the jump in intra-regional trade responded to the business cycle of recovery from the 1980s, the market-oriented domestic policy shifts, and inter-state presidential summitry, all in the context of worldwide economic liberalization (Banco Interamericano de Desarrollo 2002, 27-28). All this intra-regional trade growth (reaching 12 percent in 1995) preceded the institutional redesign during 1995–97—that redesign did not cause the growth in intra-regional trade. Intra-Andean trade peaked at 12.8 percent in 1998 and stabilized at between 8–10 percent in the 2000s.

Peru's non-participation in the processes of trade negotiation and Andean supranational organization rebuilding had negligible impact on Peru's de facto trade integration with its neighbors, which implies that the supranational organizations mattered little. Peru had liberalized its trade regime unilaterally. Its exports to the Andean Community hovered between 6 percent and 8 percent of its total exports throughout the 1990s, as during the 2000s. In 1997, Peru rejoined the formal institutions of the Andean Community, with little impact on the direction of its trade with its neighbors.

Nor did the new Andean Community institutions sustain inter-state peace and contain inter-state conflict. Ecuador and Peru went to war in 1995 in the midst of the relaunching of the Andean Community; their trade had not engineered peace. In the 2000s, severe disagreements emerged between Colombia's President Álvaro Uribe and Venezuela's President Hugo Chávez, with the latter occasionally expressing sympathy for the FARC—the Revolutionary

Armed Forces of Colombia. In March 2008, Colombia's troops crossed into Ecuador in chase of FARC guerrillas. Ecuador and Venezuela broke diplomatic relations with Colombia and rushed troops to the Colombian border; mediation by Latin American presidents and diplomats persuaded the three countries to stand down (Mares 2008; Kahhat 2008). The Andean Community neither prevented this escalation to near-war nor had a discernible impact on its de-escalation.

Increased domestic political heterogeneity weakened the prospects for the Andean Community and worsened inter-state disputes. The consolidation of the Hugo Chávez presidency upon surviving a failed coup attempt in 2002, and the forced departures from office of Bolivia's president in 2003 and Ecuador's in 2005, left the three countries with market-unfriendly governments. Colombia and Peru retained market-oriented economic policies and signed bilateral free trade agreements with the United States. In April 2006, President Hugo Chávez invoked the signing of these two agreements with the United States as reason for Venezuela to withdraw from the Andean Community.

Chávez had a point: the Community failed to coordinate the foreign economic policies of member countries as two of them bargained with the United States. U.S.-Colombian and U.S.-Peruvian free trade agreements are not easily reconciled with an Andean Community common market with a still-in-the-works common external tariff. However, Venezuela's withdrawal from the Community had little impact upon its trade with its former partners. During the 2000s, Venezuela's proportion of exports to Andean Community countries trended down; as the price of petroleum rose during the decade, the value of Venezuela's exports to the industrialized countries rose accordingly. Yet, the absolute worth of Venezuelan trade with its former partners increased as well. The Andean Community's relative share of Venezuelan trade was lower as the decade unfolded, but between 2006 and 2008 the value of Venezuelan exports to Bolivia, Colombia, Ecuador, and Peru increased every year (International Monetary Fund 2009). Andean Community institutions had done little to foster such trade, and Venezuela's withdrawal from them did little to hinder it.

Venezuela and Colombia had developed trade that preceded the institutionalization of the Andean Community in the mid-1990s and survived the Venezuelan withdrawal therefrom. During the 1990s, Colombia and Venezuela became each other's principal destination for their non-traditional exports. Bilateral investment flows picked up as well. Notwithstanding Venezuela's

Andean Community withdrawal in 2006, the year 2008 was the best ever for the absolute value of Venezuelan exports to Colombia and Colombian exports to Venezuela (International Monetary Fund 2009).

Some Andean Community's supranational organizations merit comment. The rulings of the Andean Court on intellectual property issues matter for Colombia, Ecuador, and Peru (see Voeten's chapter) but Court rulings do not bear on inter-state peace nor have they been effective on most trade disputes (Banco Interamericano de Desarrollo 2002, 105). The Andean Development Corporation (CAF) predates the Andean Group. By the end of 2008, its paid-in capital was about $2.2 billion (Corporación Andina de Fomento 2009). It finances infrastructure projects effectively; its wider impact on intra-region trade or peace is harder to discern. The Latin American Reserves Fund (*Fondo Latinoamericano de Reservas*—FLAR) involves all Andean Community members, including Venezuela, plus Costa Rica and Uruguay. It is a regional financial swap agreement; participating countries may borrow on short notice for a limited time. It is akin to the Chiang Mai Initiative (CMI) or the North American Framework Agreement. From its foundation in 1978 through 2008, it disbursed cumulatively over $8.7 billion, principally during financial crises (Fondo Latinoamericano de Reservas 2008, and Henning's chapter). The FLAR and the CAF raise funds in international markets at interest rates below the costs each member country would pay individually, thereby lowering costs thanks to these regional risk pooling arrangements (Borensztein, Levy, and Panizza 2006, 267–269). The salience of the FLAR remains modest, however. Consider Ecuador, hit hard by financial crises between 1997 and 2002 and an uprising in 2000 to overthrow the president. At the end of 2001, Ecuador's debt to the FLAR amounted to 3 percent of Ecuador's external debt; by early 2003, the FLAR amounted to just 1 percent of the 38 percent of external debt that Ecuador owed to multilateral institutions (Inter-American Development Bank 2001, 2004).

In short, domestic political and economic policy changes defined the renamed Andean Community. Presidential summitry facilitated the rebirth of intra-Andean trade. Domestic policy changes, including unilateral anticipatory trade liberalization prior to re-launching Andean integration, explain the growth of trade. Businesses responded quickly, boosting intra-regional trade. Intra-regional trade levels were nearly three times higher by the end of the 2000s than they were when the Andean Group unraveled in the early 1980s. Andean Community institutions and their redesign followed the new spurt in inter-regional trade and, therefore, could not have caused it.

The withdrawal (Peru, Venezuela) and reincorporation (Peru) of states as Community members had no discernible impact on intra-regional trade. The Andean Community institutions did not prevent war (Ecuador-Peru) or severe conflict (Colombia and its neighbors). Nor did these conflicts depress trade. Andean supranational entities resolved intellectual property disputes and provided modest support for members in financial crises and financed development projects. Political homogeneity among member states facilitated the Andean relaunch in the early to mid-1990s while the increased political heterogeneity weakened it in the 2000s. Structural economic asymmetries widened slightly from 1960 to the 1988 eve of the Andean re-launch, to little effect.

The Central American Common Market, 1985–Present

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

In December 1991, the Protocol of Tegucigalpa amended the charter of the long-existing Organization of Central American States (ODECA) to give rise to the Central American Integration System (SICA), bringing the economic integration process under government control to avoid the compartmentalized regional institutions of the 1960s. Decision making would be by consensus; each member state thus had a veto. The SICA's institutions include presidential summits, a council of ministers, an executive committee, and a general secretariat—the latter two for technical and support services. The Central American Parliament and the Central American Court of Justice are supranational entities (Sánchez Sánchez 2003).

The born-again CACM looked better on paper than in reality. By the end of the 1990s, only three of the five CACM countries had ratified the agreement that established the Central American Court of Justice. Even those that ratified it made little use of the Court. Of the sixteen trade disputes that

broke out formally between CACM members from 1993 to 2001, in only one case did the parties resort to the Central American Court. Moreover, trade in agriculture and services had not yet become a part of Central American free trade. In 1995, the newly vigorous common external tariff covered 95 percent of the tariff universe, but coverage fell to 50 percent by the end of the decade, Nicaragua being the main but not the only culprit (Devlin and Estevadeordal 2001, 19; Granados 2001; Banco Interamericano de Desarrollo 2002, 32, 98–99, 104–105).

Compliance with CACM rules and institutions was spotty. Central American intra-regional trade grew at the same rate before and after the 1993 Guatemala Protocol until 1996, when it reached 22.6 percent, dropping to 13.6 percent in 1999, rising to 24 percent in 2001, remaining thereafter above 20 percent, and reaching its peak at 24.8 percent in 2008. CACM rules and institutions, and the associated political processes, thus fostered intra-CACM trade but subject to oscillation.

Costa Rica helps us to assess the impact of CACM institutions. It refused to ratify the 1991 Tegucigalpa Protocol; it rejoined CACM institutions only with the signing of the 1993 Guatemala Protocol. Yet the value of Costa Rican exports to the other Central American countries grew significantly between 1991 and 1993, though the proportion of its exports to Central American countries fell from 11 to 9 percent.

Central American governments exhibited higher levels of foreign economic policy coordination than had the Andean Community. They negotiated agreements as a trade block with the United States, the European Union, Mexico, and Venezuela. In 2006, the U.S.-Central American Free Trade Agreement (CAFTA) went into effect for all but Costa Rica (where it did in 2009). In 2006-2009, CAFTA had no adverse effect on intra-CACM trade. But Central American governments have also made individual deals. In the early 1990s, each Central American government reached a separate trade deal with the United States. Between 1994 and 2000, Mexico signed separate bilateral free trade agreements with Costa Rica and Nicaragua and another jointly with El Salvador, Guatemala, and Honduras (Devlin and Estevadeordal 2001, 29).

War and peace issues affected the prospects for the CACM. Central American integration probably could not advance further after 1991 because the CACM and associated institutions could not prevent the threat of war. Disputes involving some use of force broke out between Honduras and Nicaragua in 1991, 1995, 1996, 1997, 1998, and 2000; between Nicaragua and El Salvador in 1996 and 2000; and between El Salvador and Honduras also in 1996 and 2000. In the 2000s, each of the five CACM members was involved

in at least one militarized inter-state dispute with a neighboring country (Mares 2001, 43; 2008, 5). The reactivation of intra-CACM trade did not make these disputes go away, while the threat of war probably made regional integration deepening more difficult.

In the end, the CACM succeeded not as a common market but as a trade liberalization area. The absolute value of Central American exports to neighboring CACM members increased dramatically for each and every Central American country between the signing of the Protocol of Tegucigalpa in 1991 and 2008. By dollar value, varying by country of destination, Guatemalan exports to the CACM more than quadrupled, Costa Rican exports to the CACM more than quintupled, Nicaraguan exports increased by a factor of six, Salvadoran exports grew between three and ten times (with a 23-fold increase of exports to Honduras), and Honduran exports to the neighbors grew between 19 and 135 times. From 2000 to 2008, the exports of each CACM member to the region more than doubled, increasing from each and every member to each and every member (computed from International Monetary Fund 2009). Business firms led the revival of the CACM in the late 1980s, taking advantage of the still-enduring 1960s CACM trade liberalization. Politicians followed business initiatives and restarted the CACM. CACM trade liberalization and central bank clearing would be the region's most lasting economic integration accomplishments.

In short, the CACM was reborn in the early 1990s lush with parchment institutions, but the rules that worked were just those that had ever worked, namely, trade liberalization and central bank payments clearing, which were the most automatic and depended least on ongoing decision making by politicians or CACM institutions. Presidential initiative was a key reason for the flourishing of parchment institutions, and lack thereof for their weak institutional consolidation. CACM countries had a mixed record of foreign economic policy coordination. No inter-state war broke out in the CACM after 1990 but militarized inter-state disputes were frequent. The CACM provided incentives to sustain inter-state peace but not enough to consolidate it; this failure hindered the deepening of regional economic integration.

Structural asymmetries between CACM members remained the smallest in the Americas. For most of the 1990s and the 2000s, right-of-center parties governed throughout the CACM region. This political and economic homogeneity sustained market-oriented economic policies but did not prevent militarized inter-state disputes between like-minded governments. CACM dealt with its much more ambitious institutional agenda in the 1990s and 2000s by failing to ratify those most ambitious agreements or failing to implement

them if ratified—the common external tariff was porous, the justices of the Central American Court were not busy.

The Southern Common Market (MERCOSUR)

The Southern Common Market (MERCOSUR) had an impressive start and lasting results because it emerged from a slow process of bargaining between Argentina and Brazil, with time for correction and maturation. Argentina and Brazil have not been at war with each other since the 1820s but in the 1970s each feared that the other was developing nuclear weapons, although that perception would prove inaccurate (Hymans 2001). In November 1979, the dictatorships of Argentina, Brazil, and Paraguay signed the Itaipú-Corpus Treaty to govern the Paraná rivers system waters and permit the construction of two hydroelectric projects, This treaty would be a turning point in their bilateral relations; in the 1980s and 1990s Argentina and Brazil would sign agreements over multiple topics to consolidate the peace and foster a shared prosperity (Escudé and Fontana 1998; Hirst 1998).

Economic integration accords, signed in 1986, liberalized trade sector by sector; in two years, 24 sectoral agreements were signed (Bouzas and Fanelli 2002, 119). In 1985, exports to each other from the four countries that would go on to found MERCOSUR—Argentina, Brazil, Paraguay, and Uruguay—were only 5.5 percent of their combined total exports, rising to 11.1 percent in 1991. Thus, as with reactivation of intra-zonal trade in the CACM and the Andean group and in Western Europe before 1958, within-region integration accelerated prior to the signing of the Treaty of Asunción in 1991, which founded the MERCOSUR. Business firms used the new opportunities that governments had provided.

The deepening of this Southern Cone integration cannot be explained simply as a result of these economic agreements, however. Three other factors intervened. First, in 1990 and 1991, Argentina and Brazil undertook dramatic domestic economic policy changes, including unilateral trade liberalization, before signing the Treaty of Asunción. Market-oriented economic policy convergence helped the negotiations toward that treaty (Devlin, Estevadeordal, and Garay 2000, 157). From 1988 to 1991, Argentina and Brazil cut their respective average tariff rates in half: Argentina, from 31 percent to 14 percent; Brazil, from 42 percent to 20 percent. Paraguay and Uruguay also brought them down to similar levels. The results were instantaneous, most notably for Brazil, whose exports to Argentina more than doubled from $645 million in 1990 to $1476 in 1991 (International Monetary Fund 2009).

Second, in 1985 dictatorships ended in Brazil and Uruguay and, in 1989, in Paraguay; Argentina's had ended in 1983. The greater democratic political homogeneity of MERCOSUR countries paved the way to the Treaty of Asunción. (The structural economic asymmetry between MERCOSUR countries was not an obstacle to the treaty signing or its early success.) This treaty did not include a "democracy clause," as the European Community had, but the MERCOSUR behaved as if it did, acting to block a military coup attempt in Paraguay in 1996. Thereupon, the MERCOSUR agreements were modified to include such a democracy clause. MERCOSUR governments would rally repeatedly and automatically to prop up civilian rule in Paraguay.

Third, there was intense peace-making. In November 1990, Argentina and Brazil agreed to forego nuclear weapons and signed a nuclear safeguards agreement under the auspices of the International Atomic Energy Agency. In 1991, they established a bilateral institution to monitor their nuclear energy endeavors intrusively and systematically (Sotomayor Velázquez 2004). They had the scientific and economic capacity to build nuclear weapons, for a time hostile bilateral relations that could have led to a nuclear weapons arms race, and yet on their own they stepped back from nuclear weapons proliferation to found an effective bilateral nuclear safeguards regime.

These combined elements buttressed MERCOSUR and generated continuing incentives for policy coordination. Two decades after the birth of the MERCOSUR integrative processes, the peace-sustaining effects of the wider political relationship would be the most important legacy. They were not a formal part of any MERCOSUR agreement; rather, these were parallel political processes. The *process* of integration, rather than MERCOSUR parchment institutions, was the more important explanatory factor, and it led to the longest-lasting effect.

The Treaty of Asunción discarded the old product-by-product (LAFTA) or sector-by-sector (1986 Argentine-Brazilian agreement) approach to trade liberalization. Instead, it adopted a tariff phase-out program based on preprogrammed liberalization schedules that were easily calculable and transparent (see Bouzas and Fanelli 2002). By 1996, 99.4 percent of all trade items had been liberalized between Argentina and Brazil (Devlin and Estevadeordal 2001, 9, 30; Peña 1992, 101). The commitments and the timetable were precise, obligatory, nearly universal, and not delegated to supranational organizations or inter-governmental or inter-presidential processes—what I have called "automatic."

As a result, trade boomed. From 1991 to 1996, the proportions of Argentina's, Brazil's, and Paraguay's exports to their MERCOSUR partners

doubled. In the mid-1980s, Paraguay sent a quarter of its exports within the Southern Cone; from 1994 onwards, it never shipped less than 46 percent of its exports to MERCOSUR countries. Paraguay's peak year of exports to MERCOSUR was 1996, at 63.2 percent. In 1985, Argentina delivered 8 percent of its exports within the Southern Cone; in 1998, on the eve of the 1999 Brazilian financial panic, Argentina sent 35.2 percent of its total exports within MERCOSUR (its peak year had been 1997, at 35.5 percent). In 1998, this statistic for Uruguay peaked at 55 percent. In absolute terms, between 1991 and 1996 Brazilian exports to Argentina more than tripled; Argentine exports to Brazil more than quadrupled (International Monetary Fund 2009). Brazil's peak year of exports to MERCOSUR was 1997, at 17.7 percent. At the end of the 1990s Argentines and Brazilians thought well of MERCOSUR and the parallel political and peace-building accomplishments (Campbell 1999). Indeed, the 1990s were good for MERCOSUR; the 2000s would be much less so, as these statistics imply.

During its first decade, MERCOSUR members also coordinated their foreign economic policies, negotiating trade agreements with other states only as a block. MERCOSUR in the 1990s avoided the proliferation of uncoordinated trade agreements that characterized both the CACM and NAFTA and, in the 2000s, the Andean Community. Thus, in 1996 the MERCOSUR as a bloc signed separate association agreements with Bolivia and Chile, neither of which became a formal MERCOSUR member. MERCOSUR also launched still-inconclusive negotiations with the European Union; even absent a MERCOSUR-EU agreement, the Southern Cone has long traded extensively with European countries.

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

What went wrong with MERCOSUR? Intra-MERCOSUR exports peaked at 25 percent of all exports in 1998. In January 1999, Brazil's financial panic threw its economy into recession and contributed to Argentina's deep economic crisis in 2001-2002, which culminated in the resignation of its president. By 2002, intra-MERCOSUR exports plummeted to 11.5 percent of the total; member countries turned to export to economies not engulfed in such crises. Intra-regional trade would recover but just to 15.2 percent in 2009.

MERCOSUR also weakened as a result of its mid-2000s choice of widening over deepening. Brazilian President Lula's government took the lead to establish, in December 2004, the South American Community of Nations, renamed in 2008 the Union of South American Nations (UNASUR). Also in 2004, MERCOSUR granted associate member status to Colombia, Ecuador, and Venezuela. In December 2005, MERCOSUR accepted Venezuela as a full member, a decision ratified only in 2012 after years of doubt regarding Venezuela's commitments to democratic and common market's rules. In December 2005 as well, Evo Morales was elected president of Bolivia. Chávez backed the Morales government when, on 1 May 2006, it nationalized Bolivia's natural gas sector (including Brazil's Petrobras) and doubled the price for its natural gas exports to Argentina. Argentina and Brazil accepted the Bolivian nationalization but their enthusiasm for Chávez cooled (Turcotte 2008, 801-802). The inclusion of statist Venezuela created greater economic heterogeneity within MERCOSUR and its associates; Chávez's ongoing autocratic practices weakened the MERCOSUR's democratic credentials.

A bad turn in Argentine-Uruguayan relations further punctured intra-MERCOSUR relations. In 2006, Uruguay allowed the construction of two pulp mills on its bank of the Uruguay River—its border with Argentina. With the support of Argentine President Néstor Kirchner, Argentines blocked a busy border bridge to compel Uruguay to discontinue the mills; tourism and trade suffered. Argentina and Uruguay sued each other before the International Court of Justice at The Hague (International Court of Justice 2009). The governments eventually backed off but the experience soured Uruguayan ardor for MERCOSUR (Caetano 2007, 167-168).

MERCOSUR has been "light" on institutionalization. Implementation has depended on relations between presidents, not on supranational organizations, nor does MERCOSUR have an inter-governmental process. MERCOSUR's presidents have been the decision makers and the dispute settlers, often changing the rules to accommodate a partner country. Presidents carved out "special" procedures within MERCOSUR to deal with politically important and economically sensitive sectors, such as automobiles and sugar, and have agreed to peremptory waivers of free trade rules during economic crises, especially between 1999 and 2003. The presidents of Argentina and Brazil came to see the MERCOSUR as a strategic alliance; economic matters that got in the way would thus be set aside (Malamud 2005; Gomez Mera 2005). Phillips (2004, 96, 99) put it well: "The governance structures of the Mercosur have always been rather informal than rule-based . . . which

left ample space for political whim, unilateral action and non-observance of agreed-upon policy commitments."

Of the 283 trade disputes that surfaced in MEROCOSUR in its golden years (1995–1997), none was settled through rule-oriented institutional mechanisms; of the 201 such disputes during the period of economic crisis (1998-2003), only 9 were settled through rule-oriented institutional mechanisms. MERCOSUR generally failed to use its formal institutions to settle disputes (Delich 2006, 14, 20). The only significant rules-based approach to trade dispute resolution in the Southern Cone side-stepped the MERCOSUR and resorted to the World Trade Organization (WTO). Between 1987 and 2003, Argentina sued Brazil before the WTO 47 times, mainly over dumping allegations. That is more often than Argentina sued China and four times more often than it sued the United States (Sanguinetti and Bianchi 2006, 160). In the 2010s, Argentina remained the most protectionist original MERCOSUR member.

MERCOSUR has had a Common Market Council, a Common Market Group, and a Trade Commission as venues for decisions, though always subject to presidential deals; their officials are not appointed on a permanent basis. There are no MERCOSUR purely technical institutions (Floreal González 1999, 84). The only permanent administrative body in MERCOSUR has been its Secretariat, which staffs member governments but does not make decisions. The MERCOSUR Court (2004) and Parliament (2005) have yet to function properly. MERCOSUR's Permanent Commission reaches out to civil society but its work is at most symbolic (Grandi and Bizzózero 1997).

MERCOSUR suffered from lax implementation of its rules. In the mid-2000s, its common external tariff covered only 35 percent of the value of MERCOSUR imports. MERCOSUR subjects to rules of origin all goods that received preferential treatment, but it lacks a common code to govern customs procedures (Bouzas, Veiga, and Ríos 2008, 321). Between 1991 and 2002, the MERCOSUR Council approved 149 decisions that required their incorporation to the domestic legal system of each member country, of which 70 percent remained unenforced in 2002. The MERCOSUR's Common Market Group approved 604 resolutions for those same years, of which 63 percent remained unenforced in 2002 (Peña 2003).There has been little harmonization of macro- and micro-economic policies, little coordination of policy toward foreign direct investment, no competition policy, and no coordination of social policy (Phillips 2004). MERCOSUR sponsors no monetary cooperation and ranks well below the multilateral financial relationships evident in the Association of Southeast Asian Nations.

In short, South America's most successful economic integration agreement emerged from a multi-year multi-faceted, self-reinforcing process of confidence- and peace-building in the Southern Cone. MERCOSUR was built atop prior convergent domestic economic policy changes—unilateral albeit concurrent trade liberalization—and convergent transitions from dictatorship to democracy. Domestic economic and political changes before the signing of the Treaty of Asunción facilitated the agreements. Presidents played a key role over three decades. Businesses responded to regional integration incentives.

The two most successful MERCOSUR design features provided for automatic responses. Governments mandated and upheld the automatic removal of trade barriers—precise and legally binding with regard to both commitments and timetable, without delegation to other entities—and members rallied to the defense of democracy when threatened in some other member state.

The inter-presidentialist MERCOSUR decision making and problem solving procedures, the delayed establishment and ineffectiveness of a MERCOSUR parliament and court, and the lack of delegation of powers from the presidents to MERCOSUR institutions were sources of vulnerability. When economic crisis hit in the late 1990s, the presidents solved problems by exempting whole sectors from trade liberalization rules. When political crisis hit in the 2000s, the presidents backed away from democracy criteria for membership. The inter-presidential decision in the 2000s to choose expansion over deepening weakened MERCOSUR. MERCOSUR admitted Chávez's Venezuela without negotiating the technical trade details, overlooking both democratic and economic criteria for membership, and ignoring Venezuela's near total lack of implementation of any of MERCOSUR's formal economic decisions.

At its founding, the MERCOSUR integration agenda was not ambitious. It eschewed institution building. The MERCOSUR responded to its troubles, starting in 1999, by creating more supranational organizational machinery and adopting more formal mandates: the more the MERCOSUR weakened, the more it resorted to parchment institutions and rhetoric as a substitute for effectiveness and deepening. Structural economic asymmetries were just as severe in MERCOSUR as in LAFTA (Table 5.1). Such asymmetries did not impede MERCOSUR nor do they account for its debilitation.

Despite flaws, MERCOSUR successfully constructed a much-liberalized trade area within the founding core group of four states. Its trade integration success weakened from the 1990s to the 2000s, but even during the 2000s the proportion of exports from MERCOSUR countries to each other was twice

higher than in the late 1980s before signing the Treaty of Asunción. This successful trade liberalization has survived many crises. Comparing 1998 (the year before the Brazilian financial panic) when intra-zonal trade integration was at its highest, to 2008, the value of exports from MERCOSUR member countries to each other—$43.5 billion in 2008—grew. For Uruguay, such exports increased by 18 percent; for Paraguay, between 2.3 and 3.4 times. Argentina saw its intra-zonal exports jump between 1.5 and 2.8 times, while for Brazil, by factors of 1.5 to 2.5 (International Monetary Fund 2009).

The MERCOSUR's most lasting achievement is not in its charter, namely, its contribution to a process of confidence- and peace-building, creating a "pluralistic security community" where war seemed plausible as recently as the 1970s (Deutsch et al. 1957; Hurrell 1998). In the 1990s and the 2000s, the Southern Cone countries built a secure peace and liberalized and expanded trade significantly—worthy achievements.

The North American Free Trade Agreement (NAFTA)

NAFTA had it easy, although few thought so on the eve of its establishment. War had become unthinkable between the United States and Canada in the late nineteenth century and between the United States and Mexico in the 1940s. The prior construction of peace facilitated the construction of NAFTA. (I emphasize U.S.-Mexican relations in this section.) NAFTA would facilitate security cooperation between Mexico and the United States to counter drug trafficking, albeit this relationship remained fraught with difficulty (Domínguez and Fernández de Castro 2009).

Structural asymmetries between members were not daunting. As Table 5.1 shows, the GDP gap on the eve of NAFTA's foundation was lower in North America than in MERCOSUR on the eve of the Treaty of Asunción or in LAFTA before the signing of the Treaty of Montevideo. NAFTA's GDP per capita gap was about the same as for the Andean Community and LAFTA. There was economic policy and political regime heterogeneity but it had been narrowing.

In the second half of the 1980s, Mexico sharply reoriented its economic policy. It reduced average tariff levels unilaterally from 34 percent in 1985 to 10 percent in 1988; Mexico's tariff peak came down from 106 percent in 1985 to 20 percent in 1988 (Devlin, Estevadeordal, and Garay 2000, 157). On the eve of NAFTA, Mexico was governed by an authoritarian regime, yet the president was a civilian and levels of repression were low. Mexico's transition to a competitive, democratic political system coincided with NAFTA's

consolidation; NAFTA contributed, albeit moderately, to this political regime transition (Domínguez and Fernández de Castro 2009, 106–111).

NAFTA could declare victory even before its birth. In 1989, before its creation was proposed, the exports of the three would-be North American partners to each other were 40.8 percent of their total exports to the world. As in the run-up to the Treaties of Rome, Asunción, and Tegucigalpa, so too with NAFTA: from the start of negotiations (1990) to the year before NAFTA came into effect (1993), U.S. exports to Mexico jumped 46 percent and Mexican exports to the United States more than doubled (computed from International Monetary Fund 2009). The Canadian-U.S. Free Trade Agreement (CUSFTA) had already gone into effect; CUSFTA provided design features to guide the NAFTA negotiations and contributed directly to the NAFTA text.

NAFTA's negotiations and eventual ratification actively engaged the heads of government. The CUSFTA and then NAFTA depended crucially on Canada's prime minister and the presidents of the United States (two Republicans, one Democrat) and Mexico (Golob 2003). Ratification by the U.S. Congress in 1993 was a bipartisan undertaking to commit the country (Domínguez and Fernández de Castro 2009). Similarly, the three leading Mexican political parties converged to support NAFTA by the 1994 presidential election. And Mulroney's Conservative Party won the 1988 national parliamentary election by emphasizing its achievement of CUSFTA (Johnston, Blais, Brady, and Crête 1992).

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

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

discretion, or continuing bargaining. NAFTA's dispute settlement procedures are rules-based (Abbott 2001).

NAFTA incorporated dispute settlement processes on investment, financial services, antidumping and countervailing duties, the functioning of the agreement, labor, and the environment. The dispute settlement process has worked well where NAFTA obligations were precise. NAFTA has worked less well on three big cases where domestic political forces blocked treaty compliance—U.S.-Mexico trucking, U.S.-Mexico sugar and high fructose corn syrup, and U.S.-Canada softwood lumber. (The WTO has been no more effective at settling these three disputes.) In instances with intentionally cumbersome procedures and reliant on consultation (the side agreements on labor and the environment were not automatic or self-enforcing), NAFTA-related actions have been hortatory (Hufbauer and Schott 2005).

NAFTA achieved what it sought to accomplish. From its first year of implementation in 1994, intra-NAFTA trade has consistently exceeded its levels in prior years. From 1998 through 2007, intra-NAFTA exports exceeded 50 percent of the worldwide exports of the three members, reaching a high of 56.6 percent in 2002, dropping to 48 percent in 2009.

NAFTA did not prohibit its members from signing free trade agreements with other countries and from the start all three members negotiated with other governments to create bilateral or minilateral free trade agreements. NAFTA itself was born, of course, from the U.S.-Canadian free trade agreement.

NAFTA's founders would also consider the agreement successful in prohibiting certain behaviors that other observers may have found desirable. NAFTA permits little executive or legislative interference with its precise obligations on member states, except for the three disputes just noted. NAFTA did not open up rounds of inter-governmental bargaining. NAFTA entities, other than the dispute settlement panels, have minimal mandates and, in the case of the North American Development Bank (NADBank), minimal funding. NAFTA was designed to impede or make difficult the creation of new supranational organizations or to foster state-led NAFTA-wide initiatives. NAFTA was designed to eliminate barriers to cross-border trade and investment in North America and to constrain its states from getting in the way of transactions between private actors. From the perspective of its founders, NAFTA succeeded because its organizations did not "deepen." It was not to be a "European Union wannabe."

Nevertheless, NAFTA has resulted in wholesale legal changes to the domestic Mexican trade regime, spurred as well by the WTO and internal

pressures within Mexico. And three NAFTA supranational processes—the Free Trade Commission and the institutions created by the side agreements on environment and labor—have had some effects that surprised initial proponents and critics alike (Aspinwall 2008; Clarkson 2007).

NAFTA did not obligate national governments or central banks to come to each other's rescue in the event of a financial panic. Yet, since 1936 the U.S. Treasury's Exchange Stabilization Fund (ESF) had provided a swap line to Mexico to help it manage short-term financial crises. From 1972 to NAFTA's eve, the ESF provided a swap line to Mexico on average once every five quarters; from 1994 to 2002, the ESF did on average once every three quarters. In April 1994, the United States, Canada, and Mexico signed the North American Framework Agreement, which incorporated this U.S.-Mexico swap-line (U.S. Department of the Treasury 2009). In early 1995, the U.S. government responded to the Mexican financial panic as if it were the lender of last resort; Mexico resumed growth within two years.

In short, NAFTA was the most circumscribed integration agreement attempted in the Americas. It focused on trade and investment, eschewing a more ambitious agenda. It built upon the prior construction of peace in North America and ongoing high levels of intra-regional trade and investment. Economic policy convergence through prior unilateral trade liberalization explains why it became possible. Business firms responded enthusiastically even during NAFTA's negotiation. Political regime differences and wide structural economic asymmetries were not obstacles to its establishment. At its origin, NAFTA required the leadership of the heads of government of the three states. Upon enactment, however, the role of heads of government in its operations has been minimal. NAFTA's design excluded democracy, movement of peoples, and energy from its agenda. It featured very high precision and obligation in order to become automatic and self-enforcing, leaving little room for delegation or interpretation by supranational entities.

NAFTA generated positive externalities. It fostered high central bank and finance ministry coordination across North America, most evident during the Mexican financial panic in 1995 and the worldwide financial crisis of 2008–2009. And it contributed to Mexico's democratization in the 1990s.

NAFTA achieved what it set out to do. Between 1994 and 2008, Canada's exports to the United States and Mexico nearly tripled, Mexico's to its partners about quadrupled, and those of the United States to the neighbors doubled. Even comparing 2008 to the year of highest within-NAFTA trade integration (2002), the three member countries exported about 50 percent more to their NAFTA partners in 2008 than in 2002.

Analysis

Politics, profits, and peace are the key factors to explain the establishment of regional economic organizations in the Americas and the variation in the likelihood of their success.

To launch regional economic integration agreements, politics mattered in two respects. Common to all the reactivations or foundings in the late 1980s and early 1990s, governments unilaterally lowered trade barriers in advance of signing or reactivating the integration schemes, thus participating in the worldwide trade liberalization during the decade that preceded the enactment of the WTO. These decisions anticipated and paved the way for the regional economic associations, enabling them to "declare victory" on their respective birthdays. There were no such unilateral decisions in the 1960s and 1970s, which explains in part LAFTA's failure.

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

Profits provided a decisive incentive. Firms responded to the new incentives created through unilateral trade liberalization, increasing intra-regional trade in North America, Central America, the Andean region, and the Southern Cone prior to the respective foundational agreements from the late 1980s or early 1990s. Businesses sustained Colombian-Venezuelan trade even after Venezuela withdrew from the Andean Community in 2006. Businesses engaged Costa Rica, typically a latecomer, in Central American integrative schemes, and they sustained Peru's involvement with the Andean Group even when Peru suspended its Andean Group participation in the mid-1990s. In contrast, LAFTA's failure is explained in part because business firms found fewer opportunities within its framework.

Peace was the handmaiden of politics and profits to construct regional economic associations. The prior provision of inter-state peace as an international public good explains why NAFTA could be negotiated, signed, ratified, and implemented over what seemed difficult odds. The hard work to provide the same public good in the Southern Cone, in advance of and simultaneous

with the founding of MERCOSUR, explains why MERCOSUR survived crises and misguided decisions that might have killed it. Over three decades, MERCOSUR countries fashioned state practices to carry the new subregional work forward. This process became path-creating and eventually path-dependent: NAFTA and MERCOSUR went on to facilitate subsequent political relations and further consolidate the peace. In MERCOSUR, the new regional integration agreement also helped to strengthen the peace in its region.

The absence of a secure inter-state peace prior to a regional economic integration agreement distinguished those two more successful cases from all other less successful cases. Threats of war contributed to the Andean Community's troubles in the 1990s and 2000s and the CACM's in 1969 and since the 1980s. Regional economic integration runs aground when war or threats of war lurk. Just as importantly, a regional integration agreement by itself, absent parallel successful peace-promoting agreements, does not generate inter-state peace; militarized inter-state disputes persisted in the CACM and Andean Community areas notwithstanding the regional economic integration agreement.

The initial conditions, therefore, sort the empirical cases into three sets. Institutions mattered as norm- and rule-setting agreements that set obligations. The anticipation of the agreements and their design explain the outcomes and the variation. First, NAFTA and MERCOSUR liberalized and increased trade and fostered and sustained regional peace. Second, the Central American and Andean countries at various times were unsuccessful at using regional integration to sustain peace and thereby foster further economic integration, but they liberalized trade and made it grow for periods of time as long as a decade. There is in Central America and the Andes, therefore, a close match in the middling achievements with regard to both peace and regional economic integration. Third, LAFTA did not succeed.

Past the founding moment, automatic self-implementing designs (precise and legally binding regarding commitments and timetable for implementation) work better than either inter-presidential or intergovernmental processes or the delegation of decision making and implementation to supranational organizations. NAFTA featured automatic procedures. MERCOSUR worked best when its automatic trade liberalization schedules were in effect. MERCOSUR was equally impressive as member states leapt automatically to defend constitutional democracy to stop coup attempts in Paraguay. CACM automatic rules in trade and finance, dating from the 1960s, have been its best performing

features. Automatic rules provided clear incentives to business firms, which made trade and the economy grow, thereby providing "quick and easy wins" for politicians and businesses.

Inter-presidential bargaining past the founding moment characteristically blocked the operation of automatic trade rules. On balance, it weakened MERCOSUR. NAFTA trade failures exist in those few areas where political processes blocked the application of the automatic rules. Inter-presidential politics also weakened the functioning of the Andean Community. The more automatic the rules were in the foundational agreement, the more adverse for the integrative scheme is ad hoc presidential intervention to block the application of such rules.

Two background factors were helpful: economic regime convergence and the behavior of the regional hegemon. Convergence or divergence in economic regime better explains integration outcomes than convergence or divergence in political regimes. Authoritarian and democratic regimes cooperated in both LAFTA and NAFTA (the first failed, the second succeeded) and in CACM and the Andean Group (both with mixed results); thus political regime factors do not explain the difference between them in economic outcomes. LAFTA lacked member convergence on economic regime; NAFTA converged on a liberal economic regime. Difference in economic regime better explains why LAFTA failed and NAFTA succeeded.

Liberal economic regimes succeeded best: NAFTA, and the 1990s for MERCOSUR, the Andean Community, and CACM. As less-liberal economic regimes appeared, divergence is associated with setbacks for the Andean Group in the 1970s and 1980s and the Andean Community in the 2000s. The CACM worked poorly in the 1980s when economic regime divergence prevailed but better in the 1990s with liberal economic regime convergence. Liberal economic regimes start unilateral trade liberalization and adopt benign attitudes toward business and profit growth, which are the more proximate explanations to the launch of economic integration schemes.

Regional hegemons also matter. The United States signed NAFTA expecting Mexico to reap disproportionate gains and, except in three high-visibility disputes, the United States has complied with adverse NAFTA dispute resolution panel decisions. The process that would become MERCOSUR began in 1979 thanks to Brazilian concessions to Argentina and Paraguay. MERCOSUR was sustained in the 2000s, as Argentina ran into economic head winds, because Brazil made further economic concessions. These benign hegemons in North and South America promoted and sustained subregional

economic integration, incurring near-term losses for the sake of wider systemic gain. From this optic, LAFTA failed because Brazil was not yet able to behave in that way, and the Andean Community fails because it lacks a benign hegemon. However, this hegemonic behavior has been sporadic, not a dominant explanation.

In contrast, other potential explanations matter less. The presence or absence of supranational organizations explains little with regard to the prospects of peace or trade. ECLA was the midwife for LAFTA, which failed, and the CACM, which could not address war and peace issues effectively. The Andean Community's and the CACM's splendid supranational entities did not much promote intra-zonal trade or curb militarized inter-state disputes between members, notwithstanding in the Andes some other positive results regarding crisis and development finance and intellectual property issues. The CACM outperformed the Andean Community as a free trade area and in coordinating some foreign economic policies. Andean Community delegation of trade liberalization to supranational organizations failed; its trade liberalization design was most effective when it relied on automatic procedures. Automatic rules served the CACM well in the 1960s and helped its revival in the 1990s. In the 2000s, MERCOSUR created new supranational entities that remained without much effect. NAFTA is thin on supranationality, yet highly successful regarding trade and peace.

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

A strong supranational secretariat bears no relationship to regional integration outcomes. NAFTA has succeeded without one. The Andean Community has had an excellent secretariat, albeit powerless to fix the Community. MERCOSUR has a weaker secretariat than CACM or the Andean Community—all three fostered intra-zonal trade liberalization through automatic rules, not their secretariats. Purely technical inter-state processes have at most temporary benefits. ECLA at its moment of glory could not make LAFTA work and could not save the CACM in its first incarnation. Technical virtuosity in the Andean Community supranational entities could not address the organization's weaknesses. Technocrats in the CACM cannot stop militarized interstate disputes.

Even the changing membership in various associations had few effects on the relationship between those entities and trade. Countries became members or stopped being members of regional economic associations without much apparent benefit or cost to membership.

Other explanations were even less important. Defensive responses to European integration lurked in the background in the late 1950s and the late 1980s. Concern over the United States was also a secondary factor in the late 1950s, but in the 1990s and the 2000s, the United States was neither lure nor fear. Similarly, integration worked approximately the same where structural asymmetries are very wide (MERCOSUR) and very small (CACM); very wide asymmetries existed in both LAFTA and MERCOSUR but the outcomes of these two differ greatly. Distributive concerns are important and a constant across all integration schemes, with groups lobbying to protect or to gain privileges; therefore, they cannot explain the variation in outcomes. The international political economy milieu grew more liberal by the late 1950s, facilitating regional economic integration, but that does not explain why the CACM was more successful than LAFTA, both founded in 1960. This milieu grew even more liberal by the start of the 1990s; that does not explain the variation between the four regional economic associations created or relaunched at that time. Nevertheless, the international liberal milieu did promote regional integration much more in the 1990s than in the 1960s.

The existence of several overlapping regional integration groups may have weakened pre-existing groups. The Andean Group justified its founding as a response of LAFTA's ineffectiveness, yet the Andean Group's founding helped to kill LAFTA (for similar examples, see O'Rourke's chapter). Venezuela withdrew from the Andean Community in 2006 on the grounds that the U.S. free trade agreements with Colombia and Peru had altered the content of the Community. The MERCOSUR's conscious choice of widening over deepening in the 2000s, taking in Venezuela as a member and signing association agreements with the Andean Community and its member countries, may have diluted MERCOSUR. The effect of relations between regional and subregional integration groups seems secondary, however; relationships between such groups mainly accelerated processes of unraveling that had already begun.

Implications for Asia

Latin America's experience with regional economic integration has implications for other countries, specifically in Asia. It is more important to have good policies than integration agreements. In the 1960s and 1970s, Latin America's

use of integration schemes (LAFTA, Andean Group) to minimize its engagement with world trade and investment was a mistake, on top of other bad domestic economic policy decisions. On the other hand, the lack of a formal integration agreement did not prevent the impressive development of trade and investment in North America along with the construction of a pluralistic security community between Canada, Mexico, and the United States. Good policies work even without a formal integration agreement. Moreover, there is no need for alarm if a member leaves the association for a while; so long as the economic relationship continues, trade levels may be sustained, and the member may return—as Costa Rica, Peru, and Venezuela in different ways demonstrated.

Two background factors are likely to improve collective outcomes. A benign regional hegemon helps. The United States engineered peace with Mexico, and Brazil with Argentina and Paraguay, by ceding small bits of territory for the sake of a grand strategy to foster peace and prosperity. In both regions, peace preceded the boom in economic relations, though much higher trade and investment did follow. China's role in the South China Sea is a good parallel: instead of threats over rocks and islets, China could lead a shared growth and security in Southeast Asia. Peace in South and North America was not a prerequisite for trade, but once achieved peace was a secure platform for trade growth.

Economic regime homogeneity also facilitates economic integration, and many countries in East and South Asia have been moving in such convergent directions. Political regime heterogeneity did not prevent economic integration. Authoritarian and democratic regimes cooperate. In this respect, Latin America's experience may be more relevant to Asia than is Europe's. Very wide structural asymmetries did not derail integration schemes in Latin America. Severe distributive disputes are to be expected but, though often costly, they need not impede generally successful integration—and, yes, they are a constant across agreements.

Supranational organizations may help. They work best in specialized realms, such as the Inter-American Development Bank, the Andean Development Corporation, and the Asian Development Bank, or for swaps in financial crises (FLAR, the Chiang Mai Initiative, or the North American agreement). But regional parliaments, courts, and secretariats are powerless in the face of larger political and economic processes even when excellent professionals staff them (as in the Andean Court and Secretariat). Negotiations through such organizations are often cumbersome and may contribute to setbacks.

Latin America's more successful integration processes were inter-presidential at their founding (NAFTA, MERCOSUR, the relaunching of CACM and the Andean Community). The role of key leaders may be pertinent in Asia. In contrast to Europe, intergovernmental processes mattered little in MERCOSUR and have been deliberately curtailed in NAFTA. Presidents must also anchor the domestic political economy coalitions that may enact unilateral trade liberalizations and implement integration agreements.

The process of negotiating agreements would increase the likelihood that the agreement would be implemented if there are clear incentives for businesses to reshape their operations in anticipation that the agreement would become a reality. The economic boom that results enables the integration agreement to proclaim victory on its birthday, rewarding and encouraging politicians to undertake the more difficult tasks of implementation.

Where militarized interstate disputes persist, as is the case along Asia's eastern rim and has been part of the Latin American experience, the parallel effort to resolve such military and political disputes fosters economic growth and cooperation. That was a key lesson of MERCOSUR. Integration schemes may endure even in the presence of those disputes (CACM, Andean Community) but they are less likely to realize their potential.

Institutional design matters. The more automatic the rules, the more effective the agreement will be. That is the lesson from NAFTA, MERCOSUR, CACM, and the Andean Community. When automatic rules coexist with rules that require negotiation, the former process is more effective. The automatic rule applies also to parallel political processes, for example, instantly stop a militarized interstate dispute (Ecuador-Peru war, CACM disputes), instantly prevent an unconstitutional government overthrow (MERCOSUR with regard to Paraguay). And, remove presidents—essential at the founding—from quotidian trade dispute-resolution processes because they are likely to be disruptive.

Ultimately, the Latin American experience implies that the institutions for regional integration should appeal to Asian countries. Yes, trade may exist without regional integration, but trade growth is likely to fare even better with integration. Yes, trade does not ensure peace, but improving security and securing peace may propel trade growth and may make easier the resolution of political and military disputes.

Conclusion

The Latin American regional economic integration schemes have a key outcome in common: Each contributed to significant trade liberalization. In NAFTA, that was the predominant goal. The Latin American regional experience suggests skepticism that economic integration on topics other than trade liberalization may succeed. The Andean Community, the CACM, and MERCOSUR attempted but failed to become common markets. Trade liberalization worked, mainly thanks to automatic rules buttressed by responsive business firms that rewarded their firms, politicians, and their countries. Automatic rules have low transaction costs and near-term gains. More complex integrative schemes on other topics are challenging and costly.

Success went to international cooperation efforts that built both peace and trade liberalization. Trade liberalization works best when it interacts positively with peace. NAFTA and MERCOSUR approximate this outcome. They liberalized trade within the respective regions and built or developed pluralistic security communities in which inter-state war becomes unthinkable. A lesson for other countries is to be distracted less by supranational organizational tinkering and focus more, systematically and consistently, on peace-building and growth through trade liberalization.

Notes

1. I am grateful to the Asian Development Bank for support; Etel Solingen, Barry Eichengreen, Alisha Holland, and especially Miles Kahler for comments; and Lena Bae for research assistance. All errors are mine alone.

2. In this and other sections, all percentage statistics regarding the direction and value of trade (1985–2010) were calculated from International Monetary Fund, *Direction of Trade Statistics*, various years.