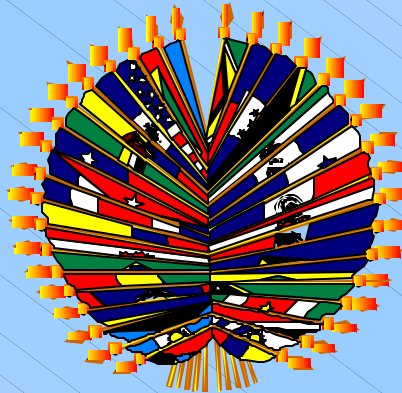


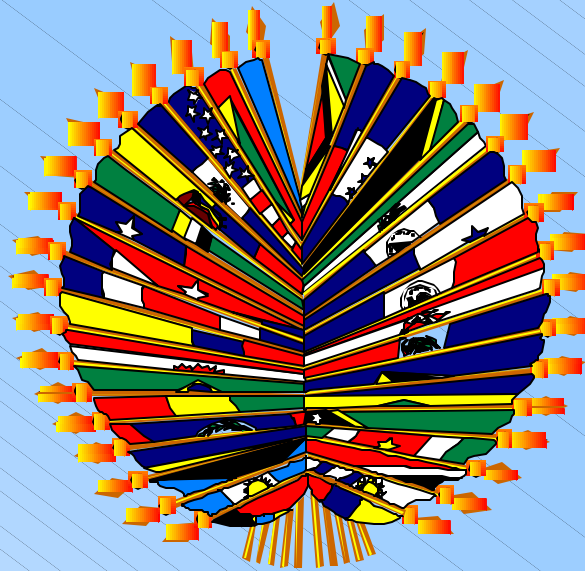
The New Regionalism in the Americas

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For presentation at the
Teachers Workshop on Globalization
International Center, Texas A&M University

I. Introduction



The Pendulum Theory

- Economics goes through fads.
- “What’s in?” and “What’s out?” changes over time.
- What was in → out → back in again is known as the *pendulum theory*.
- Regional integration is an example of the pendulum theory.

The Regional Integration Pendulum

- Time Periods
 - 1960s & 1970s: Regionalism “in”.
 - 1980s: Regionalism “out”.
 - 1990s-now: Regionalism back “in”.
- However, “Old Regionalism” is different from “New Regionalism”.

Purposes of this Talk

- Trace history of regional integration in the Americas.
- Examine implications of regional integration.
- Discuss possible future directions.
- Implications for teaching geography.

Outline of Talk

- I. Introduction
- II. What Is Regional Integration?
- III. The Old Regionalism
- IV. The New Regionalism
- V. Impacts of the New Regionalism
- VI. Where to Next?
- VII. Implications for Teaching Geography

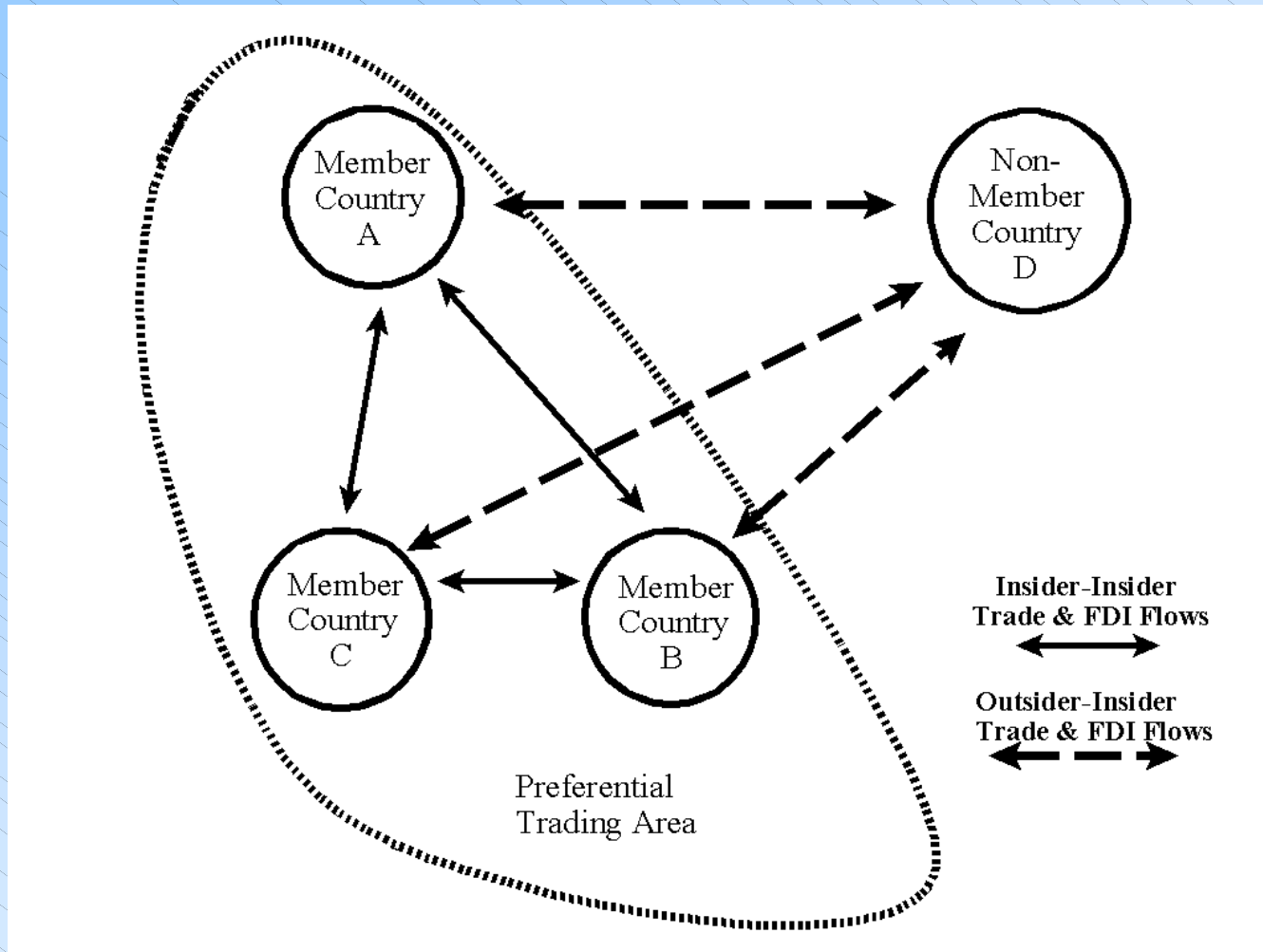
II. What is Regional Integration?



Preferential Trading Agreement

- A **Preferential Trading Agreement (PTA)** is an agreement between two or more countries where they reduce their barriers against one another, but leave their trade barriers against non-member countries.
- The two most common types of PTAs are the Free Trade Agreement (FTA) and the Customs Union.

Figure 1: A Preferential Trading Agreement



The Most Common PTA is the FTA

- A **Free Trade Agreement (FTA)** removes tariffs against members, but each member keeps its own barriers against non-members. Rules of origin are used to determine which goods qualify for duty-free access within the FTA.
- Examples of FTAs:
 - Canada-US Free Trade Agreement (CUSFTA) 1989
 - North-American Free Trade Agreement (NAFTA), 1994

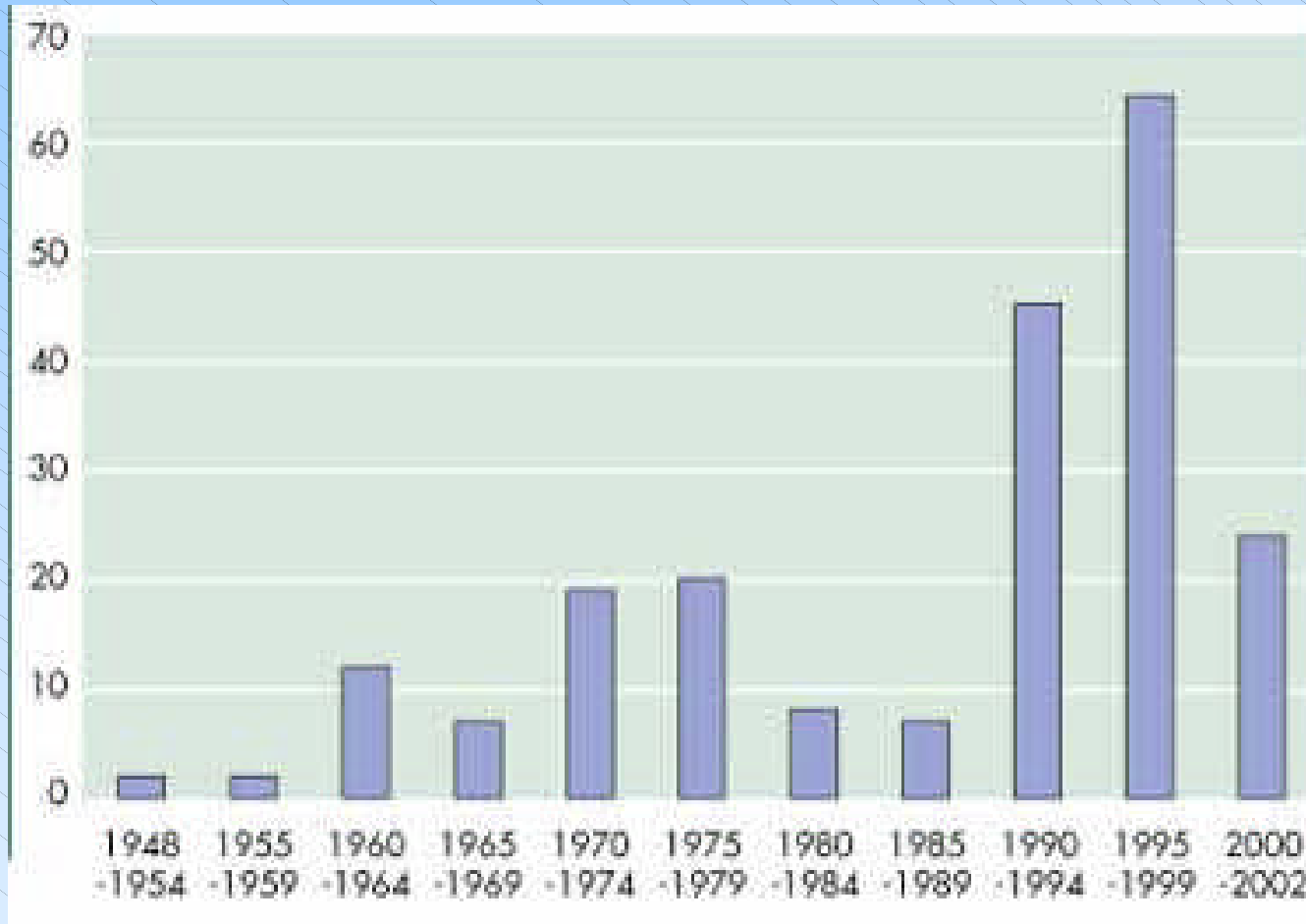
Second Most Common PTA: Customs Union

- A **Customs Union** is an FTA but all members have a common external tariff against non-member countries.
- Examples:
 - European Union
 - Mercosur (Southern Cone Common Market): Brazil, Argentina, Uruguay & Paraguay, formed in 1991, implemented in 1995

How Can PTAs Change over Time?

- The total number of PTAs can expand or contract.
- Existing PTAs can become weaker or stronger. They become stronger through:
 - **Broadening**: add more member countries (e.g., European Union expansion)
 - **Deepening**: reducing or harmonizing other forms of cross-border barriers between member countries.

Number of PTAs Notified to GATT/WTO, 1948-2002



This table shows the number of PTAs notified to the GATT/WTO exploded in the 1990s. In addition, existing PTAs have also broadened and deepened.

GATT
Secretariat

What is Regional Integration?

- **Regional integration** literally means ***economic integration of the region***.
- It therefore involves the creation or expansion of a PTA involving two or more countries in the same geographic region.
- All forms of PTAs are included, but the most common are FTAs and Customs Unions.

What is Regional Integration in the Americas?

- ***Regional integration in the Americas*** includes all PTAs involving:
 - Two or more countries in the Western Hemisphere.
 - Two or more countries inside, and one or more countries outside, the Western Hemisphere.
- It does ***not include*** a PTA between one country in the Western Hemisphere and other countries outside the Western Hemisphere because that does not deepen integration inside the Americas.

III. The Old Regionalism



The Old Regionalism in the Americas

- Primarily “South-South” agreements – between developing countries in Latin America.
- Shallow integration – tariff removal only.
- Purpose was *Import Substitution Industrialization* - encourage domestic manufacturing inside the RTA, using high tariffs to keep out imports from non-member countries.
- Old regionalism kept countries out of the world trading system.

Old RTAs in the Americas

- Central American Common Market (CACM) 1960
- Latin American Free Trade Agreement (LAFTA) 1960
- **Canada-US Auto Pact** 1965
- Andean Community (AC) 1969
- Caribbean Community (CARICOM) 1973

* RTA in red bold is the only sectoral and North-North agreement.

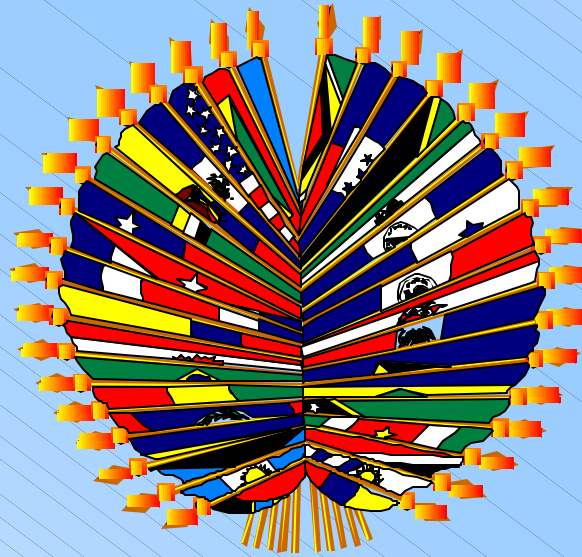
Member Countries: Old RTAs in the Americas

- **Andean Community:** Bolivia, Colombia, Ecuador, Peru, Venezuela.
- **CACM:** Guatemala, El Salvador, Nicaragua, Honduras, Costa Rica.
- **CARICOM:** Antigua and Barbuda, Bahamas, Barbados, Belize, Dominica, Grenada, Guyana, Jamaica, Montserrat, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines, Suriname, Trinidad and Tobago.
- **LAFTA:** Argentina, Bolivia, Brazil, Chile, Colombia, Ecuador, Mexico, Paraguay, Peru, Uruguay and Venezuela. Renamed *Latin American Integration Association (LAI)* in 1980.

Old Regionalism Withers Away.....

- Rise in world oil prices in 1970s benefits oil producers (Mexico, Venezuela). They experience rapid growth based on oil exports.
 - Borrowing from rich country banks skyrockets.
 - Heavy reliance on big government, state-owned enterprises, high trade barriers and highly subsidized domestic manufacturing.
- Old Regionalism in the Americas withers away. Half-hearted integration. Only removed tariffs where they didn't hurt..... No sudden death but impetus fades.

IV. The New Regionalism



Fresh Winds Bring New Ideas

- **Push**

- **Debt crisis** in Latin America.
- From military juntas to **democracy** in Latin America (e.g. Chile)
- **Loss of competitiveness** in North America.

- **Pull**

- Demonstration effect of **East Asian Miracle**.
- **Thatcher Revolution** – shift in ideology from states to markets. Liberalize, privatize and deregulate as recipes for growth.
- Fall of **Berlin Wall** and end of Communism.

The New Regionalism in Latin America

- Latin America follows East Asian Tigers. Shifts from ISI (import substitution) to EOI (export oriented) industrialization.
- Regional integration becomes tool for integration *into* world economy.
- Desire to revive and deepen old RTAs and create new RTAs.
- Not just “South-South” agreements → shift to “North-South” agreements.

The New “South-South” RTAs in the Americas

Mercosur	1991	CACM-Dominican Republic	1998
Chile-Venezuela	1993	Chile-Peru	1998
Colombia-Chile	1994	Chile-CACM	1999
Costa Rica-Mexico	1994	Chile-Mexico	1999
Group of Three (G-3)	1994	Mexico-Northern Triangle Central America	2000
Bolivia-Mexico	1994	CARICOM-Dom Rep	2000
Chile-Mercosur	1996	Costa Rica-Trinidad & Tobago	2002
Bolivia-Mercosur	1996	El Salvador-Panama	2002
Mexico-Nicaragua	1997		

The New “North-South” RTAs

Inside the Americas

Mexico in NAFTA	1992
Chile-Canada	1996
Chile-United States	2002
Canada-Costa Rica	2001

Outside the Americas

Mexico-European Union	1999
Mexico-EFTA	2000
Mexico-Israel	2000
Chile-European Union	2002

RTAs under Discussion in 2003

South-South RTAs

Mercosur-AC

Costa Rica-Panama

Mexico-Panama

Mexico-Peru

Mexico-Ecuador

Mexico-Trinidad and Tobago

Brazil-China

Brazil-Russia

North-South RTAs

CACM-United States

Central America-4-Canada

Chile-EFTA

FTAA

Uruguay-United States

CARICOM-European Union

Mexico-Japan

Mercosur-European Union

Chile-South Korea

* RTAs in red bold are inside the Americas, black are outside the Americas.

V. Impacts of the New Regionalism



Impacts of the New Regionalism

- Positive Effects
 - From shallow integration to deep integration
 - From trade diversion to trade creation
 - Faster growth in trade and FDI
- Negative Effects
 - Proliferation of RTAs
 - Faster growth in illegal cross-border activities.

Positive Aspects of New Regionalism: #1

- Comparing Old and New Regionalisms:
 1. From *shallow integration* (removal of only tariffs) to *deep integration* (removal of all kinds of barriers within the region).
 2. Slow move from *trade diversion* (diverting trade away from nonmembers) to *trade creation* (generating new trade without harming nonmember countries).
 3. Much faster growth in international trade and foreign direct investment.

How Deep Are the New Agreements?

Provisions in the Agreement for:	Mercosur	NAFTA	Chile-USA
Tariff removal (shallow integration)	✓	✓	✓
Special treatment Agriculture & Autos	✓	✓	✓
Anti-dumping/countervailing duties	0	✓	✓
General dispute settlement	✓	✓	✓
Government procurement	0	✓	✓
Investment & Intellectual Property	✓	✓	✓
Investor-state dispute settlement	✓	✓	✓
Labor/Environment	0	Side	✓
Rules of origin	✓	✓	✓
Sanitary & phytosanitary measures	0	✓	✓
Services & temp entry bus persons	✓	✓	✓
Standards & technical trade barriers	✓	✓	✓

Positive Aspects of New Regionalism: #2

- **Comparing New and Old Regionalism:**
 1. From *shallow integration* (removal of only tariffs) to *deep integration* (removal of all kinds of barriers within the region).
 2. Slow move from ***trade diversion*** (diverting trade away from nonmembers) to ***trade creation*** (generating new trade without harming nonmembers).
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How Fast is Intra-Bloc Trade Growing?

1980-84 1985-89 1990-94 1995-99 2000

Percentage of Intra-Bloc Trade for Selected RTAs in the Americas

NAFTA	41.3	46.7	48.2	53.2	58.8
Mercosur	9.9	8.5	15.9	24.8	22.3
Andean Pact	5.0	4.8	9.1	13.2	10.8

Percentage of Intra-Bloc Trade in RTAs Outside the Americas

EU	62	65.1	66.5	65.1	66.9
EFTA	16.5	16.4	13.7	12.6	11.8
APEC	66.3	77.2	73.1	74.3	75.2
ASEAN	20.8	18.9	22.5	24.8	24.5
Aust-NZ	8	8.4	9.1	10.7	9.3

Source: Asian Dev Bank, 2002.

Trade Intensity Index: A Measure of Trade Diversion

	1980–84	1985-89	1990–94	1995-99	2000
NAFTA	1.8	1.8	2.0	2.2	2.2
Mercosur	5.6	7.5	11.7	13.2	14.3
Andean Community	3.6	5.4	10.9	15.7	16.6
EU	1.5	1.5	1.6	1.7	1.7
EFTA	2.3	2.1	2.0	2.1	2.2
ASEAN	4.2	4.8	3.8	3.7	4.0
Aust-NZ	4.1	4.6	5.8	7.1	6.8

TTI is the ratio of the RTA's intra-bloc trade share divided by the RTA's share of all world trade. The higher the TTI the more likely is trade diversion: NAFTA is trade creating but Mercosur & Andean Pact are not. Source: Asian Dev Bank, 2002.

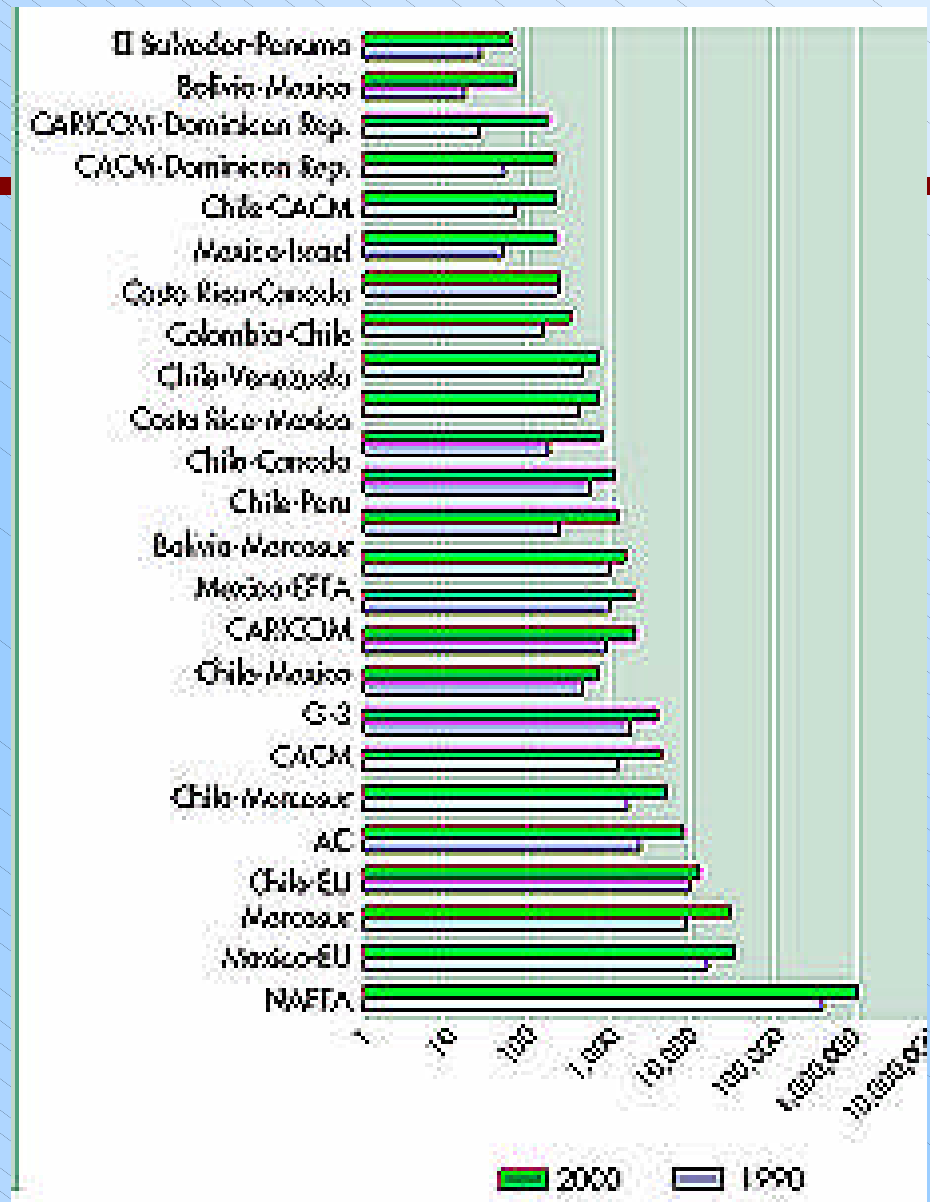
Positive Aspects of New Regionalism: #3

■ Comparing New and Old Regionalism:

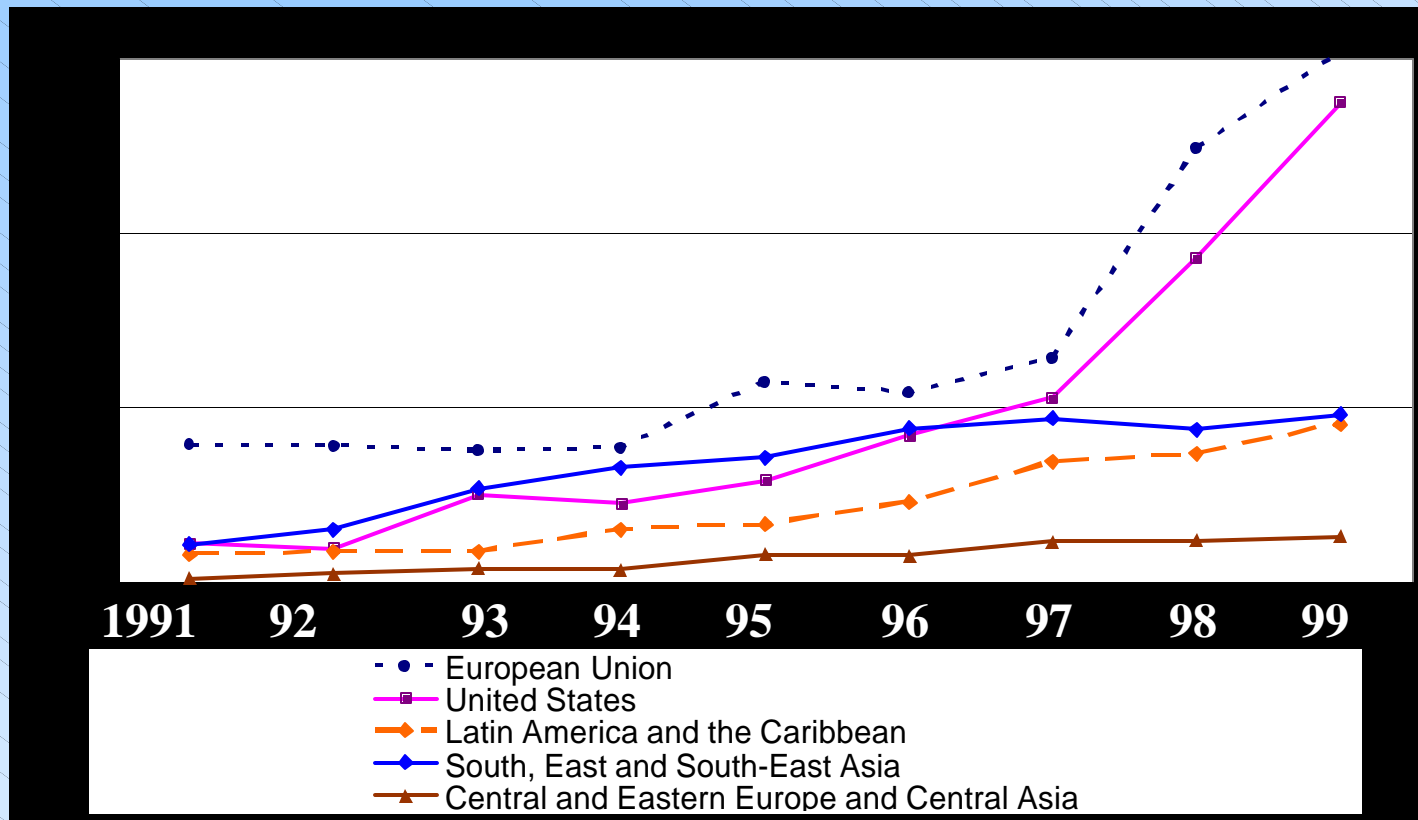
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Growth in Intra-bloc Trade in the Americas, 1990 and 2000 (millions of 1990 constant dollars)

IBD, 2002



FDI Inflows by Region, 1991-99 (\$US billion)



UNCTAD

Negative Aspects of New Regionalism: #1

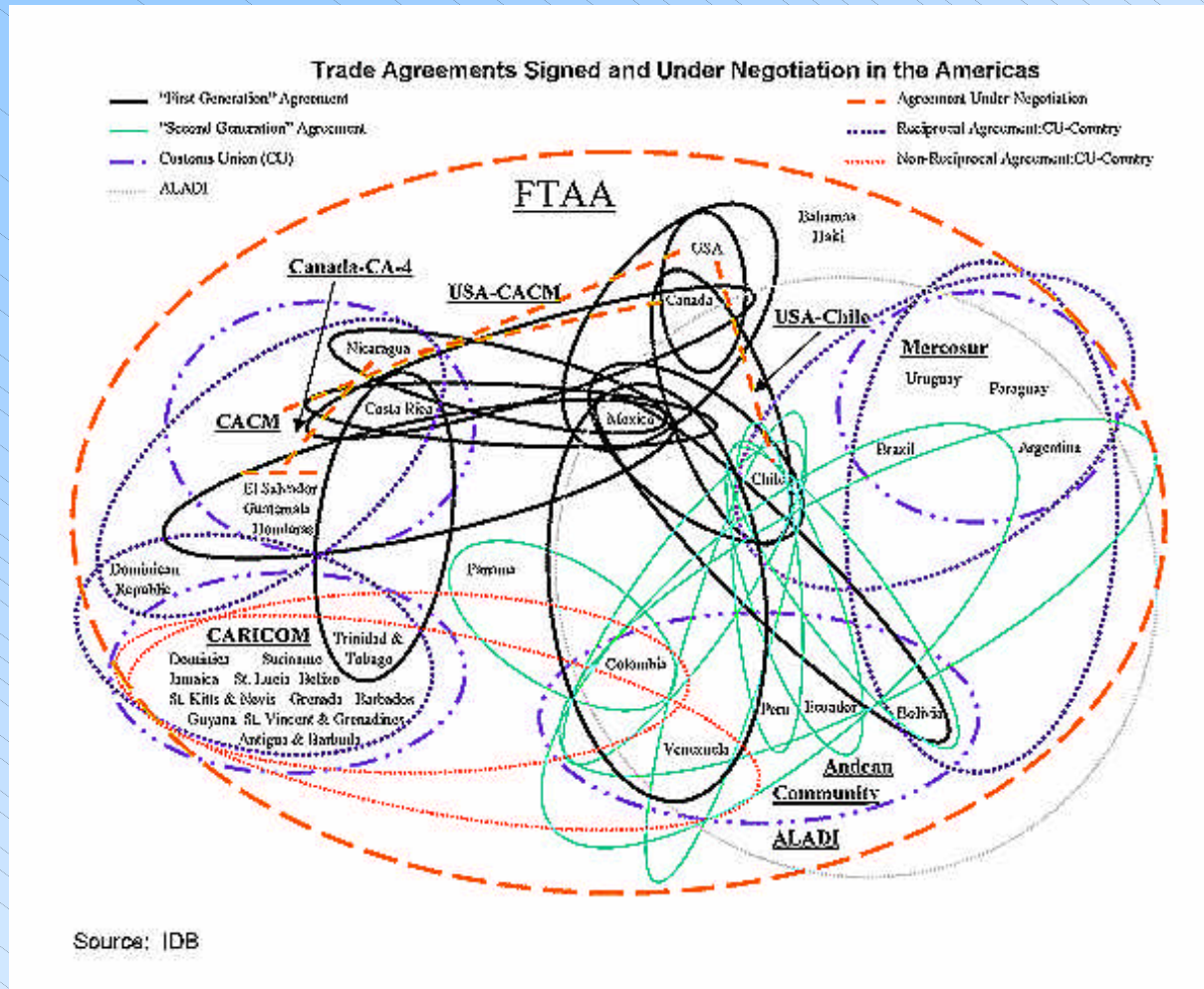
1. In the Americas there are now 45 preferential trading agreements: 28 signed and 17 under negotiation. This creates a “*spaghetti bowl*” effect.

→ **How can we reduce the proliferation of RTAs in the Americas?**

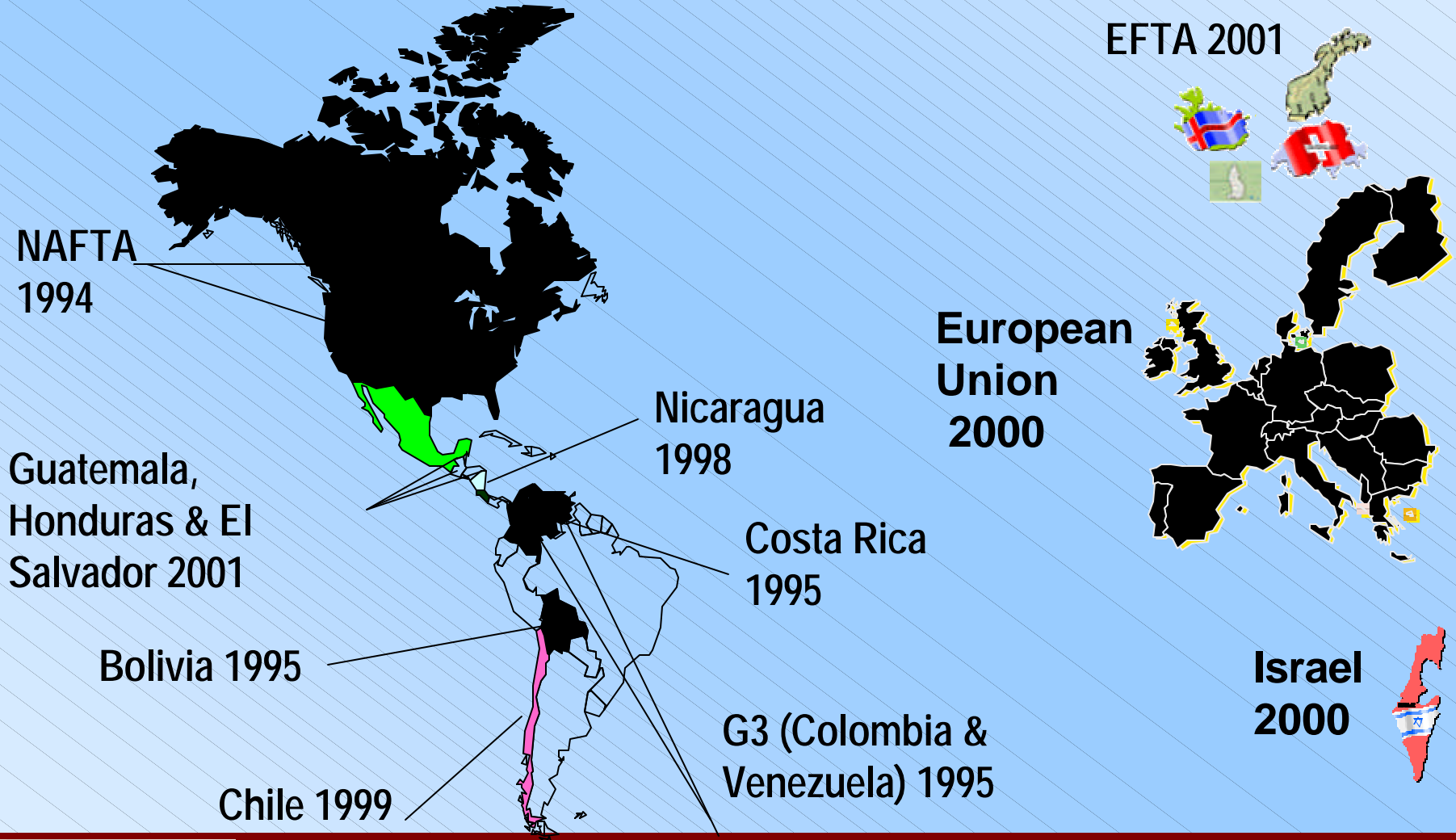
2. Regional integration encourages both legal and illegal crossborder flows:

→ **How can we keep legal but discourage illegal flows?**

“Spaghetti Bowl” of RTAs in the Americas



An Example of RTA Proliferation: Mexico



Negative Aspects of New Regionalism: #2

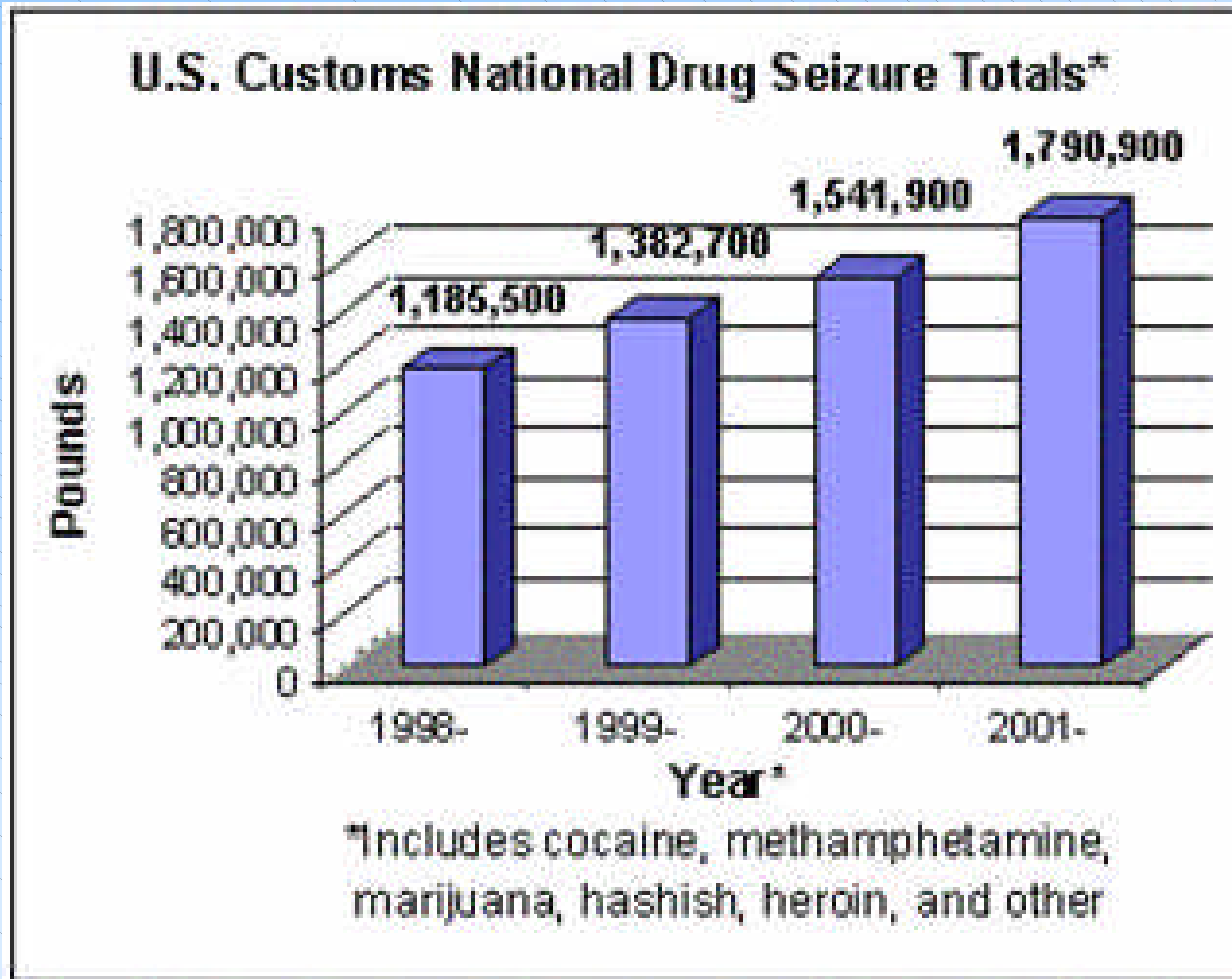
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 - How can we reduce the proliferation of RTAs in the Americas?
2. Regional integration encourages both legal and illegal crossborder flows:
 - How can we keep legal but discourage illegal flows?

Keeping the Door Open -- and Closed?



US Customs agents on the Laredo – Nuevo Laredo border

U.S. Illegal Drug Seizures, 1998-2001



- U.S. Customs Service seized 1.79 million pounds of illicit drugs in 2001 (up 16% over 2000). Almost 29% of seizures took place along the US-Mexico border (up 19% over 2000).

US Embassy, MX

VI. Where to Next?



New Regionalism at the Crossroads?

■ Pro-Regional Integration

- President Bush has **fast track** authority and has signaled desire to negotiate more PTAs.

■ Anti-Regional Integration

- **Sept 11** slows cross-border flows.
- Worldwide **recession** → protectionism.
- Drop in trade & FDI in 2001 & 2002.
- Latin American **currency crises**.
- New **WTO** trade round – government trade resources devoted to multilateral negotiations.

Where to Next - Policy Option #1: Deepening

- **Further deepen existing RTAs in the Americas such as NAFTA:**
 - **Remove remaining tariff barriers** (e.g. mean agricultural tariffs in NAFTA in 2000 Mexico 23.3%, Canada 20.8%, USA 11.4%).
 - Harmonize external tariffs → **move from FTA to customs union.**
 - Improve border effectiveness to allow **free flow of legal -- but curb illegal -- activities.**

Where to Next - Policy Option #2 Broadening

- **End proliferation of small RTAs in the Americas by broadening existing arrangements.**
 - Bilateral RTAs could merge with larger groups (e.g. Chile with NAFTA).
 - Conclude FTAA (Free Trade Area of the Americas) negotiations (start date: Jan 1, 2005). **Sweep small RTAs into the FTAA.**

VII. Implications for Teaching Geography



Implications for Teaching Geography

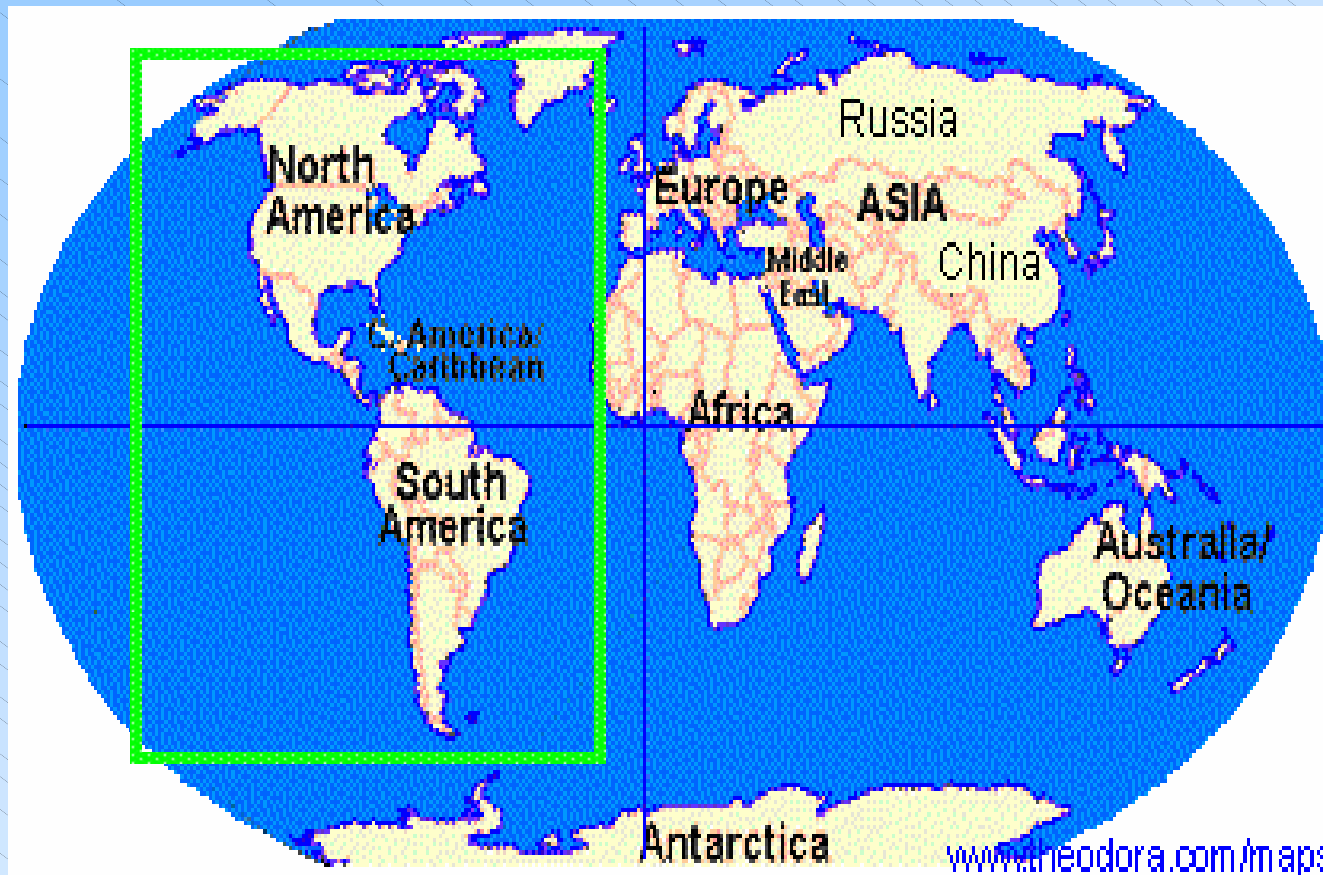
- Shift from an *America* focus on the United States to an *Americas* focus on the Western Hemisphere.
- Foster student awareness of the *Americas as their continental home*.
- Increase emphasis on:
 - *economic geography* of the Americas: trade, foreign investment, labor migration.
 - *border issues*, especially (for Texas) US-Mexico
 - *Spanish culture* so that students will move more easily within the Americas after graduation.

The Americas: The Yukon to Tierra del Fuego

- Possible topics for exploration:
 - The *Americas* as a Geographic and Economic Space
 - Biggest – and smallest - countries
 - Individual RTAs, e.g., NAFTA , Mercosur
 - Trade and investment patterns
 - The US-Mexico and US-Canada borders
- ➔ Examples follow.....

The Americas: The Yukon to Tierra del Fuego

- 40 Mil. Sq. Km
- 802.5 Mill people
- US\$ 11 Trillion GDP



Americas Includes SIX of Top 20 Countries by Area

1. Russian Fed.	17,075	11. Congo D. Rep.	2,345
2. Canada	9,971	12. Saudi Arabia	2,150
3. China	9,597	13. Mexico	1,958
4. United States	9,364	14. Indonesia	1,905
5. Brazil	8,547	15. Iran	1,633
6. Australia	7,741	16. Mongolia	1,567
7. India	3,288	17. Peru	1,285
8. Argentina	2,780	18. Chad	1,284
9. Kazakhstan	2,717	19. Niger	1,267
10. Algeria	2,382	20. Angola	1,247

* Measured in thousands of square kilometers

Americas Includes THREE of Top 20 Countries by Population

Millions (1998)

1. China	1,239	11. Mexico	96
2. India	980	12. Vietnam	78
3. United States	270	13. Germany	82
4. Indonesia	204	14. Philippines	75
5. Brazil	166	15. Turkey	63
6. Bangladesh	126	16. Thailand	71
7. Japan	126	17. Iran	62
8. Russian Fed.	147	18. Ethiopia	61
9. Pakistan	132	19. Egypt	61
10. Nigeria	121	20. France	59

Americas Includes FIVE of Top 20 Countries by GDP

1. United States	8,351	11. India	442
2. Japan	4,079	12. Mexico	429
3. Germany	2,079	13. Korea	398
4. France	1,427	14. Netherlands	384
5. U. Kingdom	1,338	15. Australia	381
6. Italy	1,136	16. Russian Fed.	333
7. China	980	17. Argentina	278
8. Brazil	743	18. Switzerland	273
9. Canada	591	19. Belgium	251
10. Spain	552	20. Sweden	222

* GDP in billions of U.S. Dollars

The U.S.-Mexico Border Area



- 3,200 Kms./2,000 mi.
- 42 bridges + 13 train crossings
- 250 million annual crossings
- Links 10 million people
- 3,300 maquiladoras employ 1.2 million workers
- 80% of US-Mexico bilateral trade

The End --- Questions?



Resources Used in this Presentation

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