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Regional dynamics and external influences in the discussions about the model of economic integration in Latin America

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## **Abstract**

This paper analyses the current scenario of regional economic integration in Latin America. Thus, it is argued that economic integration in this region is currently developing in three axes: an open integration axis (represented by the Pacific Alliance); a revisionist axis (symbolized by the Southern Common Market –Mercosur-) and an anti-systemic axis (represented by the Bolivarian Alliance for the People of our America –ALBA-). In each of these initiatives, diverse models of regional economic integration have been adopted. The relation between the current regionalist axes and the diverse models of economic integration in Latin America is discussed in the paper. Similarly, the paper evaluates the extent to which extra-regional initiatives, such as the European Union, the North American Free Trade Agreement (NAFTA) and the Association of South East Asian Nations (ASEAN) have also influenced on the models of economic integration in Latin America

## **Keywords**

Regionalism, ALBA, Pacific Alliance, Mercosur, Latin America.



The French scholar Olivier Dabène has asserted that “yet without a doubt, Latin America is the ‘other’ continent with a long tradition of modern regional integration, dating back to the post–World War II era.”<sup>1</sup> Other specialists add that the origins of Latin American regionalism can be traced back to long before the initiatives were promoted in the 1950s.<sup>2</sup> There is a driven force behind the resilience of regionalism in Latin America: the idea that this latter could help achieving economic development and political autonomy. These goals have been sought by Latin American countries for decades. This commitment to regionalism was expressed from the 1950s to the 1980s in the project of creating a Latin American Common Market that embraced all the countries of this sub-continent, as proposed by the Latin America Economic Commission for Latin America (ECLAC).

Nevertheless, the scenario of economic regionalism in the early 21<sup>st</sup> century is quite different to that proposed by ECLAC in the 1950s. One observes a fragmentation of Latin American regional economic integration in three axes: an open integration axis (represented by the Pacific Alliance); a revisionist axis (symbolized by Mercosur) and an anti-systemic axis (represented by ALBA). However, it is not just a question of geographical dispersion but a problem of political economy, because in each of the above-mentioned axes, diverse and even contradictory models of regional integration are promoted. This paper discusses this fragmentation of regionalism and the current debates about the economic model to be followed in the diverse schemes of economic integration developed in Latin America. Similarly, the paper evaluates the extent to which extra-regional initiatives, such as the European Union, the North American Free Trade Agreement (NAFTA) and the Association of Southeast Asian States (ASEAN) have influenced the debate about the model of economic integration in Latin America.

## **1. The new regional dynamics in the Latin American economic integration**

### ***1.1 The Mercosur axis***

The Treaty of Asunción setting up Mercosur was signed in March 1991 with the aim of establishing a free trade zone and a common external tariff between Argentina, Brazil, Paraguay and Uruguay. Despite this initial trade bias, Mercosur has experienced a gradual process of transformation in order to complement the original trade focus with new social and productive dimensions. These changes took place gradually throughout the 1990s but they were deepened after 2003, when left-wing leaders took power in Brazil (Luiz Inacio Lula de Silva, 2003), Argentina (Nestor Kirchner 2003), Uruguay (Tabaré Vasquez 2005) and Paraguay (Fernando Lugo 2008). These new leaders advanced a “review” of the model of economic integration centred on trade. They did not reject free trade but considered that because of the structural conditions of the Southern Cone societies free trade was not enough. Consequently, they started a process to complement the trade dimension with policies in the social and productive domains, in what has been called “the new Mercosur”.

Early changes took place in the labour sector in the 1990s, resulting in the Mercosur Socio-Labour Declaration being approved in 1998, followed by the Social Security Regional Agreement being signed in 1998 and, the Treaty on Regional Labour Migration being passed in 2001. Subsequent changes occurred in other social domains. From 2000 onwards, Mercosur discussed setting up of a regional social policy, namely the implementation of redistributive policies enabling the population to gain access to education, health, housing and quality public services. The process was deepened after 2003, examples of which are the establishment of a Council of Ministers of Social Development in

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<sup>1</sup> Dabène, Olivier, *The politics of regional integration in Latin America. Theoretical and comparative explanations*, Houndmills, Palgrave Macmillan 2009, p. 3.

<sup>2</sup> Cf. Rivarola Puntigliano, Andrés and José Briceño Ruiz (eds.), *Resilience of regionalism in Latin America and the Caribbean. Development and autonomy*, Houndmills, Palgrave Macmillan, 2013.

2005 and the creation of the Mercosur Social Institute in 2007. A Strategic Plan of the Social Action was approved in 2011, the objective of which was to develop an ambitious regional social plan to reduce poverty, redistribute wealth, promote social justice and regulate market institutions.

Similarly, Mercosur has been gradually returning to the idea of using regional integration as a mechanism to foster productive integration, i.e., industrialisation. This new dimension of Mercosur has been under development for the past few years and is still in its early stages. This notwithstanding, some important decisions, such as the creation of a Fund for Structural Convergence (called FOCEM in Spanish) in 2005 and the implementation in 2008 of a Regional Programme of Integration of Production have been made.

## ***1.2 The ALBA axis***

The ALBA is an anti-capitalist and anti-imperialist integration model, at least according to documents and speeches of their leaders. This integration scheme was originally proposed by Hugo Chávez in December 2001 during the Third Summit of the Association of Caribbean States (ACS), under the name Bolivarian Alternative for the Americas (ALBA). Originally, the ALBA was a rather vague proposal, which simply sought to confront the Free Trade Area of the Americas (FTAA) proposed by the United States. Thus, there were no public documents that explained the ALBA's objectives and mechanisms. The radicalisation of political conflict in Venezuela between 2002 and 2004 and allegations of U.S. support towards the Venezuelan opposition led to a radicalisation of Chavez's position against the FTAA. In this context, ALBA became a mechanism to promote an alternative regional integration different to the FTAA model. Afterwards, the Venezuelan government started to link ALBA to the idea of endogenous development furthered by specialists such as Osvaldo Sunkel<sup>3</sup> and Antonio Vazquez Barquero.<sup>4</sup>

The new stage in the conceptual definition of the ALBA was initiated 2004, after the victory of Chávez in the recall referendum held in August of that same that year. Henceforth, Chávez advocated a more confrontational policy vis-à-vis the United States, a country that he began to be described as an "empire". Chávez also radicalised the anti-neo-liberal rhetoric and even complemented it by an 'anti-capitalist' discourse and the promotion of a new economic model described as "XXI century Socialism". All these events had an impact on the process of the definition of ALBA. The Alternative proposals ceased to be the main topics for discussion in the ALBA. The new strategy also wanted to go beyond the idea of "endogenous development". The debate centred on the construction of a new model of integration, based on cultural, political and economic proposals that solved the problems of the region.

A crucial moment in this process took place in December 2004 when Fidel Castro and Hugo Chávez met in Havana to re-launch the ALBA initiative. This proposal began to be described as a new model of integration 'conceived as a comprehensive process to ensure the elimination of social inequalities and promote quality of life and effective participation of people in shaping their own destiny'.<sup>5</sup> Therefore, since the Summit of Havana, the ALBA was no longer just a Venezuelan proposal to confront the FTAA to deal with; it began to become a regional process. Another step in the construction of the ALBA was taken in April 2006 when, in a presidential Summit held in Havana, Bolivia joined the integration scheme. Bolivian President Evo Morales linked his proposal of a Treaty

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<sup>3</sup> Cf. Sunkel, Osvaldo, *Del desarrollo hacia adentro al desarrollo desde dentro. Un enfoque neo-estructuralista para América Latina*, México, Fondo de Cultura Económica, 1990.

<sup>4</sup> Cf. Vazquez-Barquero, Antonio, *Endogenous development. Networking, innovations, institutions and cities*, London-New York, Routledge, 2002.

<sup>5</sup> Declaración conjunta de Hugo Chávez y Fidel Castro durante la visita oficial del Presidente Hugo Chávez Frías a La Habana, 14 December 2004. República Bolivariana de Venezuela, Ministerio de Relaciones Exteriores, Libro Amarillo. 2004.

of Commerce of the People to the ALBA initiative. More recently, the ALBA is presented as a “chapter of the world revolutionary process.”<sup>6</sup>

### ***1.3 The axis of open regionalism: Pacific Alliance***

The third axis is represented by those countries that still are committed to the Washington Consensus economic model (Mexico, the Central American countries, Colombia, Peru and Chile). The development of this axis was initially linked to the promotion of free trade agreements with the United States based on the NAFTA model of regional integration. In this context, the Peruvian President, Alan Garcia, proposed the establishment of an association of those countries that had signed FTA with the US. The idea was welcomed by the Mexican and Colombian governments. After that, Colombia organised a Summit in the city of Santiago de Cali in January 2007, with the participation of Chile, Ecuador, El Salvador, Guatemala, Honduras, Mexico, Panama and Peru. The *Latin American Pacific Basin Initiative*, also known as the *Arc of the Pacific*, was created in that summit.

The Arc of the Pacific was transformed into the Alliance of Pacific in a summit held in Lima, Peru in April 2011. However, only 4 countries of the Pacific Arc were involved in the creation of a new regional bloc. According to Carl Dade and Carl Meacham, “in essence, the Pacific Alliance grew out of Arc leaders’ (Chile, Colombia, Peru, and Mexico) decision that they had had enough with the stalling and inaction of their fellow Arc members, instead choosing to cut their losses and move forward without them.”<sup>7</sup> However, in practical terms the Alliance was a transformation of the Arc. In fact, no new Summit of the Arc has been held, and some former members of the Arc are applying for full membership in the Alliance (Panama and Costa Rica), while others, such as Guatemala, are observers. Thus, “the Alliance is little more than a zone of deeper integration within the existing Arc framework”.<sup>8</sup>

The creation of the Pacific Alliance is closely related to the same changing regional and global political scenario that led to the creation of the Arc. On the one hand, the rise of new left-wing governments that are highly critical of open regionalism and of integration initiatives such as NAFTA, caused a reaction of those governments that still remain attached to the structural reform and trade liberalisation. On the other hand, the establishment of the Pacific Alliance is also a recognition of the growing importance of the Asia-Pacific countries as potential political and trade partners for Latin America, a fact that has deepened in the last few years, with China as a major economic player in this region.

Thus, the Pacific Alliance has a threefold dimension. Firstly, it is a bulwark used to defend the neoliberal economic policies implemented since the late 1980s in Latin America. Secondly, it is a response to the “ALBA axis” and to the idea of creating an “anti-systemic”, non-capitalist and anti-imperialist regional integration model. Finally, the Alliance is the space within which a regional scheme of negotiating with the Asia – Pacific region, and particularly with China, can be institutionalised.

The Pacific Alliance is indeed the last fortress defending the model of open regionalism implemented in Latin America since the 1990s. By chance, or for geographical reasons, most of the Latin American Pacific Rim countries have been excluded from the anti-neoliberal wave that began in

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<sup>6</sup> Bossi, Fernando Ramón, *Construyendo el ALBA de los pueblos*. Exposición realizada en el Foro que se realizó en la III Cumbre de los Pueblos, Mar del Plata, 3 de noviembre 2005, available at: <http://www.voltairenet.org/article131001.html> (accessed: 1 April 2010)

<sup>7</sup> Dade, Carl and Carl Meacham, “The Pacific Alliance: an example of lessons learned”, *Americas. A closer look*, Centre for Strategic and International Studies, July 11 2013, p. 4, available at: [https://csis.org/files/publication/130711\\_CDadeCMeacham\\_PacificAlliance.pdf](https://csis.org/files/publication/130711_CDadeCMeacham_PacificAlliance.pdf) (accessed: 11 November 2013).

<sup>8</sup> *Ibidem*, p. 5.

the region in 2003. By establishing the Pacific Alliance, those countries committed to “open regionalism” have created an exclusively Latin American scheme to defend the economic model based on the Washington Consensus. Thus, the Alliance is a process with a strong commercial bias and the logic of action is quite similar to the FTAA, in the sense that it has begun with a diagnosis of the rules on trade and investment and continued with trade negotiations. The agenda is also very similar to that negotiated in the FTAA and the FTAs. Although some summits’ Final Declarations have referred to issues such as social cohesion, the Pacific Alliance is not promoting a social or productive agenda similar to that fostered by the ‘revisionist axis’ represented by Mercosur. Obviously, the idea of a new ‘non-commercial’ integration model promoted by the ALBA ‘anti-systemic axis’ is not accepted in the Pacific Alliance.

Despite the consensus on the defence of an economic policy based on free market and trade liberalisation, little coordination existed among the countries of the Pacific Alliance. Mexico coordinated with Central America through the so called Tuxtla process in 1990s. This was replaced by the Meso-American Initiative in the 2000s. Mexico also participated in the Group of Three (G-3) with Colombia and Venezuela in the 1990s. However, the Mexican trade relations with Chile and Peru (even with Colombia, despite the G-3) are quite weak, and vice versa. To some extent, the economic “unifying factor” for all the members of the Pacific Alliance was the signing of FTAs with the US, but this fact has been used by the ‘ALBA axis’ as an argument to show that the Pacific Alliance is just committed to economic liberalisation, is subservient to U.S. interests and has abandoned the Latin American vocation.

## 2. The contending models in the stage of Latin American economic regionalism

Current Latin American economic regionalism is fragmented in empirical terms due to the existence of diverse axes, but also in theoretical terms because of the heterogeneity of models of regional integration. Thus, it is argued that three models of economic regionalism currently exist in Latin America: strategic regionalism, social regionalism and productive regionalism.<sup>9</sup>

Strategic analysis was incorporated into the so-called new trade theory at the beginning of the 1980s, generating new approaches and conclusions different to those provided by the traditional trade theory.<sup>10</sup> One of those conclusions is that governments could play a more active role in international trade. Thus, governments could promote strategic trade policies to assist their “national champions” in the international competition in oligopolistic markets by deciding to subsidise production, finance research and development or protect the domestic market.<sup>11</sup> The national champions are certain successful firms in key sectors, such as automobile industry, aircraft and electronics.

Strategic trade policy is a concept that has been used in slightly different ways in the academic literature, where it has at least two different, yet distinct meanings. Sometimes, strategic policy refers to trade policy that has direct military implications. The term strategic is sometimes also used simply as synonym for important. Thus, strategic trade policy is trade policy targeted towards industries that are thought to be “important” for some reason. James Brander<sup>12</sup> defines strategic trade policy as a

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<sup>9</sup> Cf. Briceño Ruiz, José, “Ejes y modelos en la etapa actual de la integración económica regional en América Latina”, *Estudios Internacionales*, Santiago de Chile, vol. XLV, no. 175, May – August 2013, pp. 9-39.

<sup>10</sup> Cf. Brander, James A. and Barbara Spencer, *International R&D Rivalry and Industrial Strategy*, NBER Working Paper Series, no. 1192, Cambridge, Massachusetts, August, 1983; Brander, James A. and Barbara Spencer, *Export Subsidies and International Share Rivalry*, NBER Working Paper Series, no. 1464, Cambridge, Massachusetts, September, 1984; Krugman, Paul, *Industrial Organization and International Trade*, NBER Working Paper Series, no. 1957, Cambridge, Massachusetts, June, 1986.

<sup>11</sup> *Ibidem*, p. 341.

<sup>12</sup> Brander, James A, *Strategic Trade Policy*, NBER Working Paper Series, no. 5052, Cambridge, Massachusetts, February 1995, p. 1.

policy that conditions or alters the “strategic relationship” between firms. This “strategic relationship” implies that firms should have a mutually recognised strategic interdependence. More formally, this implies that the profits of one firm must be directly affected by the individual strategic choices of other firms.<sup>13</sup> In this context, firms lobby governments in favour of measures that avoid their “national champions” losing their influence in the world economy.

Strategic trade policies were initially implemented at *national level*, the United States being one of the main promoters. The Ronald Reagan administration (1980-1988) built a coalition between the US government and Multinational Firms in the mid-1980s.<sup>14</sup> This coalition promoted unilateral, bilateral and multilateral strategies. At unilateral level, the US Congress passed legislation allowing retaliatory actions against those countries that, from the Washington perspective, had unfair trade practices. An example of such legislation is the Trade and Competitiveness Act, approved in 1998, in which the so-called Special “301” provision was included. During the 1980s, the US administrations promoted a *bilateral strategy* based upon the signing of bilateral free trade agreements with key countries, such as Israel and Canada. Finally, a *multilateral strategy*, based on the promotion and participation in the Uruguay Round of the General Agreement on Trade and Tariffs (GATT), was developed in the 1990s. In the framework of this strategy, the US fostered measures to liberalise services, public procurement and expand the protection of investments and intellectual property.

All these policies were based on the alliance between Multinational Firms and nation States, and were developed at a time when the world experienced the resurgence of economic regionalism. Despite the traditional US reluctance to preferential agreements, Washington decided to join that new wave of regional integration of the 1990s, using it as a mechanism to continue its strategic trade policy. Thus, strategic regionalism emerges as a modality of regional economic integration. According to Deblock and Brunelle, strategic regionalism is “a modality of international economic policy the objective of which is, using economic regionalism, to establish a *force ratio* and develop a comparative advantage on the international markets in favour of a group of countries that constitutes an economic entente.”<sup>15</sup>

The second model is *social regionalism*. The concept of “a regionalism reinforced with a social dimension” has been promoted by Nicola Yeates and Bob Deacon. According to them, social policy entails mechanisms that may be conceptualised as being constituted of three strands: redistribution, regulation and rights. *Redistribution* mechanisms aim at altering, usually in a way as to make equal, the distributive outcomes of economic activity. *Regulatory* activity frames the activities of businesses and other private actors so that they take more account of social aims and impacts. The articulation of *social rights* leads to some (more or less) effective legislative and institutional mechanisms that ensure citizens have access to their rights.<sup>16</sup>

Yeates and Deacon<sup>17</sup>, argue that regionalism could make the development of these three strands possible. Firstly, *regional social redistribution* can be promoted. This could take several forms ranging from using regional funds to target depressed localities, to stimulate health of shortage issues, or to stimulate cross-border cooperation. Similarly, regional social and labour *regulations* could also be

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<sup>13</sup> *Ibidem*.

<sup>14</sup> Haggard, Stephen, “The Political Economy of Regionalism in the Western Hemisphere”, in: Wise, Carol (editor), *The Post-NAFTA Political Economy. Mexico and the Western Hemisphere*, University Park, Pennsylvania, The Pennsylvania State University Press, 1998, p. 306.

<sup>15</sup> Deblock, Christian and Dorval Brunelle (1993), “Une intégration régionale stratégique : le cas nord-américain”, *Revue Etudes Internationales*, vol. XXIV, no. 3, September, p. 596.

<sup>16</sup> Yeates, Nicola and Bob Deacon, *Globalism, Regionalism and Social Policy: framing the debate*. Revised version of the paper presented to the High-Level Symposium on the Social Dimensions of Regionalism Montevideo, Uruguay, February 21<sup>st</sup>-23<sup>rd</sup>, organised as part of the International Forum on the Social Sciences-Policy Nexus, UNESCO, Buenos Aires, 20<sup>th</sup> – 24<sup>th</sup> February 2006.

<sup>17</sup> *Ibidem*.

approved. These could include standardised health and safety regulations to combat an intra-regional “race to the bottom”. Food production and handling standards can also be included. Agreements to promote the equal treatment of men and women, majority and minority could also be enacted.<sup>18</sup> Finally, regional integration could become an instrument to give citizens a voice to challenge their governments in terms of social rights. This has been the case of the European Union, where both the European Court of Justice and Europe’s Court of Human Rights have empowered people to defend the provision of social rights.

This is a scenario of regional integration quite different to that proposed by strategic regionalism. Accordingly, the objectives of regionalism cannot be limited to the liberalisation of tariffs and non-tariff barriers, but also include the coordination of cross-border policies of cooperation in social and environmental fields that could constitute the building blocks of a “federated” world of regions. If such a federation of regions could be created, the international redistribution from richer countries to poorer countries could be handled on regional basis. Global funds allocated on socio-economic criteria would then be allocated by a regional organisation, which would be responsible for further activities and projects in the social areas.<sup>19</sup>

Then, processes of regional integration can become an instrument used to contribute to the forging of transnational political alliances and stimulate regional cooperation in social issues. However, Nicola Yeates argues for the need of being realistic about potential contribution of current regional groups in the development of a regional social policy. Most of the current integration schemes have been the result of an alliance between nation states, corporate groups and multinational firms. These actors are not interested in the promotion of a social agenda. Certainly, labour organisations and development agencies have participated in these regional processes and they have demanded a stronger social dimension in the regional policies. Despite this, the greater part of regional integration initiatives are mostly trade agreements with no (of perhaps a quite limited) social agenda.<sup>20</sup>

Finally, the model of *productive regionalism* is mostly based on the theoretical principles of structuralist economic theory developed both in France and Latin America.<sup>21</sup> The purpose of the model is the promotion of economic development and the pursuit of power. The term “productive regionalism” refers to the use of regional integration initiatives as a mechanism to articulate common economic development policies. These policies would be the result of the voluntary action of both nation-states and productive actors and not only the result of the market forces. Thus, this model returns to the structuralist proposals, according to which state intervention in the economics is admitted.

This interventionist model takes up another element of the structuralist approach: the belief that the existence of an industrial sector is important for development and sustained growth. A strong industrial sector is fundamental to economic development because of its potential contribution to the increase of productivity, employment and income. In this sense, regional integration became a mechanism to foster the productive transformation through industrialization.

This model furthers the integration of production by creating innovation-based regional value chains. These chains will eventually be transformed into regional and global networks of production. Although the transnational corporations may bring about these chains, domestic firms involved in the

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<sup>18</sup> *Ibidem*, p. 6.

<sup>19</sup> Deacon, Bob, *The Governance and Politics of Global Social Policy*, *Social Policy and Society*, no. 4, 2005, pp. 441-442.

<sup>20</sup> Yeates, Nicola, *Globalization and Social Policy in a Development Context: Regional Responses*, *Social Policy and Development Programme*, Paper No. 18, April, Geneva, The United Nations Research Institute for Social Development (UNRISD), 2005, p. 7.

<sup>21</sup> Cf. Comisión Económica para América Latina (CEPAL); *El Mercado Común Latinoamericano*, Santiago, Organización de Naciones Unidas, 1959; Perroux, François, “Intégration économique. Qui intègre ? Au bénéfice de qui s’opère l’intégration ?”, *Économie appliquée*, vol. XIX, no. 3-4, p. 389-414.

production of parts and components may also participate. This process is known as “integration of production” or “productive integration” and it is associated with the fragmentation of production and the formation of alliances between firms in the post-Fordist world.<sup>22</sup> Additionally, economic growth and development are increasingly associated with technological development. Regional integration is perceived as a mechanism to promote cooperation in innovation, training and information exchange. It may also constitute a favorable framework for the establishment of an appropriate institutional setting, including complex issues such as intellectual property.<sup>23</sup>

This paper argues that the current axes of Latin American economic regionalism are associated with the diverse economic model explained in this section. Thus, Mercosur was originally an example of strategic regionalism.<sup>24</sup> However, from 2003 onwards this regional bloc gradually transformed the economic model to include elements of the models of social regionalism and productive regionalism. Conversely, the Pacific Alliance is a complex case, but this regional scheme has certain traits of strategic regionalism. Finally, the ALBA has a self-proclaimed anti-capitalist nature. However, some elements of social regionalism can be observed in this process. It is more contentious to describe the ALBA as an example of productive regionalism, but as discussed above, the debate regarding this issue is still on-going. A more comprehensive analysis of the economic model of these axes of Latin American is carried out in section 4 of this paper. But first an analysis of the external influences on these debates is needed.

### **3. The external influence in current Latin American debate**

Is this debate about the model of economic regionalism in Latin America free from external influences? It is well-known that the European experience of regional integration has been a reference from which many Latin American countries have designed their regional blocs and, in particular, it has affected the discussions about institutions. This notwithstanding, the proposals of an “open regionalism” furthered by the Economic Commission for Latin America and the Caribbean (ECLAC) were based on the Asia Pacific view of regionalism as way to make regional trade liberalisation compatible with multilateralism. In fact, open regionalism is an expression coined by Japanese political leaders in the 1950s and adopted by Australian scholars in the 1980s.<sup>25</sup> Finally, NAFTA has also been a model for the bilateral trade agreements signed by many Latin American countries throughout the 2000s.

Thus, the external influence has been present in the debates on regionalism in Latin America and the Caribbean. This does not mean, however, that this region has just reproduced or imitated external experiences. Latin American regionalism has a deep-rooted tradition originating in the 19<sup>th</sup> century. In other words, the growth of regionalism has been encouraged by the political and economic processes that have been developing for decades in that part of the world.<sup>26</sup> However, from an operational point of view, Latin American regionalism has been influenced by other regions. Europe was traditionally

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<sup>22</sup> Machado, João Bosco M., *Integração Produtiva: referencial analítico, experiência europeia e lições para o MERCOSUL*, Rio de Janeiro, CEPAL, IPEA, ABDI, 2007, p. 3.

<sup>23</sup> UNITED NATIONS CONFERENCE ON TRADE AND DEVELOPMENT (UNCTAD), *Regional Cooperation for Development, Trade and Development Report 2007*, New York - Geneva, United Nations, 2007, p. 45

<sup>24</sup> Cf. Briceño Ruiz, José, “Del Regionalismo estratégico al regionalismo social y productivo”, in: Briceño Ruiz, José (ed.), *El Mercosur y las complejidades de la integración regional*, Buenos Aires, Teseo, 2011, pp. 121-162.

<sup>25</sup> Cf. Garnaut, Ross, *Open regionalism and trade liberalization: an Asia-Pacific contribution to the world trade system*, Singapore, Institute of Southeast Asian Studies - Allen & Unwin, 1996; Terada, Takashi, ‘The origins of Japan’s APEC policy: Foreign Minister Takeo Miki’s Asia-Pacific policy and current implications’, *The Pacific Review*, vol. 11, no. 3, 1998, pp. 337-363.

<sup>26</sup> Cf. Briceño Ruiz and Andrés Rivarola Puntigliano, “The European Union and the making of South American regionalism”, in: Lombaerde, Philippe and Michael Schulz (eds.), *EU and World Regionalism*, London, Ashgate, 2009, 101-114.

the major external model but East Asia and North America have become increasingly important over the last few decades.

Four variables explain the influence of external models on the current debates on economic regional integration in Latin America: hegemony, agenda, institutional framework and ideological model. Leadership (or *hegemony*) refers to the existence of a major country responsible for paying the costs of the regional process by providing public goods. In this case, one identifies and analyses the existence of a single regional leader, core countries that shared leadership, or if there is a diffusion or dissemination of leadership between diverse countries. *Agenda* is related to the issues that are part of the regional process, namely, if this latter is limited to trade issues, security issues, or if other aspects such as social policy, regional policy, infrastructure, industrialisation, social cohesion are considered. *Institutional framework* refers to the institutions that govern the regional process and the decision-making processes adopted by them (supranational, intergovernmental or mixed). *Economic approach* is a variable that aims at identifying whether a regional group has adopted a liberal or interventionist strategy. Based on these variables, we construct 3 Weberian “ideal types” of models of integration around the world.

*Ideal type 1* is represented by the European Union. This regional bloc is described as a process in which core countries (Germany and France) have played a *leadership* role, acting as paymasters. Those states serve “as a point of coordination of rules, regulations”, that may help to ease distributional tensions in the integration process.<sup>27</sup> *The agenda* in this regional group is complex. The first steps of integration were made in the field of functional cooperation in the production of coal and steel in the early 1950. The process was extended to the atomic energy and trade in the Treaties of Rome in 1958. New issues such as agriculture, regional policy, monetary cooperation, social cohesion, environment, international cooperation, democracy and coordination of foreign policy and security issues were incorporated in the process in the following decades.

In terms of *institutional framework*, the European integration is described as a balance between supranational and intergovernmental institutions. As Alex Warleigh argues, the powers of the European Union as a whole have steadily grown throughout the decades of regional integration. Despite the growth of the European Union’s competences, much power has remained in the member states and “the Commission has not become the ‘European government’ sought by several founders of the European integration. Instead, legislative power has become more equally shared between the Council and the Parliament. That said, the central actors in EU decision making remain the member governments.”<sup>28</sup> Finally, the EU *economic approach* is a mixture of neo-liberal and interventionist ideas. Free markets are the major forces behind the trade and investment liberalisation in the EU, but intervention in some sectors such as agriculture, regional policy or social cohesion is allowed.

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<sup>27</sup> Mattli, Walter, *The logic of regional integration. Europe and beyond*, Cambridge, Cambridge University Press, 1999, p. 14.

<sup>28</sup> Warleigh, Alex, *Understanding European Institutions*, London -New York, Routledge, 2002, p. 12.

**Table 1**  
**Ideal types of models of regionalism around the World**

	Case	Leadership	Agenda	Institutional framework	Economic approach
Ideal type 1	European Union	Core countries	Complex (Trade, security, issues, production, regional policy, etc.)	Supranational	Mixed
Ideal type 2	NAFTA	Hegemony	Trade and security	Intergovernmental	Liberal
Ideal type 3	ASEAN	Diffusion	Trade and security.	Intergovernmental	Liberal

**Source:** elaborated by author.

*Ideal type 2* is represented by NAFTA. In terms of *leadership*, the United States is the main economic and political actor in the North American process. However, it is considered controversial as to whether this country has played the role of paymaster in NAFTA because of the lack in this regional group of common policies similar to those developed in the EU. The *agenda* of NAFTA also differs from the European experience. The multidimensional agenda that has distinguished the EU does not exist in NAFTA. Conversely, this latter is mainly centered on trade issues. Only after the terrorist attacks on 11<sup>th</sup> September 2001 did security enter the regional agenda, firstly in the Security and Prosperity Partnership of North America (2005) and later in the Merida Initiative (2010).

The *institutional framework* of NAFTA is intergovernmental. As Imtiaz Hussain has pointed out, “supranational, as a term, probably has little meaning in a region consisting in a superpower and stark asymmetries. Indeed, advances in regional integration (...) have utilized nationalism as their vehicle, with trilateral intergovernmental interaction emerging as the most dominant form of dispute-settlement behavior.”<sup>29</sup> Finally, NAFTA has a liberal approach to regional economic integration. Thus, “NAFTA has established a ruled based trade and investment regime under which economic openness and mobility of both trade and capital are maintained at trilateral level.”<sup>30</sup> Nonetheless, NAFTA does not aim at regulating aspects such as social policy or social cohesion, regional development policy, monetary cooperation, issues some of which have been regulated in the European Union since its early decades of economic integration.

Finally, *ideal type 3* is represented by the ASEAN. *Leadership* in this regional group is diffused in the sense that no single leader existed when the ASEAN was created in 1967. It could be argued that the United States played the role of *hegemon* in South East Asia during the Cold War and that this has

<sup>29</sup> Hussain, Imtiaz, *Revaluating NAFTA. Theory and practice*, Houndmills, Palgrave Macmillan, 2012, p. 78.

<sup>30</sup> Morales, Isidro, *Post-NAFTA North America. Reshaping the economic and political governance in a changing region*, Houndmills, Palgrave Macmillam, 2008, p. 38.

affected the consolidation of a single leader in the ASEAN. Some experts argue that there has been competition between Indonesia and Vietnam for the leadership in East Asia. According to Ralf Emmers, “Indonesia played the role of a benevolent *hegemon* within the association and contributed to regional stability and security in Southeast Asia.”<sup>31</sup> Accordingly, Indonesia would have played a managerial role in the ASEAN by influencing the solutions of regional conflicts. However, other countries such as Japan,<sup>32</sup> and more recently China,<sup>33</sup> have played an important role in the East Asian political and economic affairs, undermining the US hegemony in the region. Moreover, the leadership played by Indonesia in the ASEAN has also been disputed by the admission of Vietnam into the bloc in 1995. This latter country intended to take on leadership in Indochina for decades, in particular in Laos. It therefore seems difficult to believe that Vietnam did not expect to play an important role in the ASEAN. In short, it is a complex task to define, let alone describe a single leader or even core countries in the ASEAN.

The *agenda* of ASEAN is committed to promoting both economic and security goals. Thus, article 1 of the Declaration of Bangkok (the founding document of the ASEAN), stated as one of the objectives of the regional bloc to “accelerate economic growth, social progress and cultural development in the region through joint endeavours in the spirit of equality and partnership in order to strengthen the foundation for a prosperous and peaceful community.”<sup>34</sup> However, security cooperation was also a crucial issue on the ASEAN agenda. The objective was “to gain state security and regional autonomy by eradicating the internal sources of instability that potentially provided great powers with an opportunity to interfere in domestic affairs.”<sup>35</sup>

The so called “ASEAN way” describes the *institutional model* of this regional bloc, which “emphasizes constitutive norms that make the Westphalian state a centerpiece of regional cooperation, solidifies regional organization based on intergovernmentalism and stresses regulative rules like the reaching of consensus among member states.”<sup>36</sup> Therefore, “the deeply integrated political structures and the pooling of sovereignty that had been developed in Western Europe under the auspices of the European Union were decidedly not what the ASEAN states had in mind when they joined forces. On the contrary, the countries of Southeast Asia have been at pains to protect and reinforce rather than pool their often fragile sovereignty.”<sup>37</sup>

Finally, the ASEAN economic approach is liberal. As Kevin G. Cai asserts, “driven primarily by market forces, the process of East Asian integration is particularly manifested in the deepening economic interdependence among the economies in the region with rising intraregional trade and FDI flows and the concurrent declining importance of the US both as a market and as a source of investment for East Asian economies.”<sup>38</sup> However, the institutionalisation of economic integration in the ASEAN is different from that in the EU and NAFTA. These latter sought to create a single market

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<sup>31</sup> Emmers, Ralf, “Regional hegemonies and the exercises of power in South East Asia: a study of Indonesia and Vietnam”, *Asian Survey*, vol. 45, no. 4, July-August 2005, p. 648.

<sup>32</sup> Cf. Beeson, Mark, Japan and Southeast Asia: The Lineaments of Quasi-hegemony, available at: [http://espace.library.uq.edu.au/eserv.php?pid=UQ:10797&dsID=mb\\_quasi.pdf](http://espace.library.uq.edu.au/eserv.php?pid=UQ:10797&dsID=mb_quasi.pdf) (accessed: 24 November 2013).

<sup>33</sup> Cf. Shekhar, Vibhanshu, “ASEAN’s response to the rise of China; deploying a hedging strategy”, *China Report*, vol. 48, no. 3, 2012, pp. 253-268.

<sup>34</sup> The ASEAN Declaration of Bangkok, 8 August 1967, article 1, available at: <http://www.asean.org/news/item/the-asean-declaration-bangkok-declaration> (accessed: 16 November 2013):

<sup>35</sup> Jetschke, Anja, *Do Regional Organizations Travel? European Integration, Diffusion and the Case of ASEAN*, KFG Working Paper Series, No. 17, October 2010, Kolleg-Forschergruppe (KFG), The Transformative Power of Europe“, Freie Universität Berlin, p. 7.

<sup>36</sup> *Ibidem*, p. 5.

<sup>37</sup> Beeson, Mark, *Institutions of the Asia Pacific. ASEAN, APEC and beyond*, London, Routledge, 2009, p. 20.

<sup>38</sup> Cai, Kevin G., *The politics of economic regionalism. Explaining regional economic integration in East Asia*, Houndmills, Palgrave Macmillan, 2010, p. 93.

designed to promote free movement of the production factors. “By contrast, regional integration in East Asia primarily derived from the growth and expansion of international production networks (IPNs) in the region, which was the result of changing comparative advantages between the economies in the region and were closely related to the economic restructuring in both capital-exporting and importing economies with FDI serving as a bridge.”<sup>39</sup>

#### **4. Crossing the variables: regional dynamics, the external influences and the models of Latin American regionalism**

Mercosur has evolved as a model of regional economic integration. This regional bloc represents, in economic terms, a more mixed approach to development based on a combination of tariff protection alongside strategic liberalisation<sup>40</sup>. As conceived in the Asunción Treaty, Mercosur was mainly a trade bloc that aimed to further regional economic interdependence. Consequently, the objective was the regionalisation of exchanges by eliminating tariffs and non-tariff barriers and the creation of a common external market. It is easy to confirm the trade bias of Mercosur by just skimming the Asunción Treaty because the lack of normative to promote social policies, regional policy, infrastructure or productive integration is apparent. Mercosur was trade-centered in the Treaty of Asunción. This notwithstanding, some sectors considered “strategic” by national governments were excluded in the process of trade liberalisation. Such were the cases of automobiles and sugar, which did not enter into the logic of competence of the regional market. Conversely, they remained under a trade regime of high tariff protection. Thus, Mercosur was a combination of free trade and the protection of sectors considered strategic, a reason for which this paper has argued that this bloc originally developed a model of strategic regionalism.<sup>41</sup>

However, as explained in section 2, Mercosur has been gradually transformed since 2003 by including social and productive objectives. In the social domain, the Social Action Plan approved in 2011 is an example of the commitment to modifying the nature of the regional process by going beyond trade. It is not the goal of this paper to discuss the feasibility of this initiative but to stress the extent to which its approval highlights a new consensus on what Mercosur is all about. Beyond declarations, it is valid to argue that Mercosur cannot yet be described as promoting a regional social policy, but it is certainly a more socially coherent mechanism of regional integration than the Pacific Alliance or the FTAs. A regional fund was created in Mercosur in 2004, which in fact constitutes a *redistributive* measure leading to promote social cohesion in the region. In terms of *regulations*, Mercosur has approved a labour and social declaration, common regulations on pharmaceuticals, some reciprocal social security entitlements, and joint health and safety inspections. There have also been signed agreements recognising education credentials, degrees and diplomas across member countries. A council approved the establishment of the Mercosur Social Institute with the mandate to elaborate regional social policies, to organise and update regional social indicators, and to promote the exchange of good practices in the social field and cooperation mechanisms. However, no institution to defend *regional social rights* has been created as yet.<sup>42</sup>

Mercosur has also been influenced by external models. In terms of *leadership*, there is a never-ending discussion on Brazil and its real commitment to play the role of leader. However, it is hard to conceive Mercosur without Argentina. This regional scheme is a project that constructs a new alliance between two of the most important countries in South America. Since the 19<sup>th</sup> century both countries

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<sup>39</sup> *Ibidem*, p. 99.

<sup>40</sup> Gruegel, Jean, “New Regionalism and Modes of Governance. Comparing US and EU Strategies in Latin America”, *European Journal of International Relations*, vol.10, 2004, no 4, p. 610.

<sup>41</sup> Cf. Briceño Ruiz, “Del regionalismo estratégico”, *op. cit.*

<sup>42</sup> Deacon, Bob, Isabel Ortiz and Sergei Zelenev, *Regional Social Policy*, DESA Working Paper no. 37, ST/ESA/2007/DWP/37, June, New York, United Nations Department of Economic and Social Affairs, 2007, p. 17.

developed foreign policies that were aimed at establishing a special relationship with the hegemonic power (Great Britain or United States). This created an atmosphere of distrust between them that was characterised by hegemonic presumptions. The exacerbated militarism that dominated the politics in both countries for decades helped to maintain this environment of distrust, the economic component of which was the import substitution policy. Mercosur has been a mechanism used to supersede that distrust. Consequently, Mercosur core countries have promoted a strategy of creating a new geopolitical order as well as managing the new realities imposed by a global and competitive economic order. Here we see a comparable situation to that of the France – Germany axis in the EU. The *agenda* is also similar to the EU. Conversely to the NAFTA and ASEAN bias in trade and security, Mercosur has a comprehensive agenda that includes economic, political, social and productive goals.

Nevertheless, Mercosur has not been influenced by the EU's institutional model. Even if Mercosur has emulated the EU in some aspects by creating a Council of Minister of Foreign Affairs or Presidential Summits, the real difference lies in the fact that the South American bloc has advanced an intergovernmental approach that avoids any hint of supranationalism. Finally, the economic approach of Mercosur is closer to the EU than that of NAFTA and the ASEAN, especially from 2003 onwards, when the social and productive issues became increasingly important.

The Pacific Alliance is a trade-centered regional scheme with no social and productive goals. This comes as no surprise because the Alliance has been based on the model of the bilateral free trade agreements signed between diverse Latin American countries and the United States, which in turn were based upon NAFTA.

In terms of leadership, it is difficult to observe a single leader in the Pacific Alliance. Certainly, Peruvian President Alan García proposed the idea of creating an institution to join the Latin America countries located in the Pacific, but this did not lead to a Peruvian leadership in the process. It is valid to argue that due to its economic size and regional prestige the natural leader of this group is Mexico. However, no signal to accept such a leadership has been showed by the Mexican government. It is therefore valid to argue that a diffuse leadership exists in the Alliance, such as in the case of the ASEAN.

The influence of NAFTA and the ASEAN is also important in the agenda of Pacific Alliance, the main objective of which is the promotion of free trade and insertion in the global economy. In the Framework Agreement of this regional bloc that objective is clearly stated: "The goal of the alliance is to create an area of deep integration that promotes greater growth, development and competitiveness of the participating economies through the progressive search for free movement of goods, services, capital and persons."<sup>43</sup>

The institutional structure of the Pacific Alliance is also intergovernmental. As in the case of Mercosur, the Alliance has been reluctant to create any supranational institution or procedure to resolve disputes. Once again, it clear that NAFTA and the ASEAN are the major influences in this issue. Finally, the Pacific Alliance is based on a neo-liberal economic approach.

The ALBA is a complex case. Certainly there is not a free trade dimension in this regional scheme, and vague notions such as "fair trade" or "people's trade" have replaced trade liberalisation. This does not mean exchanges do not exist in the ALBA, but these operate in the framework of barter deals. Nor is the ALBA an example of productive integration that aims to promote value chains. The so-called Grand-national projects are presented as mechanisms to further productive integration, but these are mainly state-led projects that are not articulated within domestic firms. Consequently, the potential to foster regional value chains is quite limited. However, the ALBA would fit in the category of social

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<sup>43</sup> Acuerdo Marco de la Alianza del Pacífico, Article 3, available at: [http://www.sice.oas.org/TPD/Pacific\\_Alliance/Agreements/Framework\\_Agreement\\_Pacific\\_Alliance\\_s.pdf](http://www.sice.oas.org/TPD/Pacific_Alliance/Agreements/Framework_Agreement_Pacific_Alliance_s.pdf) (accessed: 13 November 2013).

regionalism. Social development is given a central position in the ALBA, with state-sponsored social projects run and equipped by regionally pooled resources, targeting specific areas such as education, health or sanitation deficiencies.<sup>44</sup>

Venezuela plays the role of *leader* in the ALBA. The very idea of the ALBA was proposed by Hugo Chávez in 2001, and the projects, institutions and mechanisms of this regional bloc have been designed and financed by Venezuela. The ALBA's *agenda* is not centred on trade. In reality, the main goals of this regional bloc are energy integration, social policy, cooperation among state-led firms and political cooperation. The ALBA's self-proclaimed anti-neo-liberal and anti-capitalist nature explains a logic of economic integration that rejects the traditional gradual transition from a free trade area to an economic union. Recent efforts aim at strengthening the trade dimension of the ALBA, an example of which is the so-called ALBA Economic Space (ECOALBA in Spanish). However, the ALBA is not about free trade but about "trade with complementarity, solidarity and cooperation."<sup>45</sup>

The ALBA is a traditional Latin American intergovernmental regional scheme. Despite the creation of specific councils to manage the regional scheme, presidents are actually the driving forces behind the project. It is therefore valid to describe the ALBA as a mostly inter-presidential space. Finally, the ALBA's *economic approach* is completely opposed to neo-liberalism. This does not mean that this regional group subscribes entirely to an interventionist model. For example, proposals of regional industrialisation are rejected in the ALBA because it is deemed to give an important role to an "industrializing bourgeoisie."<sup>46</sup> For all these reasons, it is difficult to argue that the ALBA could be influenced by the traditional external models (the EU, NAFTA or the ASEAN). The closest reference could be the former Council of Mutual Economic Cooperation (CAME), due to the existence of barter-trade mechanisms. Nevertheless, beyond this similarity, the ALBA differs from CAME in many other aspects.

## 5. Conclusions

Latin American economic regionalism is currently fragmented both in geographical and ideological terms. On the one hand, it is easy to observe the existence of three axes of economic regional integration (the so called "new Mercosur", the ALBA and the Pacific Alliance) that have emerged as part of a process of reconfiguring the political and economic scenario in Latin America. On the other hand, these axes subscribe to different economic models that are based on diverse approaches to economic development and different strategies of regional insertion in the world economy.

The external influence on this regional scenario is also complex. Traditionally, the EU was the benchmark used to assess the progress or stagnation of the regional integration schemes in Latin America. Nowadays, NAFTA and the ASEAN compete with the EU as external references, in particular in relation to the institutional model and, although to a minor extent, in the agenda and economic approach. This complex scenario is summarized in table 2.

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<sup>44</sup> Gardini, Gian Luca., "Unity and diversity in Latin American vision of regional integration", in: Gardini, Gian Luca and Peter Lambert, *Latin American foreign policies: between ideologies and pragmatism*, Houndmills, Palgrave Macmillan, 2011, p. 242.

<sup>45</sup> Cf. Agreement for the creation of the economic space OF ALBA-TCP (ECOALBA-TCP), available at: <http://www.alba-tcp.org/en/contenido/agreement-creation-economic-space-alba-tcp-ecoalba-tcp> (accessed: 28 October 2013).

<sup>46</sup> Martínez, Osvaldo, "ALBA o ALBA: dilemas de la integración", *Temas de Economía Mundial*, La Habana, nueva época, no. 2, febrero, pp. 66-87.

<b>Table 2</b>						
<b>The models of regional economic integration in Latin America</b>						
	<b>Economic model</b>	<b>Leadership</b>	<b>Agenda</b>	<b>Institutional framework</b>	<b>Economic approach</b>	<b>Main external influence</b>
Pacific Alliance	Strategic regionalism	Diffuse	Trade and trade related issues)	Intergovernmental	Liberal	NAFTA ASEAN
Mercosur	Hybrid (social regionalism, Productive regionalism)	Core-countries	Complex (Trade, social issues, production)	Intergovernmental	Mixed	EU
ALBA	Non-capitalist	Venezuela	Complex Ideological (security, energy, social issues)	Intergovernmental	Anti-capitalist	?

**Source:** elaborated by author.

Some preliminary conclusions can be presented. Firstly, it is easy to observe the various approaches to regional leadership in the current axes of economic regionalism, from the absence of a clear leader in the Pacific Alliance to the role as paymaster by Venezuela in the ALBA. Mercosur is still a complicated case because of the Brazilian reluctance to assume leadership in this regional bloc. Instead, the Brazilian government has chosen a sort of shared leadership with Argentina in the framework of a strategic partnership that still remains as a pillar of Mercosur.

If there is one aspect that shows the heterogeneity of current Latin American economic regionalism, it is the agenda. Mercosur, the ALBA and the Pacific Alliance have a significantly diverse goals and preferences and, consequently, different agendas. The Pacific Alliance is undoubtedly a trade bloc, while Mercosur is a hybrid that fosters trade but also social and productive objectives. Conversely, the ALBA's agenda aims to go beyond economic affairs to include political activism and influence Latin American regional politics, and to challenge the United States.

This diversity of the agenda is to some extent the result of the diverse approaches to economic regionalism. Once again, this is a manifestation of a region ideologically fragmented, with countries committed to neo-liberalism and associated with the Pacific Alliance, countries seeking to promote various forms of economic interventionism (the case of Mercosur), and countries that purport a confrontation with neo-liberalism and capitalism (those of the ALBA).

Despite all these differences, there is an aspect in which the diverse axes agree: the commitment to an intergovernmental institutional structure. Supranationality is an idea that has yet not taken roots in Latin America. The emergence of the ASEAN and NAFTA as external models that potentially could

influence Latin American regionalism have strengthened the “intergovernmental hegemonic approach” in the diverse axes analysed in this paper.

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