Development and Governance in Regionalism: Three Cases to Compare

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FIRST DRAFT *
(please do not quote)

Introduction

The upsurge of a new wave of regionalism all over the world at the beginning of the 1990s attracted much attention from politicians and academics. In fact, after a long period of retreat, regionalism has made a comeback: in some cases, this has entailed a renewal of old commitments, in others, the creation of new regions[1].

The revival of political and academic interest in this new wave of regionalism has given way to a large number of studies and analysis, which can be divided into two groups. The first one, from a political economy perspective, strived to account for the origin of this new phenomenon and its specific characteristics *vis-à-vis* the first wave of regionalism. A second group, based on an economic point of view, focused instead on the economic and political impact of these regional initiatives, trying to identify the factors that promote growth and democracy.

In terms of the origin, both groups agree that the forces driving this new regionalism lay at the global, rather than at the regional level, as was the case in Europe. Still differences emerge when it comes to the specific underlying force. While some authors take regional cooperation as a response of national states to the increasing overtaking of the public policymaking space by multinational corporations (MNCs) (Fawcett & Hurrel, 1995; Mattli, 1995; Strange, 1996); other scholars argue that this is a byproduct of the general dissatisfaction associated with the multilateral trading system both for developed[2] and developing countries[3]. The fact that developed countries, as shown by the United States (US) and the European Union (UE), are increasingly involved in free

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*I really want to thank Kristina Klincov (University of Waterloo) for her collaboration in the elaboration of this paper and Diana Tussie (FLACSO) and Andrea Bianculli (IBEI-FLACSO) for their useful comments.

[1] These developments include the creation of Mercosur (1991) and North-American Free Trade Agreement (NAFTA) (1993), the Arab Maghreb Union (AMU) in North Africa (1989). Some countries have also relaunched their commitment to greater unity within already existing organizations- as was the case in the European Community (1986) and the Association of South East Asian Nations (ASEAN) in 1991, the Organization of African Unity (OAU), the Andean Pact (1989) and the Central American Common Market (CACM) in 1990.

[2] Krugman (1993), for example, suggests that countries in general find regionalism an easier alternative because a larger number of participants in multilateral trade negotiations reduces the costs of non-cooperation and creates rigidity in the system.

[3] In terms of developing counties incentives, authors agree on the fact that most developing countries are dissatisfied with the progress at the World Trade Organization (WTO), where promises to expand global trade in three key areas - agriculture, textiles and services- have not led to concrete results (Ricupero, 2002; Tussie, 2003).

trade agreements (FTAs) with developing countries on a bilateral and regional basis is provided as key evidence to support this hypothesis. In fact, the transformation of US´ role from a supporter of multilateralism to a follower of regionalism is another major reason that accounts for the growth of regionalism since the 1990s (Bhagwati, 1993; Panagariya, 1996).

Regarding the specific characteristics of new regionalism, there is broad consensus on three key issues that confirm their qualitative departure form old regionalism. First, new regionalisms are not limited to economic cooperation among nations of equal development, but can also involve both developing and developed countries. Secondly, in order to gain access to markets and investments in the North, Southern partners do not confine the commitment to the reduction or elimination of trade barriers, but move on to include the harmonization and adjustment of regulatory agendas. These include government procurement procedures, subsidies, intellectual property rights, and standard setting in different policy areas, among others, which generally impinge on the capacity of public policy to foster growth and development. Finally, while old regionalism implied the development of supranational institutions to create regional structures and policies, today most governments reject these institutional and bureaucratic constraints. Nevertheless, these new regional initiatives do imply new governance strategies, in which private sectors and civil society actors are increasingly involved. Clearly, there is strong consensus in terms of the differences between old and new regionalism initiatives, though it is still unclear to what extent these studies and approaches have been able to provide with a theory[4].

Apart from the debate about the reasons and characteristics of new regionalism, the literature has widely discussed whether these new regional agreements either promote or hinder the multilateral trading system and global democracy. Empirical studies have centered on the identification of the factors that promote economic growth and democracy at the regional and national levels. Most economists have thus concluded that North-South agreements generate the largest trade and investment flows, as well as a convergence in income distribution, reducing the gap between the rich and poor (Venables, 1999; Devlin & Stevadeoral, 2001). In the same vein, political scientists have argued that North-South agreements involve more binding commitments from developing countries on national decision-making processes than South/South schemes (Botto, 2004; Grugel, 2007).

However, as new regional initiatives evolved and greater empirical evidence was gathered, these assumptions are being reviewed. First, the East Asian's dramatic growth in terms of trade and investment flows during the 1990s call for a deeper and new analysis on the effects of South-South agreements, and the inclusion of path dependence factors into the analysis. Second, the increasing income inequality in Latin America, including Mexico, during the 1990s, clearly demands a new framework for measuring the economic impact of trade liberalization on the basis that growth does not necessarily

[4] The idea to build a theory in new regionalism is based on three main findings. First, the idea that new regionalism is deeply related to the changes of global political economy. Second, that state actors are but one of the key agents among others .Finally, new regionalism is not just one form of region, but many and coexisting patterns. Nonetheless, scholars agree neither on the aspects nor on the approach to study this new phenomenon. In fact, three main theoretical approaches can be distinguished: the world order approach (Gamble and Payne, 1996); the New Regionalism Approach (Hettne and Söderbaum, 1998) and the new regionalism/post-modern approach (Marchand *et al.*, 1999).

imply distribution or development. Finally, the lack of social issues in these new regionalisms and the difficulties social actors and networks face when it comes to assuring the commitment of regional governments to the protection of global goods, calls for an analysis of whether participation channels only legitimate economic integration rather than deepening governance.

This paper intends to contribute to this debate in two distinct forms. First, it intends to broaden the empirical analysis through a comparative approach to the three coetaneous cases of new regionalism: the NAFTA, the Association of Southeast Asian Nations (ASEAN) and MERCOSUR, which are considered relatively successful cases in terms of economic growth. In addition, by selecting these cases we can compare across North-South and South-South agreements showing different path dependence characteristics. Our comparative analysis will build on three key dimensions of new regionalism: institutional performance (measured in terms of policy harmonization and institutions); the economic performance (measured in terms of increasing trade and investments flows) and, finally, the impacts on regional development and governance.

Second, the paper aims shed light on the impacts of these regionalisms in terms of economic development and political governance, two aspects that have been absent from the theoretical and empirical debate about integration. During the 1990s, economic development was broadly associated with economic growth, but today this vision is being criticized by the fact that trade liberalization and expanding trade flows have generated growth and improvements in efficiency in "sensitive" sectors, but have failed to promote social distribution of the integration gains.

Our comparative analysis shows that new regionalisms exhibit more differences than similarities, when it comes to the scope, institutional frameworks, and development models pursued. Whether these processes follow either a more pro-market or pro-state approach depends on the contextual traits of each region (path dependence) rather than on the development of certain patterns or economic institutions. In this sense, the trade liberalization processes implemented during the 1990s have not entailed a deep break with the past. On the contrary, they have accompanied and strengthened the regional cooperation processes already on the way.

Part One: One Concept for Three Different Realities

This section provides a brief description of the three integration processes in terms of their scope and institution building. Certainly, regional cooperation can adopt different forms and levels of integration. These are generally referred to as "coalitions of economic frontiers", where economic activities are deepened in order to benefit the nations of the region. The form that the integration adopts largely depends on the choices of the decision-makers in terms of scope.

Regional trade agreements can be broadly divided into five categories: Preferential Trade Agreements (PTAs), Free Trade Agreements (FTAs), Customs Unions (CUs), Common Markets and Economic Unions. A PTA is a union in which member countries impose lower trade barriers on goods produced within the union, with some flexibility for each member on the extent of the reduction. An FTA is a special case of PTA, where member countries abolish trade barriers completely (both tariff and non-tariff barriers) for goods origination within the region. However, in most cases, countries do not

abolish trade barriers completely even within FTAs. In fact, most agreements tend to exclude key sectors. A CU provides deeper integration than an FTA because unlike the latter, where member countries are allowed to maintain their individual level of tariff barriers for goods imported from non-member countries, a CU requires the implementation of a common external tariff (CET) on goods imported from outside the region. The CET can vary across goods but not across union partners. PTAs, FTAs and CUs involve what the trade literature has named “shallow integration” arrangements. Apart from these shallow arrangements, there are also two types of “deep integration”. The first stage of a process of “deep integration” is called common market, where member countries attempt to harmonize some institutional arrangements, as well as commercial and financial laws and regulations among themselves. In addition, a common market also entails free movements of factors of production, such as the removal of controls for the free movement of labor and capital. The final “deep integration” level is the “economic union”, where countries implement common economic policies and regulations, and adopt a single currency. The relationship between the various levels of regional agreements is graphically depicted in Table 1.

Table 1: Scope of Regional Integration

	Parcial tax reduction	Total tax reduction	Com.Ext. Tariff (CET)	Free movement of capital	Supranational institutions / regulations
Preferential agreement	+				
Free trade agreement (FTA)	+	+			
Custom union	+	+	+		
Common market	+	+	+	+	
Economic and Monetary Union (EMU)	+	+	+	+	+

The literature tends to characterize new regionalisms as FTAs in which not only tariffs are eliminated, but also regulatory issues - such as services, protection of foreign direct investments and intellectual property- are harmonized to attract foreign investments, showing thus a crucial departure from the so-called old regionalisms aimed at establishing a common market.

Moreover, according to the academic literature, new regionalisms are characterized by a certain amount of dislike and distrust of supranational institutions, an aspect that contrasts with the European integration process during the 1950s. In the 1990s, governments would rather rely on a minimal institution structure and the release of market forces.

1.a. MERCOSUR

According to the above classification, MERCOSUR seems to somewhat deviate from the general model of new regionalisms. In 1991, the four national governments signed the constitutive Treaty of Asuncion and supported the idea of constructing a market in

which, following the European example, the benefits of integration would not only be obtained by the large countries and productive sectors, but also by the smaller nations and less productive sectors.

However, four years later, a new agreement (Protocol of Ouro Preto, 1994) reduced the reach of economic integration to a customs union. In this new project, not only were intra-regional markets to be liberalized, but there would also be a CET to protect intraregional trade from outside competition. There are two reasons why MERCOSUR abandoned its initially ambitious project of constructing a common market. First, governments were reluctant to delegate power to supranational institutions and lose decision-making autonomy. Second, governments realized that upgrading social standards and establishing the free movement of labour would contradict the implementation of structural reforms at the national level.

In order to reach a customs union, the governments would follow different steps. First, they had to liberalize intra-regional trade, and only once the FTA had been established, they would create a CET intended to defend the regional industry from foreign competition. The CET had two effects: it harmonized the bloc's foreign policies in different international forums, and, at the same time, it assured the process of trade liberalization by curtailing domestic lobbies ("lock in" effect).

Intraregional trade liberalization was successfully achieved and within a short period, because of the binding decision taken by governments in the Treaty of Asuncion to implement the Trade Liberalization Program (a liberalization schedule including a progressive, universal and automatic reduction of nominal tariffs). By 1994, MERCOSUR had managed to liberalize most of its intraregional trade of goods, and 85% of the region's nominal tariffs were below 0%. The adoption of the CET was more erratic for various reasons. On the one hand, there was lack of information and technical knowledge. Given the process of structural reforms most countries had launched in the mid-1980s, there was no up-to-date national data on the situation of each country's customs (Botto & Bianculli, 2007). On the other hand, Brazil took a clear leadership role in regional negotiations and managed to impose its own national interest in the final decisions.

The CET was finally adopted in December 1994, and was heavily influenced by Brazil's preferences. Through an accelerated scheme (from 0 to 20%), the Brazilian government decided to protect the country's manufacturing industry – mainly in sectors such as steel, chemicals, motor vehicles, and textiles – from global competition and to guarantee itself a preferential access to MERCOSUR's regional market. Such a regional strategy allowed the Brazilian government to compensate the loss of shares that many of these industries were suffering because of the structural reforms (unilateral and multilateral liberalization) implemented at the national level (Bouzas *et al.,* 2004).

Apart from trade and tariff regulations, other initiatives on regulatory issues were discussed in the regional arena between 1993 and 1997, including macroeconomic, investment, and industrial policies. However, governments failed to deepen the consensus already established in all of them. Thus, no progress was made in terms of policy harmonization for the so-called special sectors (sugar and motor vehicles), the reduction of structural asymmetries, or the removal of non-tariff barriers. As long as all

four governments refused to lose autonomy, negotiations were blocked and MERCOSUR lost credibility in terms of its capacity to harmonize regional regulations (Ventura & Perotti, 2004).

In terms of institution building, MERCOSUR, once again, deviates from the general model of new regionalisms. Since its inception and in contrast to other regional agreements, governments agreed on the creation of a complex and decentralized structure and to delegate decision-making power to non-elected state representatives (such as politicians, bureaucrats and technicians), rather than keeping it to themselves. Almost all national ministries – health, education, justice, among others – have a regional forum or agency where they can discuss and cooperate with their regional partners. In 1995, the Protocol of Ouro Preto opened participation to non-governmental actors in the regional institutions. Two consultative organs were created: the Foro Consultivo Económico y Social (FES) allowed for the participation of business actors, trade unions and NGOs; while the Comisión Parlamentaria Conjunta involved national legislators in regional issues and contributed to the implementation of regional rules in the domestic arena. In order to facilitate the good functioning of the regional decision making process, MERCOSUR governments also created an Administrative Secretariat.

Since then, an increasing number of institutions have been created. Presently, there are almost 200 agencies involved in the regional decision-making process (Botto, 2003). Nonetheless, there are only three regional institutions led by the national Ministries of Economics and Foreign Affairs that have veto power and are thus able to decide whether the proposals and recommendations suggested by other ministries – social, labour, justice, among others – can be discussed and/or approved as a regional rule. In order of importance, these are the Common Market Council (CMC), which (leads) the ministers of Economy and Foreign Affairs; the Common Market Group (CMG), in which, together with second rank functionaries, the presidents and technicians of the central banks meet; and finally the Trade Market Commission (TMC), which is primarily entrusted to resolve intra-trade disputes.

1b. NAFTA

In the case of NAFTA, the initial objective was quite different both more ambitious and more modest: it was limited to the creation of an FTA to institutionalize an efficient transborder integration, which, to a certain degree, was already on the way between the US and Mexico. The auto industry is paradigmatic: Mexico provided the ensemble of auto parts to the parent companies in the US and Canada. Thus, the objective of the agreement was simply to sustain the increasing flows coming from US firms and investments into Mexico and, at the same time, avoid the movement of Mexican workers to the US. In order to encourage an economic integration and cooperation process that would go beyond the transborder limits and inject investments into other Mexican regions and productive sectors, NAFTA included a trade liberalization agenda with other issues, such as investments, intellectual property rights, government procurement, and policies intended to promote competition. These regulatory issues are known as WTO-plus measures.

In terms of the FTA, NAFTA pursued a scheme of tariff reduction, which was to be implemented within a time span of 10 years. For certain products, such as orange juice

for the US or corn and beans for Mexico, deadlines were extended to 15 years. Even if these products have remained protected until nowadays, the respective governments have committed to the elimination of all trade barriers by 2009. As far as non-tariff barriers are concerned, the agreement does not impose restrictions on the use of agricultural subsidies, which are extensively used by the US. However, restrictive rules of origin that determine which products are entitled to preferential treatment, were part of the agreement and the cost of complying with these rules has been very high for Mexico, eroding the benefits that the country might have gained form preferential market access (Anson *et al.*, 2006).

The harmonization of regulations for services, investments, intellectual property rights, government procurement, and competition policy has also been achieved. Further, new regulations on social issues were included because of the pressure exercised by transnational civil society networks, which threatened the US government with a possible rejection of the agreement in Congress. However, in this case, rather than conforming to one single regional standard, the agreement obliges the countries to comply with their own national legislations and establishes commercial sanctions.

In terms of institution building, NAFTA follows the general model of the new regionalisms: the institutional structure does not include any element of supranationality. Nevertheless, three intergovernmental agencies have been created. These are composed of people from national ministries, who are called over depending on the issue; and whose role is simply to ensure the appropriate implementation of agreements and solve disputes that might arise from misinterpretation. The most important of these tri-national agencies is the Free Trade Commission, composed of technicians of the Ministries in charge of international trade of the three member states. A second institution is the NAFTA Secretariat, which administers the mechanism for the resolution of trade disputes between national industries and/or governments.

Two additional trilateral commissions were included in the agreement because of the social pressure exercised by tri-national networks organized by trade unions and environmental NGOs during NAFTA negotiations (Bensunsan, 2002; Fox, 2002). One of these deals with labor issues – the Commission of Labor Cooperation (CLC) – while the other with environmental matters (Commission for Environmental Cooperation, CCE). However, this institutional scheme has failed to establish any participatory channels or consultative mechanisms for non-governmental actors and citizens. This is because the institution's role is to ensure the appropriate implementation of national environmental standards and resolve disputes arising from inappropriate implementation. No new agendas or issues would be introduced later in the regional debate or cooperation.

Nonetheless, this was not always the case. First, in 1993, the three governments decided to open a formal participatory channel – the so-called "Joint Public Advisory Committee" - for academics and NGOs to be included in the CEC. At the same time, the three governments would refuse to do the same for trade unions in the CCL. In 2005, and mainly because of the terrorist attacks of 9/11, the national leaders of Canada, the US, and Mexico decided to strengthen cooperation on economic and security issues. The objective of the Security and Prosperity Partnership of the North America is to create a common security perimeter and a common energy policy, and to prevent immigration from Mexico to the US. In addition, governments have created a task force

for businesses, academics and policy elites from all three countries. This initiative has been seen by many scholars as a tool intended to strengthen integration, on the one hand, but to weaken regional governance, on the other (Ayres & Macdonald, 2006).

1c. ASEAN

ASEAN emerged as a result of Cold War divisions before this second wave of regionalism. In fact, the Association was created in 1967 for political and security reasons: the main concern of its founding members was to confront the threat of communism from within and outside became more prevalent. Nonetheless, regional cooperation was only strongly promoted some eight years later, just after the US defeat by Vietnam; and as the threat of communism spreading throughout the region emerged (Acharya, 2003).

However, in 1992, the idea of building a stronger economic bloc emerged; and the six ASEAN members – Indonesia, Malaysia, the Philippines, Singapore, Brunei Darussalam, and Thailand – decided to create an FTA. The agreement was endorsed by the other four smaller economies - Vietnam, Laos, Myanmar, and Cambodia – by the mid and end of the 1990s. In 2007, the ASEAN nations agreed to expand the region's scope and all ten members signed an agreement according to which they plan to reach a common market by the year 2020.

The decision to first create an FTA, enlarge the region's membership afterwards, and then deepen the scope of the members' regional cooperation cannot be explained by the sole objective to promote trade liberalization or attract foreign investments. It was rather a defensive response to the new challenges derived from economic globalization, specially in a context where European integration was intensifying (Mattli, 2000). By the time the Asean Free Trade Area (AFTA) was created in 1992, economies were already quite open to trade and foreign investments, mainly from Japanese businesses but also from the US and Europe.

To achieve an FTA among the member nations, ASEAN countries agreed to reduce tariffs on manufactured products in the region (with at least 40% of ASEAN content). In order to reach this goal a Common Effective Preferential Tariff (CEPT) scheme was established, according to which tariffs were to be reduced to 20% within the first five years until attaining 5% or less by 2008. Presently, the agreement fully encompasses the ASEAN-6 members. The latecomers – Vietnam, Laos, Myanmar, and Cambodia – have not fully met all AFTA obligations yet, but they are officially considered part of the agreement. Since 2005, tariffs on almost 99% of the products in the ASEAN (6) Inclusion List has been reduced to less than 5% and more than 60% of these products have zero percent tariffs[5]. Hence, presently ASEAN is still an imperfect FTA with the intention of becoming a full-fledged economic union by the year 2020. The ASEAN Economic Community (AEC) is intended to integrate the markets, in which all goods, services and capital would be able to move unimpeded across the region, regulations would be standardized or harmonized to a high degree and regional movements of labour would be permitted, although this would be limited to professional and skilled labour.

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[5] http://www.aseansec.org/home.htm consulted 12/05/2008

The private sector has enjoyed pride of place. ASEAN business participation dates back to the 1980s and since then until 2003, the main channel for private sector participation has been the ASEAN Chambers of Commerce and Industry (ASEAN CCI). The group has been invited to all official meetings of the ASEAN Senior Economic Officials and to relevant working group meetings. ASEAN's links with the ASEAN CCI were formalized in 1996 when a permanent Secretariat was established. In 2001, at the ASEAN Summit in Brunei, the ASEAN Business Advisory Council was established to provide private sector input on economic integration and development issues. *"This is now the primary vehicle for private sector feedback and guidance to ASEAN on matters pertaining to ASEAN economic integration and ASEAN economic development"* (Regional Economic Governance in South-East Asia, pp. 13/14). Foreign ASEAN business councils, such as the ASEAN-US or ASEAN-EU, exist as well. Thus, ASEAN does not only consult with the business sector but these linkages have been formalized and institutionalized.

In terms of institution building, ASEAN belongs to an extreme case of "informal design", in which regional institutions are thin and regional cooperation is pursued through consultation, accommodation, reciprocity, informality, and rather instrumental practices. Processes tend to predominate over substance; personal networks over formal rules and cooperation among countries seems to dodge provocative issues (Solingen, 2008). In fact, apart from the ASEAN Secretariat, no regional institutions have been created. Member states are reluctant to transfer any decision-making authority to regional institutions and disputes are handled through political rather than administrative or juridical arrangements. In contrast with the other two cases, decisions in the ASEAN are undertaken by government leaders who meet regularly at an annual summit and no institution has been created (Grieco, 1997)

Some scholars have argued that this scheme of low institutionalization is quite ineffective since it has given way, for example, to the exclusion of numerous products and thus undermined the free trade principles in the case of the AFTA (Mattli, pp.171). On the contrary, other authors have shown that this decision-making pattern seems quite appropriate since this has not led to either the expulsion or the retreat of member states (Foot, 1995). In fact, in strongly centralized regional processes led by corporations and vertical business networks, the creation of regional institutions to prevent or neutralize conflicts among national or regional actors loses its purpose. Still social actors and agendas are missing within the ASEAN institutional arrangements. In fact, official documents do not mention the existence dislocations or include any social and political standard, such as labour rights protection or democratization. Instead, only economic issues appear to be prevalent. Regional institutions could have a potential impact on the harmonization of political and social agendas. However, this does not seem to be a part of the ASEAN governments' actual agenda.

In sum, the comparative analysis shows that in terms of the institutional performance, new regionalisms exhibit a wide variety of regional arrangements

Table 2: Institutional Performance across Regions

	Scope	**Policy Coordination**	**Institutional building**
MERCOSUR	Custom union	Trade issues	Intergovernmentalism Flexible institutionalization Broad social inclusion
NAFTA	Free trade area	Trade issues + Economic Regulations + Social standards	Intergovernmentalism High institutionalization Partial social inclusion
ASEAN	Preferential agreement	Trade issues	Intergovernmentalism No formal institutions Prevalence of private sector

Part Two: Trade and Investment performance

This section delves into the economic performance of these three processes of regional integration based on two traditional indicators of economic growth: trade and investments. According to the literature, these were the two principal economic factors that pushed developing countries to join regional agreements in the 1990s. Preferential access to a larger regional market is seen as a key determinant of FDI in developing countries (World Trade Report, 2003). On somewhat similar grounds, it has also been suggested that smaller countries would join regional agreements because they offer domestic firms the advantage of economies of scale.

2a. MERCOSUR

The formation of MERCOSUR was a turning point in terms of the region's trade and financial flows. On the one hand, intra-MERCOSUR trade raised almost continuously since the bloc's creation and until the slowdown derived from the East Asian crisis. Argentina and Brazil were the main beneficiaries of this expansion: until 1998, these two countries' exports to the region increased at a 21.6% and 18.2% annual rate, respectively. The intraregional exports of the smaller economies expanded at more modest but still high rates: 14.4% in the case of Paraguay and 11.6% in that of Uruguay. (See Table 1, in Annex).

This remarkable increase in intraregional trade occurred at the expense of trade with other partners (except for Latin America). Exports to MERCOSUR's principal trading partners, the EU and NAFTA, suffered a fall. In fact, NAFTA's share in total MERCOSUR's exports fell by 5.5% points, while that of EU decreased by 4%.

On the other hand, MERCOSUR's imports experienced a modest (yet still remarkable) increase (8.5%) in that period. The EU and NAFTA – MERCOSUR's major trading partners – managed to increase marginally their shares in total imports by 2% and 15%, respectively. However, imports from the rest of the world (excluding Latin America) fell by nearly 10% points (Vaillant, 2001).

Apart from in from increasing trade flows and shifting destinations for exports, the establishment of MERCOSUR led to an important change in the composition of traded products. The Southern bloc was no longer just a provider of goods, metal and textile products; rather, it became the principal supplier of transport equipment, which

augmented its participation in the global market by 10%. The increase was not as large in the exportation of food products, electrical machinery, cellulose, and paper.

Brazil played a key role in this change: as result of its economy's size and the asymmetry that existed with the rest of the countries in the region, Brazilian exports made up two-thirds of total intra-regional trade and the country became the principal provider of industrial manufactures within the bloc and the whole Southern Cone. In fact, between 1996 and 2000 the share of imported transport equipment to total MERCOSUR imports nearly tripled (from 7.3% to 20.9%). In the case of Argentina, motor vehicles and minerals increased significantly their share in total exports to the region. Paraguay experienced an increase in its share of exports including natural resource intensive goods (such as vegetable products, edible oils, food products, fur, and skin) and industrial products (such as plastic and metals). Nonetheless, the absolute value of these exports remains low. In the case of Uruguay, the categories that experienced the largest growth include food products, cellulose, paper, and transport equipments (Bouzas *et al.*, 2002).

In terms of foreign direct investment (FDI), there was also a remarkable increase in MERCOSUR during the 1990s. The creation of an enlarged regional market for production and consumption turned the Southern bloc into a privileged destination for FDI. Between 1990 and 2000, investment flows increased from $3.6 billion to $44.9 billion in 2000. However, this growth did not benefit all MERCOSUR countries equally. The principal FDI recipients were Argentina and Brazil, while the small economies obtained very little (Table 1 in Annex illustrates this difference).

Argentina received nearly two-thirds of total FDI inflows into MERCOSUR during the first half of the 1990s. The largest single investor was Spain, followed by France, Italy and the Netherlands. Taken as a group, the EU was the single largest FDI provider for Argentina: EU inflows made up 69% of total Argentine FDI. During the second half of the decade, however, Brazil slowly became the principal destination for FDI inflows, with the US being the single largest provider (responsible for the 24% of total FDI inflows in that period), closely followed by Spain, the Netherlands and France. Conventional investors, such as Germany and the United Kingdom, played only a marginal role.

The explanation for this phenomenon cannot solely be attributed to the process of regionalization, but also to the privatization of public firms that operated in parallel in the four countries, as part of the process of structural reform (Chudnovsky & Lopez, 2001). In fact, investments were largely directed towards services and only a small share of total FDI went to the production of manufactures (focused on food and beverages, chemicals, and motor vehicles). Thus, in Argentina, the preferred sectors for FDI were services, such as the extractive industries (mainly petroleum), communication, electricity, gas, and water. In the case of Brazil, even if the service sector still accounted for a high share of total FDI inflows, the main destinations were banking (financial services) and communications.

However, this increasing trend in trade flows and investments fell abruptly in 1998, because of two global financial crises and the lack of macroeconomic convergence

(Fanelli, 2001)[6]. Once both crises were overcome and the main economies (Argentina and Brazil) were back on the "natural" path of macroeconomic convergence, regional trade recovered, and reached even higher percentages than those experienced during he initial phase. This was due to the increase in world commodity prices. Foreign direct investment also recovered; however, there was a change in terms of the source of FDI (see Table 2, in Annex). Now, investments did not only originate in developed countries; instead, FDI would also come from the region's principal economies, Chile and Brazil, whose companies were located in neighbouring countries, especially in the area of food and services.

2b. NAFTA

Ever since NAFTA became effective, intraregional trade and FDI flows have increased significantly, particularly for Mexico. Impacts for the other two economies were smaller because they were already integrated through the Canada-United States Free Trade Agreement (CUSFTA, 1987). The weighted average of NAFTA's intraregional exports in total exports increased from 63.5% in 1990-1994 to 70.2% in 2002-2006, while total intraregional imports declined from 54.4% to 50.3% over the same period. Intraregional exports as a percentage of total exports augmented considerably for all three-member countries; however, even if the share of intraregional imports rose for the US, it declined for Canada and Mexico. Thus, it can be concluded that in terms of the impact on trade, NAFTA turned out to be much more important for Canada and Mexico than for the US (See Table 3, in Annex).

This process of increasing trade flows had its peculiarities. In the case of Mexico, the generated growth is characterized by a double dependency. One is the dependency on the US, given that this market is the main destination of Mexican exports. Another one has to do with the increasing structural dependency of the Mexican economy, given that the country's imports come from all over the world. In fact, since its inclusion in NAFTA, total Mexican exports have seen a large increase (from 7.1 % in the period 1981-93, to 11.3 % between 1999 and 2006). Mexico has also experienced an almost doubling in its participation in global trade (from 1.4 % in 1992, to 2.6 % in 2000, which slightly fell to 2.1 % presently). Furthermore, the country has become a significant importer in the global market, tripling its number of imports since 1994.

This is mainly explained by the changes in the composition of Mexican exports. Since the beginning of the 1980s, even before the signing of the NAFTA, Mexican exports were primarily natural commodities, such as petroleum, which made up 60% of its earnings. By the end of the 1990s, with the fall in the price of petroleum, the country's exports also fell to 10%. As a result, Mexico became a global provider of manufactures, which increased from 30% to 90% of its exports. Presently, the country is one of the most important exporters of manufactured goods to developed countries, especially in textiles/clothing, automobiles/auto parts, electric goods, and electronics. This change, as we have already shown, preceded Mexico's signing of NAFTA. In fact, it was

[6] The first crisis was a consequence of the shocks generated by the world financial crisis that began in Mexico and Asia. In 1999, the Brazilian government unilaterally decided to devalue its currency (the Real), thus, reinforcing the already existing asymmetries and trade unbalances within the region. The second crisis was a consequence of the Argentine decision, in 2001, to devalue its national currency (which at the time was, by law, at parity with the US dollar) in order to recover from the default on its external debt.

strengthened in the 1980s when the country launched a unilateral liberalization process because of structural reforms promoted by international financial institutions just after the debt crisis. By the mid 1990s, this process was institutionalized with NAFTA.

In terms of the institutionalization of regulations, NAFTA regulations primarily contributed to the strengthening of the industrial regionalization process between the US and Mexico, in which Mexico's participation from assembly to a more full package type of production. By simply incorporating input and added value into the production of manufactures, the finished goods were considered US products, without having to pay duty taxes at the border. This was also the case in the automotive industry: US corporations transferred their production to Mexico in search for lower labor costs (UNCTAD, 2007).

In terms of FDI, Mexico has also benefited from its greater economic stability and its inclusion in NAFTA. This increase was shown in 1994 and onwards, as part of an expansion of global flows from developed countries. Despite its high volatility and strong vulnerability to global crises, such as the Asian crisis or the US debacle in the beginning of 2000, these flows tendency has been quite positive for Mexico. Between 1990 and 1994, FDI inflows into Mexico were around $5 billon, on average, rising to about 19 billion in the period 2000-2004 (see Table 4, in Annex).

FDI came primarily came from the US and grew from 47% in 1994 to 64% in 2006. The most popular destination was the manufacturing sector, which pooled 54% of FDI. However, similar to the MERCOSUR case, these paths have changed, with FDI shifting its focus to the financial service sector in 2000 (Secretaría de Economía, Mexico, FDI statistics). There are two specific reasons for these flows. The first one is the low cost of labor and the geographical proximity of Mexico as a platform for US exports. The second is the legal guarantee, which in the framework of the NAFTA, has been bilaterally sealed between Mexico, the US and Canada. This process was also encouraged by Mexico for fiscal reasons and on the basis that Canadian and US. companies would endow national producers with technological innovation and knowledge. Canada, however, has not been part of these bilateral investment agreements, refusing national treatment of US companies to protect national industries from free competition.

2c. ASEAN

Trade flows began increasing towards the beginning of the 1980s, even before the signing of AFTA. In terms of intraregional trade, between 1980 and 1984, trade shares grew to 20.8 %. Most scholars argue that regional integration in ASEAN was not due to tariff reductions, but rather to FDI flows. In fact, in the ASEAN case, foreign FDI flows preceded AFTA and trade liberalization. Already by the 1980s, the region emerged as one of the preferred destinations for FDI coming from developed countries. Both internal and external factors account for this phenomenon: the expansion of the regional markets, the abundant natural resources and provisions of cheap labour, on one hand, and the appreciation of the Japanese yen and the need to restructure the Japanese economy, on the other. Most FDI came from Japan, and was distributed in varying quantities across countries and sectors. The largest part (50%) was directed towards manufacturing sectors (electrics, electronics, chemicals, and transportation equipment) in countries such as Malaysia, Thailand and Philippines. The remainder went to

Singapore (services, banks, insurance, and finance sectors) and the final rest was distributed among Indonesia's and the Philippines' mining sectors. Other investors included the US and European countries, such as the United Kingdom, the Netherlands and Germany. Their investments concentrated in activities such as petroleum exploitation, chemicals, pharmaceuticals, food processing, electronic products, and auto assembling, as well as banking and finance. Investments from the US also went to various sectors, including the exploitation of natural resources (petroleum and gas), services, industrial manufacturing, and gastronomy. Interestingly, however, after 1987, investments were increased in number and it were the newly industrialized economies (NIEs) that, through intra-regional flows, became the new investors.

In 1991, the ASEAN countries decided to sign the AFTA, which was intended to boost intra-regional trade. The progressive reduction in tariffs and the inclusion of Vietnam in 1995 generated an initial increase in intra-regional trade flows from 20 to almost 24%. In 1996, the three main economies of the region - Singapore, Malaysia, and Thailand - decided to reorient their exports to third countries, while their imports and investment flows were still concentrated in the ASEAN. In fact, intra-regional imports increased However, in 2002, intra-regional exports, once again, began to fall because of the diversion to third trading partners, which in turn, gave way to a deep gap between intra-regional exports and imports, being this the second main feature of the ASEAN model[7].

The signing of AFTA (1992) also introduced two important changes in the previous pattern of FDI flows. The first one is the increase in global investments to the region, which was a consequence of the enlarged markets. From 4% in one period, global investments increased to 7%, where they were maintained until the 1998 crisis. However, there were changes in terms of the source and destination of FDI. Singapore maintained its absolute leadership as the recipient country (34%), but the difference with Malaysia became smaller. FDI destinations also diversified among the new member countries. Among them, Vietnam emerged as an important recipient country in the early 1990s, even if incites inclusion into the bloc was not institutionalized yet. Similar patterns were observed with Laos, Myanmar and Cambodia, which began attracting FDI even before being formally part of the bloc (See Table 9, in Annex).

The second change refers to the investing countries. Although Japan maintained its presence within the bloc, the EU would be the main investor (32%). Participation of the NIEs also increased, with Singapore at the lead (8%), followed by Malaysia, Thailand and Indonesia, which together exceeded US investments to the region (13%). Contributions by East Asian countries, such as Hong Kong, Taiwan and South Korea, also increased, totaling 9% of FDI. Thus, contrary to the previous period, intraregional investments became an important part of the region's development model.

The 1997/98 crisis provoked an abrupt decrease in the bloc's participation in global FDI flows (from 3.8% in 1998 to 2% in 2002), reflecting mainly the loss of interest on behalf of global investors and the emergence of China, as ASEAN's main competitor The only region that kept its interest in ASEAN turned out to be the EU.

Thus, we can conclude that in all three cases, economies of scale have increased intra regional trade and FDI. Nonetheless, results from trade liberalizations were path

[7] For further details on this process, see Francis (2004).

dependent and tend to differ from one region to another. In the case of MERCOSUR, intraregional trade liberalization and the CET led to a process of import substitution at the regional level; in NAFTA, trade liberalization increased Mexico's reliance on the US market and investments. Finally, in ASEAN, trade liberalization led to a greater integration with the global economy, and interdependence among the regional partners.

Table 3: Economic Performance across Regions

Region	Trade	FDI
MERCOSUR	Turning point for intra regional trade Changes in exports composition to include more industrial goods (mainly, transports)	Remarkable increase of FDI Beneficiaries: Argentina and Brazil Destination: service sectors
NAFTA	Increase of intraregional imports Increase of extra and intra regional exports	Increase of US FDI Beneficiary: Mexico Destination: manufactures
AFTA	Increase of intraregional imports Increase of extra regional exports	Diversification of FDI investors Beneficiaries: All countries Destination: High tech sectors

Part 3: Economic and Political Development

During the 1990s, studies on trade liberalization were largely focused on analyzing economic growth, via trade balance and FDI. Presently, however, there seems to be consensus on the idea that trade liberalization and expanding trade flows have led to growth and greater efficiency in key sectors, but have failed to promote distribution of gains among significant segments of population.

Based on this assumption, we will now delve into the impact of new regionalism on economic development and democratic governance. Certainly, both concepts are broad and difficult to define, and the literature on new regionalism does not say much about development. Given that the idea of state intervention was rejected, the best way to increase production and accelerate technological advancement for developing countries was through market liberalization and disclosure to international trade and finance markets. Thus, the main task for governments was to select the right partner. In this vein, economists argued while North-South regional agreements were more likely to lead to convergence rather than divergence of income levels, South-South agreements would tend to increase the gap between rich and poor countries (Venables, 1999). Building on this debate, we define regional economic development as the ability of regional governments to promote industrial complementation among national economies in order to increase and improve employment[8].

The same applies to the concept of governance, which is generally used to analyze the efficacy and legitimacy of the decision-making process[9]. In the regional domain, most

[8] In order to identify to what extent regionalism promotes better jobs, we followed Rodrik (2007) concept of industrial policy as those restructuring policies in favor of more dynamics activities, regardless of whether they are located within the industrial or manufacturing per se (pp.100).

[9] First, the concept of governance was intended to account for the dynamics of the decisional processes at the national level. Layer on, as globalization and (multiple) interdependence advanced, it was extended to

analyses refer to the European experience, which shows a highly institutionalized process and relies on strong regional and supranational regulations. In new regionalism, the concept "governance" loses its original meaning. Following this debate, we will not focus on the participatory dimension of these processes. Rather, the analysis is intended to highlight to what extent these economic integration processes – driven by markets or governments – have opened up spaces for participation and consultation to social actors to increase and equalize voices, interests, and visions in conflict. In this respect, asymmetric negotiations and economic cooperation among Northern and Southern have led to changes in the domestic procedures, and have to the opening of participatory channels for newcomers (Botto, 2004; Grugel, 2007; Jordana, 2007). Building on this debate, we define regional political development as the ability of regional institutions to include social actors and agendas[10].

3a. MERCOSUR

In terms of defining a common industrial policy for the region, MERCOSUR governments had to overcome important obstacles. This issue was seriously debated among governments, but the protection granted to Brazilian industries by means of the CET established in 1995, rendered any possible debate almost impossible. The idea of developing a manufacturing industry in the region was neither attractive to national governments nor external invertors. FDI, largely provided by European governments during the 1990s, were oriented towards service activities and the extraction of non-renewable goods, such as petroleum and mines. Only 10 % of these were directed towards the manufacturing sector, which, as we will shortly explain, went to motor vehicles, food, beverages, and chemicals.

There were only two exceptions to this rule. The first exception was the motor vehicle industry, which underwent a major modernization during the 1990s, and an important increase in the total output – from 750.000 units at the beginning of the period to nearly 2.200.000 in the 1990s. In addition, the vehicle sector attracted US$ 15 billion of FDI during 1995-2000, which helped transform the obsolete production, absorb foreign technology, and deliver world-class products.

MERCOSUR greatly contributed to this transformation, mainly because of the advantages associated with economies of scale. However, this process would begin before 1991. In fact, MERCOSUR's car production was part of a previous bilateral sectoral trade agreement (administrative regime) signed by Argentina and Brazil towards the end of the 1980s. It was one of the eight sectoral protocols signed in 1988 under the so-called Integration, Cooperation, and Development Treaty (PICE), whose purpose was to stimulate bilateral trade on the grounds of complementary and political symmetry, to foster changes in the efficiency of production in key economic sectors, and to consolidate a new democracy regime in the region.

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other domains, such as the subnational, the regional, the global, and even the private levels (corporations). However, in all these different domains the empirical literature is embryonic and tends to apply a normative use of the concept, thus associating or characterizing it as "good government".

[10] We base our analysis in the assumption that in order to be influential in the decision-making process, actors must not only be formally included (voice), but must also have the tools to be heard at their disposal (Hirschman, 1970).

This does not mean, however, that intraregional trade and specialization did not play a major role in shaping the new contours of the industry. On the contrary, trade liberalization and privatization of national petrochemical and steel industries during the 1990s reduced production costs, secured broader market consumption, and favored technology innovation. In this sense, it is worth mentioning that the motor vehicle sector remained exempted from intraregional free trade disciplines and from MERCOSUR's common trade policies during most of the decade. Only in March 2000 did Argentina and Brazil agree on a common regional regime (including intraregional trade) for the automobile sector, which was to be implemented in 2006, but was postponed and is still not functioning.

Nonetheless, development and success of the motor vehicle industry in MERCOSUR cannot be seen as a regional success. Gains and benefits have only affected the two main economies of the region, while the smaller ones, Paraguay and Uruguay, would only receive small gains. In fact, Argentina benefited the most from the intra-MERCOSUR trade of motor vehicles during the 1990s. The expansion of unit production was accompanied by a far-reaching modernization and specialization process, and a shift from supplying almost exclusively a limited domestic market to the adoption of a significant outward-orientation. This performance cannot be explained without taking into account the role played by the Brazilian market, which already by 1998, attracted 50% of Argentine production. Brazil also benefited from the industrial complementation program, and the motor vehicles industry changed considerably during the 1990s, albeit production levels were subject to *stop and go* cycles. It also experienced a process of decentralization, moving away from traditional locations, such as Sao Paulo, into new regions, namely, the state of Parana and the North-Eastern area.

The other industrial sector that would develop within the MERCOSUR agreement was the dairy production. MERCOSUR's trade liberalization and investments processes have mainly benefited this sector by increasing consumption markets and reducing transport and production costs. In fact, the share of processed foods and food exports increased from 17.8% to 18.3% between 1995 and 2003 (UNIDO, 2007: 16). Nonetheless, this increase was not the result of a governmental active policy intervention, but of decisions and strategies made by the private sector. Multinationals and large local groups improved their production and shares through vertical integration and informal sectoral agreements, namely dairy firms and other food companies such as Brama (beer), Paladini (pork) and Arcor (sweets). MERCOSUR guaranteed intra-regional trade and the possibility of moving and decentralizing production along borders in order to reduce costs, but this did not imply industrial complementation within the region.

Assessing the impact of MERCOSUR's industrial development on jobs creation is not an easy task and there are two reasons for this. On the one hand, trade liberalization proceeded *pari passu* with other structural reforms (privatization and deregulation of labor legislation), making it thus quite difficult to isolate the effects of regional integration form other key determinants of macroeconomic performance in the 1990s. On the other hand, there is only a limited amount of research and data available on this issue.

Available studies on MERCOSUR employment and unemployment seem to agree that the creation of the regional bloc has had no impact on the distribution of income and creation of employment. Specialists conclude that the worsening of the employment situation in the region precedes the economic integration and is rather a consequence of the structural reforms implemented in each of the countries (privatization, unilateral opening, and deregulation, among others), which were later aggravated by the domestic financial crises, such as the one affecting Argentina in 2001 (Ruidil, 2007).

In terms of the effects that the economic growth promoted by MERCOSUR has had on regional governance, when compared to the other two cases, it is clear that the Southern Cone bloc is the one that has opened up the largest number of spaces and channels for the participation of non-governmental actors. As we have already indicated (in Section 1a.), the decision to include different civil society actors was progressive. The first ones to be consulted were business actors through the activities of the GMC working groups. Later on, trade unions and NGOs were invited to participate in the FES. This participation was then expanded to certain social movement in "Reuniones Especializadas" and Ad-hoc Groups. Finally, individuals and firms were allowed to take part in the dispute settlement mechanism.

MERCOSUR governments have also advanced in terms of the regulation of economic and social issues. In fact, between 1994 and 1998 a large number of issues were discussed – under the rule of consensus – and finally approved. Some of them were proposed by governments and had a binding effect, namely, the protocols concerning services (1997), investments (1997), government procurement (1997), among others. Other regulations were also discussed, but given the opposition put forward by social actors were approved as non binding rules, as was the case with the Labour Declaration (1997) and the Environmental Declaration (1998). Nevertheless, in all these cases, governments and Parliaments showed reluctance to the implementation of regional regulations at the national level.

However, there are a number of shortcomings to these advancements in terms of decisional democratization. The first one is that participation in MERCOSUR is limited to the establishment of consultation processes or channels where actors are invited to present initiatives. Secondly, veto power has remained within national governments and, more specifically, in the hands of functionaries of the Ministries of Economy and Foreign Affairs. This power concentration and the lack of legitimacy of those in charge largely explain the low effectiveness of MERCOSUR's decision-making process. In the third place, a large part of the initiatives and recommendations put forward by social actors and even other ministries – apart from those two that have veto power – are not taken into account nor dealt with by the CMC, the GMC or the CCM. Finally, most of the decisions adopted by the latter have not been internalized given the resistance of national congress and domestic lobbies. Consequently, more than 50% of regional decisions are still waiting to come into force[11].

The large number of failed rules illustrates the fact that governments seem to lack the adequate incentives to constrain themselves to regional policies and regulations. Nor even after the crises of 1998 and 2001, when it became evident that Mercosur really

[11] According to the data provided by the MERCOSUR Secretariat, out of the 228 decisions approved by the CCM, the maximum formal authority, between 1991 and 2004, only 126 were approved and the rest is still waiting to be implemented in the national arena.

needed macroeconomic harmonization, did governments move in this direction. This applies to all MERCOSUR members; however, it is a more severe issue in the case of Brazil because, being the largest regional economy, its intra-regional trade merely constitutes 15% of its total foreign trade (in 1996), as compared to the 33% of Argentina, the 50% of Uruguay, and 63% of Paraguay. However, it is worth mentioning that recently, following a Brazilian proposal, Mercosur governments are discussing the idea of given the Bank of the South, the role of assisting the region in case of another crisis. The only exception to this the lack of a binding social agenda is given by MERCOSUR Democratic Clause, intended to prevent a "*coup the etat*" in any of the partners. The idea was proposed by the Parliamentary Commission in 1998[12].

3b. NAFTA

Just as in the case of MERCOSUR, the preexisting industrial complementation between Mexico and the US in the automotive industry was an important asset in the formation of NAFTA. Nonetheless, economic integration between these two countries was not limited to the production of automobiles or auto parts; rather, it was strengthened in other manufacturing sectors, such as textiles and clothing, and electronic goods.

However, increasing industrial complementation between these two economies was more the result of the release of market forces than common industrial policies. Apart from the exported products, it is worth considering whether these include high technology. Between 1994 and 2005, all manufactured exports showed a rapid increase; however, their composition, in terms of the added value and the type of technology employed, did not change much during this period. Medium and high skilled, and technology intensive manufactures represented over half of total manufacture exports. Still, low skill and technology intensive manufactures, as well as those labor and resource intensive ones have accounted for only 17% of total manufactured exports.

Yet, despite the fact that a significant proportion of Mexican exports are classified as skill and technology intensive products, Mexican firms have been involved mainly in the low skilled assembly stages of production. The technological content of Mexico's exports may be high, but this does not necessarily imply domestically generated high technology inputs (UNCTAD, 2007: 73). This paradox becomes evident through the comparison of Mexican exports and imports. In fact, no changes are observed: when compared to exports, manufactured imports, which have also grown rapidly, consist of a larger proportion of high skilled, technology intensive products, and electronic parts. Nonetheless, Mexico's participation in this process consists, most of the time, of a minimal percentage (2%) of the final product value (Pacheco-Lopez, 2005).

This type of production, known as "industrial maquiladora", together with the different national programs for industrial development (PITEX and IMEX)[13] is what explains

[12] To reinforce the continuity of democratic rule within the region, governments agreed that countries would be excluded from the regional bloc and received trade sanctions in case of a military coup, This clause automatically came into effect and was put in use after the attempt of military coup in Paraguay (1996).

[13] The aim of these specific sectorial programmes- PIMEX and IMEX- was to promote international competitiveness in several industries. From 2004-2006, PIMEX programme included electronics, software, leather and footwear. In November 2006, IMEX, was launched to promote the manufacturing, maquilas, and service export industries.

Mexico's boom between 1994 and 2010. This process has contributed to the diversification of Mexican exports during the mid-1980s (See 2b). It is a model of complementation that is supported by static variables, such as low labor costs, without affecting the rest of the economy or providing technological progress. In fact, it is referred to as a dual economy, with a very small number of firms in the exporting sector benefiting from investments that come from the Northern region of the country, while the rest of the economy stays behind (Moreno- Brid *et al.*, 2005).

Much research has been done to determine whether economic growth has reduced both poverty in Mexico and the asymmetries that exist between the country and the US. When looking at income distribution by GDP, the correlation between exports and the general population, the results become increasingly positive. Nonetheless, the literature calls for a cautious handle and use of statistics. GDP, for instance, is an indicator that does not discriminate among sectoral differences and cannot correctly reflect the changes underlying the structure of Mexican production during the 1990s.

Statistical evidence shows that NAFTA has had a positive impact on job creation, with about one million people joining the labor force every year. Moreover, since the signing of the agreement, the open unemployment rate has been at a fairly low level -3.5% in 1994 and a mere 4%, in 2007[14]. However the evidence is not so clear and positive regarding the type of employment created. On the hand, it is generally not full time employment, but only part-time jobs (less than 15 hours per week). On the other, most of the new jobs created were in the non-tradables sectors (3.9%) whereas employment growth was relatively modest in the tradable sector (1.7%). Finally, most of the jobs created are in low productivity and informal activities. (UN Trade and Development Report, 2007)

In addition, authors tend to agree that the most disadvantaged sector in terms of unemployment after the creation of NAFTA has been that of agriculture, where two million people have lost their jobs (Feliciano, 2001)[15]. Nonetheless, a large part of the population has been reabsorbed in the services sector, which has the largest participation rate in the labor market (51% in 1993 and 60% in 2006), and is the leader in the manufacturing sector.

Studies over the labor impacts of NAFTA tend to emphasize that this bloc has contributed to the reduction of poverty in Mexico, creating jobs for excluded sectors (below the poverty line). However, it has ultimately generated a new gap: among developed countries, with high salaries and skilled labor, and developing nations, such as Mexico, where the general population has low qualifications and salaries. This gap cannot be changed and reverted very easily through free movement of labor, given the immigration clauses included in the agreement. This is probably the most disappointing outcome of this integration process.

Finally, in terms of democratic governance, NAFTA contrasts to the experience of MERCOSUR. The inclusion of nongovernmental actors turned out to be a process of reduced scope and one that has not changed over time. From the very beginning,

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[14] This is quite low when compared to Latin America. The current unemployment index seems to be increasing (reaching 10%) because of the competition of Chinese exports in the region (OCDE, 2007).

[15] In fact, trade and services liberalization in NAFTA has resulted in strong biases by the corn producers, who saw themselves as invaded by the (grain) subsidies of the US.

NAFTA established participatory channels for trade unions and environmental NGOs. This participation was not planned beforehand in the design of the agreement, but it was later incorporated in the institutional structure because of the pressure of transnational civil society networks. These actors demanded participation and threatened to block the trade agreement if no additional agreements were incorporated to ensure the protection of both the environment and employment. However, this inclusion turned out to be quite limited in terms of its scope and effects on the rights to information and consultation in case of non-compliance with specific agreements[16].

Another difference with MERCOSUR is that NAFTA has been highly effective in the implementation of regional regulations at the domestic level. Even if the agenda was initially confined to three issues – trade liberalization, labor protection and environment – because of US national security issues, two additional agendas were added: security and migratory cooperation. In terms of the contents of these agendas, NAFTA was not intended to follow the European experience through the creation of higher standards and supranational institutions, but rather to strengthen compliance with national regulations through regional control and monitoring.

In trade matters, NAFTA has established a time schedule for duty alleviation that, except the "sensitive" sectors (such as corn, beans and orange juice), was complied with in proper time and form In terms of labor and environment issues, countries have agreed to abide by the appropriate national standards because of the threat of trade sanctions. In fact, there is a "de facto" harmonization among NAFTA countries in labor matters, in which basic standards predominate (Bensunsan, 2002).

3c. ASEAN

ASEAN rapid productivity change stems partly from the policies governments have adopted, and partly, from their decision to rely on the private sector. Public policy has had a key role in fostering growth of manufactured exports. Almost all of the East Asian economies engaged, at one time or another, in some form of policy intervention. Selective interventions took many forms including the mild repression of interest rates, directed credit and selective industrial promotion. To achieve the export push, governments gradually but continuously liberalized trade, supplemented by institutional support for exporters. At the same time, exchange rates were liberalized and currencies frequently devaluated to support export growth (World Bank, 1993).

In addition, East Asian leaders have also developed a business friendly environment of which a major element was a legal and regulatory structure generally friendly to private investment. In fact, private, and not public, investments were the engine for rapid growth in these economies. Flows, coming mainly from Japan, have played an important role in spreading a horizontal development process of industrialization throughout the region. This process has involved Japanese multinational companies, their subcontracting small and medium enterprises (SMEs), together with local SMEs

[16] The extent of social participation largely depends on the specific topic. In terms of the environment, the CEC promotes social participation through the exchange of information and consultation with NGOs, citizens and academics in the Join Public Advisory Committee. In labor issues, participation of citizens and trade unions is reduced to the presentation of complaints regarding the inadequate implementation of labor standards at the national level.

(Natsuda & Butler, 2005). Within this vertical FDI process, leading economies have upgraded their economic activity to more sophisticated manufacturing. They have also opened up *"opportunities for their less developed neighbours to enter into a regional division of labour by increasing their resource-based and labour-intensive industries that could no longer be competitively supplied by the front runners"* (UN Trade and Development Report, 2007: 91).

Ever since the liberalization reforms initiated during the mid-1980s and which lasted for almost a decade, South-East Asia found itself caught in a process of regionalization of industrial production known as the "flying-geese model"[17]. This paradigm argued that rather than attempting to domestically generate and accumulate technology and manage the resources required for catching up with industrialized economies, late industrializing nations could accelerate their development through inward FDI. It is inward FDI that can generate capital, technology, external market access, and managerial and marketing techniques, all in one package. Thus, as Japan and the first East-Asian newly industrialized countries, namely, South Korea, Taiwan, Hong Kong, and Singapore, advanced steadily through the successive development of their light, medium, and high technology industries, Malaysia and Thailand began attracting substantial FDI inflows, fully utilizing their labor cost advantages. By the late 1980s, direct investment almost entirely concluded the shift away from resource processing sectors towards labor-intensive textiles, garments, and electrical-electronic industries (UNDP, 2007).

Private participation adopted two formats in terms of regional production. The first are groups of large transnational corporations (TNCs), from the above-mentioned countries, which produce a series of standardized goods in distinct and multiple locations. The second include the groups of SMEs that contract and associate with a foreign TNC that assumes a leading role. China has been the main factor explaining the acceleration of the regional integration process, where large firms, interested in reducing production costs, relocate their *maquila* assembling activities to different areas of the region. These subsidized firms have converted themselves into exporters of intermediate goods to China.

Regional production networks have specialized in particular sectors, such as electric and electronic industries, which have contributed to the rapid growth and boom of international trade. Due to its features, the electronics industry has introduced changes in the traditional model. In turn, this entails that in order to acquire domestic capacities in the technological area (knowledge, skills, and organization capabilities) developing countries depended on transfers from the Northern nations. By the early 1970s, first Japan and, then the Asian tigers – namely, the Republic of Korea and Taiwan – managed to challenge Northern technological superiority. They managed to develop more sophisticated technologies, which was possible through venture capital and research and development (R&D) resources coming from third countries.

As these advancements proceeded, low intensity technology was transferred through investments and trade to the second generation of NICs (Thailand, Indonesia and

[17] The "flying geese theory" envisaged the relocation of production across countries, through FDI coming from a leading economy and directed to other countries typically at lower stages of development, in search of lower prices.

Malaysia) in search for lower costs. Presently, however, this transfer is under threat. Countries, such as China and India, are advancing in new technologies, but the possibilities of transferring them to other Southern countries are quite small because of the large quantity of workers that these nations have (UNIDO, 2007: 25). Instead of transferring knowledge, they prefer *maquilas*, as is the case between the US and Mexico.

Evaluating the impact of ASEAN in terms of governance is not an easy task. None of the two indicators examined in the other two cases – creating binding regional institutions or opening channels for social inclusion – result useful because there are no formal regional institutions. In ASEAN, national governments seem reluctant to the establishment of formal institutions and would rather rely on an informal dynamic, which is less subject to public scrutiny and competing bureaucratic pressures, and thus, well suited for changing conditions (Solingen, 2008: 288)[18].

ASEAN leaders have cooperated on issues such as the reduction of taxes and duties, matters that were on interest of business and MNCs. At the same time, they have disregarded social issues, such as environment and migration. ASEAN seems to be in a changing process in terms of regional governance. In fact, in 2007 the respective governments committed themselves to deepen integration by achieving a common market in 2020, with intergovernmental institutions and new agendas on cooperation in matters such as migration and environment. This improvement continues to rely on market forces. In fact, many authors believe this to be a result of the capital flight that occurred during the financial crisis in 1997 and the threat of China arising as a new Asian giant. This, it is believed, has convinced the leaders of the necessity to make reforms and strengthen regional integration.

Region	Regional Development	Regional Governance
MERCOSUR	Industrial complementation reduced to car sectors. Import substitution process do not attract much FFDI (10%) No division of work or specialization among countries Small impacts on job creation, high skill sector	Inclusion of social actors and social agendas. Voice but no exit Implementation gaps.
NAFTA	Industrial complementation in all sectors (hi-tech and manufactures) High division of work and specialization High impacts on jobs for Mexico but of low skill and no tech- upgrading	Low inclusion of agendas and actors Voice and exit Lack of balance between social and private actors
ASEAN	Regional industry for all exports Trade ad FDI promote global competitiveness	Built on business links and networks. Weak civil society

[18] Thus, "there is a ´governed interdependence´ of state and business, and government policies are not simply imposed by bureaucrats or politicians, but are the result of regular and extensive consultation and coordination with the private sector". This keeps the government at arms length and insulates it from bureaucratic processes and narrow interests of individual firms.

	Division of work and specialization creating of jobs and tech-innovation	

Conclusion

Thus, we now turn to the conclusion of the paper in which we will attempt to respond to our initial question: what has been the contribution of these new regionalisms in terms of regional development and governance?

As we have seen in the introduction of this paper, this represents a new debate that emerged in the 21st Century. It is the result of a better understanding that trade liberalization and internationalization of FDI has effectively generated improvements for specific sectors. However, at the same time, it has also failed in the possibility to promote a better distribution of gains in benefits to significant sectors of the population.

Contributions from the existing literature to this new question are few and indirect. In terms of developments, there is no explicit reference to this concept but as a synonymous of economic growth. The underlying rationale driving regional integration is that under free trade, markets forces would reallocate there factors of production to achieve structures of trade, production and employment and that the resulting efficiency gains will give rise to increase welfare among countries and society. Following this assumption, the success and stainability of any regional integration process depends on whether and how effectively the required factor allocation occurs (both regionally and within the member countries). In this respect, economists assert that north/south regional agreements tend to generate a largest convergence in income distributions, reducing the gap between rich an poor while regional cooperation among low incomes countries tends to increase divergence in terms of income distribution.

In terms of governance, insights from IPE literature are still more ambiguous. At the global level, regional institutions and harmonization has been seen as a response to the challenges of continued strengthening of multinational and private policy making structures *vis a vis* the public authority of states. At national and regional level, the inclusion of social actors and social agendas has been seen as improving democratization at the national decision level. Once again, because of domestic reforms NAFTA tends to be more binding processes than symmetric ones, among states members and governments *vis a vis* social actors.

In this paper, we wanted to contribute to this debate by analyzing and comparing three cases of new regionalism. Our definitions of governance and development were reduced in scope because of the complexity of concepts and the lack of comparative data and information. As regional economic development, we analyzed the improvements made by regional states in terms of industrial complementation and creation of new jobs. By regional governance, we pinned point improvements made by governments in terms of social inclusion and implementation of regional institutions at the national level (binding effect).

Three main conclusions can be drawn from this paper. The first refers to the impact of new regionalism as a turning point in the development path at regional and national arenas. Rather than representing change and disruption, regional agreements were the continuity of private and public processes that were initiated previously, following a regional path dependence pattern of development. In fact, the AFTA agreement emerged from the synergies between the state and the private sector which evolved out of the dynamics of international production networks created by MNCs since the mid

of the 80s. The initiative to create MERCOSUR looked to reinforce the process of economic and political cooperation initiated by Brazil and Argentina in the mid 80s to strengthen their emerging democracies from economical crisis and "*coup de etat*". Finally, NAFTA was a continuity of a strategic economic cooperation and integration that had been initiated by the United States during the mid eighties in order to help Mexico get through their financial crisis in 1984.

The second conclusion is that these new cases of regionalism had different starting points and different goals and did not follow the same pattern of economic development, though coetaneous. The most successful case has been ASEAN industrialization, in which trade liberalization and FDI has improved ASEAN exports in the global competition by promoting a clear division and specialization of work and a technological transfer among countries. Consequently, more and better jobs were created in a complementary formula in which all countries gained. In the case of NAFTA, also trade liberalization and investments rules have contributed to reinforce industrial complementation among countries by increasing specialization and division of work. Nonetheless, industrial growth and job creation was achieved at the expense of reducing the role of Mexico to a provider of low skill labor force in a high technological process. Finally trade liberalization in Mercosur, has had small impacts on industrial complementation. On the one hand, regional industry was reduced to only two countries and one sector: car industry. On the other hand, it has not applied to specialization or division of work among countries. Lastly, improvements in competition were not registered at global level but regionally

Finally, the diverging advancements made by MERCOSUR and ASEAN in terms of development and governance demonstrate that these processes do not necessarily evolved together. Sometimes, as shown in these two cases, improvements in one side of development are used as a mechanism to fulfill the lack of social inclusion in the other. . In the ASEAN case, the signing of the free trade agreement deepened the preexisting productive and financial links among the countries; at the same time, it rejected the harmonization of regulations and the inclusion of non-governmental actors at the regional level. In MERCOSUR, on the other hand, the countries failed to make progress in tackling national treatment of economic policy and regulatory issues. However, they welcomed the creation of institutions and participatory spaces for non-governmental actors. The case of NAFTA lies in between the two extremes: its agenda involves more than strictly economic issues, while creating a minimal institutionalization that relies on market forces and domestic tying policies

Anexes

Table N1: Evolution of Intraregional Trade among MERCOSUR countries in %

Country	1990-1994		1995-1998		1999-2002		2003-2007	
	expo	impo	Expo	impo	expo	impo	Expo	impo
Argentina	162	474	39	73	-19	-54	121	211
Brasil	349	98	44	38	-51	-16	206	105
Paraguay	12	143	29	66	1	-39	25	71
Uruguay	29	1361	55	25	-35	-16	40	109
Totales	121%	211%	206%	105%	25%	71%	40%	109%

Source: own elaboration in base of data from UNCTAD

Table N2: Evolution of FDI in the MERCOSUR countries in %

Country	1990-94	1995-1998	1999-2002	2002-2006
Argentina	64,3%	31%	27,6%	19,7%
Brasil	32,3%	67%	71,5%	76,3%
Paraguay	2,0%	0,9%	0,2%	0,4%
Uruguay	1,4%	0,6%	0,7	3,6%
Totales	4.706 (100%)	23.367 (100%)	35.105 (100%)	20.364 (100%)

Source: own elaboration in base of data from UNCTAD

Table 5: Intraregional Trade among NAFTA countries in %

Countries	Exports		Imports	
	1990-94	2002-2006	1990-94	2002-2006
Canada	79,0	85,9	65,7	62,7
Mexico	81,9	88,2	72,5	60,6
US	29,6	36,5	25,1	27,6
NAFTA*	63,5	70,2	54,4	50,3

Sources: own based on PNUD 2007 *weighted average

Table N4: Evolution of FDI in NAFTA countries in %

Country	90-94	95-99	2000-2004
Canada	11,65	9,28	12,85
United States	77,11	83,85	76,52
México	11,24	6,86	10,63

Surces: own based on Major FDI indicators (WIR 2007)

Table N5: ASEAN Intraregional Exports and Imports (% Change)

Country	% Change 1993/1995		% Change 1997/1998		% Change 1999/2006	
	Exports	Imports	Exports	Imports	Exports	Imports
Brunei Darussalam	8,72%	14,30%	-55,52%	-39,49%	403,01%	-16,73%
Cambodia	ND	ND	ND	ND	ND	ND
Indonesia	29,59%	58,68%	5,60%	-15,77%	123,27%	305,12%
Lao, PDR	ND	ND	ND	ND	ND	ND
Malaysia	41,96%	40,65%	-7,04	-12,80%	87,25%	160,14%
Myanmar	ND	ND	ND	ND	951,15%	18,70%
The Philippines	196,43%	32,19%	11,20%	-9,11%	64,20%	129,06%
Singapore	72,61%	30,79%	-27,23%	-22,20%	186,31%	137,42%
Thailand	76,58%	55,54%	-38,53%	-33,04%	172,11%	194,71%
Viet Nam	ND	ND	ND	ND	ND	ND
ASEAN	60,66%	38,28%	-18,79%	-20,14%	152,56%	183,18%

Table N6: Averages of FDI Flows into ASEAN by Country in %

Country	1984-86	1989-91	1992-96	1997	1998	1999-2006
Singapore	50.35 %	39.07%	33.83%	40.21%	32.83%	52.14%
Malaysia	24.56%	24.35%	26.37%	18.19%	12.18%	11.76%
Thailand	10.34 %	18.91%	8.98%	11.35%	33.63%	19.62%
Indonesia	9.77 %	9.53%	15.15%	13.68%	-0.01%	2.45%
Philippines	4.95 %	4.90%	6.08%	3.65%	7.86%	4.37%
Vietnam	-	1.63%	6.4%	7.56%	7.63%	5.22%
Laos	-0.07%	0.05%	0.29%	0.25%	0.2%	0.16%
Myanmar	0.02 %	1.51%	1.18%	2.57%	3.07%	0.75%
Cambodia	-	-	0.55%	0.05%	1.09%	0.72%
Brunei	0.01%	0.07%	1.16%	2.05%	2.57%	2.95%
Asean 10	100 % (2687.33)	100% (11390,33)	100% (21670)	100% (34207)	100% (22276)	100% (30344.375)

Source: UNCTAD, *Handbook of Statistics, 2006-2007*

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