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Regional Integration in Latin America: Obstacles and Prospects

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Abstract

More than a dozen regional organizations have formed within these past few decades which speaks to the conscious efforts made to integrate the region. Since gaining independence, Simón Bolívar's dream for a united Latin America has become idealized. The region shares the same language, religion, and history yet efforts to create a common market have not been successful thus far. This thesis aims to analyze the reasons why there are no deeper levels of integration within the region. By breaking up the various attempts to create unions into separate eras, it will be easier to identify the change in paradigms and agendas over the past few decades. Furthermore, identifying the major reasons integration has been unsuccessful will shed light on the actions that could be taken in the future to ensure states are more committed to the process. Given the rapid growth of globalization, economies are more intertwined than ever and forming regional organizations could potentially be beneficial. While this thesis does not aim to claim that integration is a positive or negative thing, there have been efforts to integrate within Latin America for decades which means it is on the region's agenda.

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List of Abbreviations

ACTO	<i>Amazon Cooperation Treaty Organization</i>
ALADI	<i>Latin American Integration Association</i>
ALBA	<i>Bolivarian Alternative for Latin America and the Caribbean</i>
CA-4	<i>Central America Four</i>
CAN	<i>Andean Community of Nations</i>
CASA	<i>Community of South American Nations</i>
CECLA	<i>Special Latin American Coordinating Commission</i>
CELAC	<i>Community of Latin American and Caribbean States</i>
ECLAC	<i>Economic Commission for Latin America and the Caribbean</i>
EU	<i>European Union</i>
GRAN	<i>Andean Group</i>
LAFTA	<i>Latin American Free Trade Association</i>
LAIA	<i>Latin American Integration Association</i>
MERCOSUR	<i>Southern Common Market</i>
NAFTA	<i>North American Free Trade Agreement</i>
NAFTA	<i>North American Free Trade Agreement</i>
OAS	<i>Organization of American States</i>
OCAS	<i>Organization of Central American States</i>
PA	<i>Pacific Alliance</i>
PARLACEN	<i>Central American Parliament</i>
SELA	<i>Latin American Economic System</i>
SICA	<i>Central American Integration System</i>
UN	<i>United Nation</i>
UNASUR	<i>Union of South American Nations</i>
UNCTAD	<i>United Nations Office on Trade and Development</i>
USA	<i>United States of America</i>

I. Introduction

Debatably, Latin American nations have been attempting to achieve regional integration longer than any other countries in the world.¹ Efforts began shortly after independence in the early 19th century, when Simón Bolívar organized the Congress of Panama to allow the newly independent countries develop a cohesive policy towards Spain.² Overall, the main goals of the 1826 assembly were to: establish a treaty of commerce and navigation between the confederate states, establish borders based on the principle of *uti possidetis*, publish a manifesto regarding the damage Spain has caused the region, and lastly to determine the minimum contributions required by each state in order to maintain the alliance.³ Eventually, the treaty was sent to each participant, however, only one state, Gran Colombia (present-day Colombia, Ecuador, Panama, and Venezuela) succeeded in ratifying it, and any efforts made at establishing a union were disbanded. Even though Bolívar's vision excluded Brazil and the United States, his ultimate goal was to create a Pan-American Union in order to prevent internal conflict and protect against foreign threats; however, he lacked a clear direction and an institutional

¹ Barbara Stallings, "Regional Integration in Latin America: Lessons for East Asia." In *East Asian Regionalism from a Legal Perspective: Current Features and a Vision for the Future*, 63-85. (New York: Routledge, 2009), 64.

² Germán A. De La Reza, *El Congreso de Panamá de 1826 y Otros Ensayos de Integración Latinoamericana en el Siglo XIX: Estudio y Fuentes Documentales Anotadas*. (Mexico, D.F.: Ediciones Y Gráficos EÓN, 2006).

³ *Ibid.*, 39-40.

framework to carry out the plan.⁴ Additionally, it was too early to begin progressing towards integration shortly after independence because many nations were still in the early process of transitioning power and lacked stable leadership.

It was not until after World War II that serious attempts at forming a union were reconsidered.⁵ In 1948, the OAS was signed as a response to growing security threats and served as a conflict resolution body.⁶ However, since the early 1960s the region's main interest has been economic integration and trade agreements.⁷ Currently, there are about 18 regional organizations in the Western Hemisphere (North, Central, South America and the Caribbean); of which about three-quarters are strictly between Latin American nations (see Appendix A). What has transpired is a web of preferential trade agreements, with overlapping interests, which is one of the main impediments in harmonizing economic development and commerce policies across the region.⁸

Given that the global economy is rapidly expanding, countries are becoming ever more interconnected through multilateral trade negotiations. While there are debates for and against trade liberalization, intra-regional unions have the potential to increase economic growth among developing nations and give them a more present voice

⁴ Oscar Guardiola-Rivera, *What if Latin America Ruled the World? How the South Will Take the North Through the 21st Century*. (New York: Bloomsbury Press, 2013), 49, 373.

⁵ Alejandra Ruiz-Dana et al., "Regional Integration, Trade and Conflict in Latin America." *International Institute for Sustainable Development*, January 2007.

⁶ Olivier Dabène, *The Politics of Regional Integration in Latin America: Theoretical and Comparative Explorations*. (New York: Palgrave Macmillan, 2009), 48.

⁷ Ruiz-Dana et al., "Regional Integration, Trade and Conflict in Latin America," 10.

⁸ Renato Baumann, "Integration in Latin America - Trends and Challenges." *Economic Commission for Latin America and the Caribbean LC/BRS/R.190* (January 2008), 9.

on the world stage.⁹ Furthermore, all Latin American countries (certain exceptions apply for Brazil, Suriname, and Guyana) have a common background, such as language, culture, religion, and colonial past, which should make the process of integration easier, however, regional integration is not a top priority. While Bolívar's vision for a united Latin America has not been forgotten, there has not been any initiative set forth to establish permanent protocols and institutions to begin the economic and political integration of Latin America.

The primary objective of this thesis is to determine why the regionalization process has been unsuccessful within the zone. More specifically, what are the main factors inhibiting regional economic and political integration in Latin America?

To answer the question, it is necessary to analyze and evaluate the attempts already made by the region to integrate their markets. Furthermore, analyzing regional organizations created in different time periods will indicate any changes in the area's political and economic agenda. For the first set of comparisons, MERCOSUR and CAN will be analyzed because they are two of the most prominent long-standing trade blocs in the region. MERCOSUR will serve to highlight Brazil and Argentina's competing hegemony in the region. Furthermore, through CAN, the obstacles faced when attempting to form trade agreements with outside countries and entities, such as the USA and EU, will become visible. Moreover, the different approaches and legislation of each regional organization will allow for a deeper comprehension of earlier models of economic integration. For the second comparison, UNASUR and the Pacific Alliance will indicate the recent changes in attitude towards a more political approach to regional integration.

⁹ Joram Mukama Biswaro, "The Quest for Regional Integration in Africa, Latin America and Beyond in the Twenty First Century: Experience, Progress and Prospects." *Fundação Alexandre De Gusmão Ministério Das Relações Exteriores*, 2011.

Additionally the Pacific Alliance will highlight the different ideologies between the “Pacific” and “Atlantic” facing countries, which has been a significant obstacle in attempting to advance regional integration.

For the purposes of this research, Dabène’s broad definition of regional integration will be used, which is defined:

as a historical process of increased levels of interaction between political units (subnational, national, or transnational), provided by actors sharing common ideas, setting objectives, and defining methods to achieve them, and by so doing contributing to building a region.¹⁰

Dabène’s generalized definition will serve as a basis to analyze Latin America’s historical attempts at regional integration. However when analyzing particular organizations, such as MERCOSUR and CAN, De Melo and Panagariya’s definition of “deep” integration better applies, which is when countries aim at establishing a customs union or a common market, such as the one set up by the EU.¹¹

Before beginning to explore the elements of Latin America’s endeavors in regional integration, a survey of the most relevant current and past literature on this issue will be presented. It will become easier to identify any gaps in the present research by assessing the most relevant debates. Furthermore, the survey of the literature will serve as a means to discuss the most common theories being developed by scholars, politicians, and economists to explain Latin America’s integration attempts. The in-depth discussion of the various theories pertaining to regional integration will provide a theoretical framework for the rest of the chapters. The second section will comprise a more thorough

¹⁰ Dabène, *The Politics of Regional Integration in Latin America*, 10.

¹¹ Jaime De Melo and Arvind Panagariya, *New Dimensions in Regional Integration*. (Cambridge: Cambridge University Press, 1995), 12.

historical analysis of Latin America's regional organizations and how colonial aspects still affect the region to this day. Furthermore, by using Dabène's four-wave model of regional integration in Latin America it will be easier to analyze the impact of external sources (see Appendix B). Additionally, in the second section, regional organizations within the four different waves will be analyzed and the different approaches will be compared. The chapter will conclude with an evaluation of their approaches and long-term performance based on the theories discussed in the literature review. Lastly, I will conclude by summarizing my findings and discussing what implications they hold for future regional integration attempts in Latin America.

II. Literature Review

There are vast arrays of resources, ranging from scholarly articles to publications from international organizations, covering this topic. Moreover, there is a consensus among scholars that attempts at regional economic integration in Latin America have not been successful thus far. However, there are differing views on what the main reasons have been for failures in the regionalization process and how they should be addressed. Additionally, there are debates about whether integration is of the region's best interest and whether it is equally beneficial for each Latin American nation. Furthermore, the most notable differences in opinions, among scholars, politicians, and economists, stem from their application of different models of regional integration. While plenty of alternative models of regional integration have been concocted, the majority has in common an ambiguous attitude towards the future of economic integration in Latin America.

Since full integration has not been a prioritized topic among Latin American nations during recent years, there are not many sources, which are up to date with current developments. However, there are plenty of primary and secondary sources that were published during the height of major consolidation efforts, which give insight into the original intentions and policy agendas. While they do not directly discuss failures in the integration movements, they do serve as a comparison basis to analyze further the impact multiple trade agreements have had on the region. Studies and reports done by

intergovernmental organizations, such as ECLAC and UNCTAD, are the most recent resources; however, such publications are susceptible to bias. Other current publications are those published by politicians and economists from Latin American countries belonging to various regional economic organizations. However, these too are prone to bias due to possible conflict of interests within each trade bloc. Nevertheless, reports that attempt to show a relationship between integration and economic growth through various theoretical frameworks are the most useful. For example, many scholars such as Alberto Arroyo Picard et al. use the European Union (EU) as a model to evaluate Latin America's progression and performance towards becoming a consolidated political and economic unit.¹²

The primary debates surrounding integration within the region deal with the way trade agreements are formed and their effect on future developments of a common market. Furthermore, the main source of these debates is the single-discipline based approaches with which economists and political scientists view the matter. On one side of the spectrum, economists or *técnicos*, are mainly focused on identifying the necessary requirements needed to attain economic efficiency within Latin America.¹³ While, on the other hand, political scientists, or *políticos*, are mostly concerned with governmental institutions and lend a bigger role to politicians during the process of regional integration.¹⁴

¹² Alberto Arroyo Picard, Graciela Rodríguez, and Norma Castañeda Bustamante. "The European Union: Promoter of Regional Integration in Latin America? Rhetoric and Reality." *Transnational Institute*, April 2009.

¹³ Andrés Malamud, "Latin American Regionalism and EU Studies," *Journal of European Integration* 32, no. 6 (2010): 650.

¹⁴ *Ibid.*

Even though there are two distinct approaches, ultimately, almost all of the established Latin American regional organizations struggle with how to proceed with the integration process.¹⁵ There are those who say full integration is a process with distinct phases; where development at any stage is dependent on the achievement of preceding stages. For instance, Hungarian economist, Bela Balassa, introduced a stage-based model of integration that is often used to analyze integration projects in the EU and Latin America. Balassa's model proceeds as following: free trade area, customs union, common market, economic union, and political union (complete economic integration).¹⁶ Each stage requires a higher degree of integration and explains why economic integration can potentially cause merging of other sectors. However, this model stipulates that economic integration will automatically "spillover" into other areas triggering political unity.¹⁷ Historically, there has been a consensus that economic integration precedes political integration; however in recent decades, this notion has been put to the test. For instance, while the E.U. has reached political unity, it has not achieved full economic integration due to the absence of a common fiscal policy.¹⁸ Additionally, certain organizations, such as the Central America Four (CA-4) (composed of El Salvador, Guatemala, Honduras, and Nicaragua), have eliminated border controls, allowing for the free movement of

¹⁵ Alejandro Foxley, "Regional Trade Blocs: The Way to the Future?" *Carnegie Endowment for International Peace*, (2010): 17.

¹⁶ Bela A. Balassa, *The Theory of Economic Integration*. (London: Routledge, 2011), 2.

¹⁷ Ernst B. Haas and Philippe C. Schmitter, "Economics and Differential Patterns of Political Integration: Projections about Unity in Latin America," *International Organization* 18, no. 4 (1964): 716.

¹⁸ Jordi Gali and Roberto Perotti, "Fiscal Policy and Monetary Integration in Europe," *Economic Policy* 18 (2003): 533-72

people; however. Nonetheless, such policy was implemented without a free trade area agreement or customs union in existence.¹⁹

Another reason full integration has been unsuccessful in the region is due to the lack of demand, supply and the absence of mass mobilization. Political scientist, Walter Mattli, claims that for integration to be successful, the demand-side and supply-side conditions must be met.²⁰ The demand side comes from various economic actors (i.e. transnational businesses, importers, exporters, etc.) who would benefit from an integrated market. The more cross-border trade and transactions companies and people in a nonintegrated market make, the more susceptible they are to financial hazards. On the other hand, the supply side comes mainly from political actors who have the capability through their executive and legislative powers to set up the framework for integration and implement it. Thus, the benefits of integration for political actors must be significant. Furthermore, Mattli and Sweet argue that regional groups that satisfy both factors are more likely to prosper.²¹ Regional organizations, where both supply and demand have been dealt with successfully, are the EU and North American Free Trade Agreement (NAFTA). However, in other organizations such as the Latin American Free Trade Association (LAFTA) where neither condition is achieved, integration is limited and at a standstill. Whereas in others, like MERCOSUR where one condition is fulfilled and not the other, integration has had mixed success.²²

¹⁹ Ralph Espach and Daniel Haering, "Border Insecurity in Central America's Northern Triangle," *Migration Policy Institute*, (2012): 13.

²⁰ Walter Mattli, *The Logic of Regional Integration: Europe and beyond*. (New York: Cambridge University Press, 1999), 41.

²¹ Walter Mattli and Alec Stone Sweet, "Regional Integration and the Evolution of the European Polity: On the Fiftieth Anniversary of the Journal of Common Market Studies," *JCMS: Journal of Common Market Studies* 50 (2012): 6-7.

²² *Ibid.*, 7.

The types of agreements and negotiations enacted between nations in the region are also a major contributing factor to the failure of creating a common market. Cooley and Spruyt claim that open-ended incomplete contracting (i.e. The Treaty of Rome of 1957) allows for further revision and integration, especially those that assign rights to supranational institutions.²³ On the other hand, complete contracts, those that are sufficiently detailed and specific (i.e. NAFTA), prevent further integration because their scope is limited and are not as easily accommodating to future change.²⁴ Additionally, complete contracts like NAFTA, do not have supranational bodies to oversee the integration, but rather are based on intergovernmental modes of control. Although NAFTA is a highly detailed contract, others like MERCOSUR and CAN are not entirely complete and have vague objectives and priorities. While the “incompleteness” of the treaties may allow for further integration, like the Treaty of Rome of 1957, such organizations like MERCOSUR do not assign supranational institutions to revise, complete, and enforce agreements and contracts.²⁵ Almost all Latin American regional organizations are intergovernmental in nature; thus most of the organization’s development is left to individual states to complete together. Furthermore, the lack of success is directly connected to a lack of commitment and initiative in the region.

The lack of commitment on the part of countries is due to their unwillingness to give up a certain degree of sovereignty. Many Latin American nations are highly

²³ Alexander Cooley and Hendrik Spruyt, *Contracting States: Sovereign Transfers in International Relations* (Princeton: Princeton University Press, 2009), 184.

²⁴ *Ibid.*, 161.

²⁵ Mattli and Sweet, “Regional Integration & Evolution of European Polity,” 9.

protectionist and have not fully adopted free market and free trade principles.²⁶ This protectionist attitude carries on as well during regional agreements and negotiations. While there are many historical factors which explain some of Latin American countries' protectionist policies, one the main reasons it carries on through integration efforts is due to the substantial level of disparities among the countries. Some countries, such as Chile and Brazil are more developed and have more access to global markets than less developed countries like Suriname and Nicaragua, and thus regional integration becomes challenging. Heinonen uses the term "polarization effect" to describe why regions with different levels of development have a harder time establishing a common market.²⁷ According to Heinonen, the polarization effect occurs when "after the formation of a customs union, economic development is concentrated in a few members of the union," which are typically the most developed countries in the region.²⁸ Developed nations are less willing to bear any high costs that would be brought upon integration, and less developed countries are unwilling to give up sovereignty within an organization where power is not distributed evenly. Furthermore, there is no cohesion policy set in place to reduce disparities in the region. For instance, the EU's cohesion policy has been effective in setting up growth goals and allowing less developed EU members to catch up economically and socially.²⁹ Although the EU's cohesion policy has its faults, there is an

²⁶ David Luhnow, "The Two Latin Americas," *The Wall Street Journal*, January 3, 2014. <http://www.wsj.com/articles/SB10001424052702303370904579296352951436072>.

²⁷ Hannu Heinonen, *Regional Integration and the State: The Changing Nature of Sovereignty in Southern Africa and Europe*, Vol. 13 (Interkont Books. Helsinki: Institute of Development Studies, University of Helsinki, 2006) 76.

²⁸ Ibid.

²⁹ European Commission, *An Introduction to EU Cohesion Policy 2014-2020*. June 2014. http://ec.europa.eu/regional_policy/sources/docgener/informat/basic/basic_2014_en.pdf.

overall commitment to developing the region, which is instrumental to the long-term success of any regional organization.

The lack of cohesion in Latin America could be explained by Cooper and Massell's theory on integration. Cooper and Massell argue that in less developed regions, regional integration efforts could be used to attain industrialization goals within the territory.³⁰ Furthermore, as demand for regional goods increases, members can specialize and have a comparative advantage in a good that they would not have otherwise in the global market. Specialization of one good could result in the relocation of that industry to a particular country, which means that other member countries could potentially bear the costs of that particular country's industrialization.³¹ Such specializations could affect the power balance in the region especially if the biggest economy is also the main industrialized country.³² Larger more industrialized countries in the region are more likely to control trade policies, such as Argentina and Brazil have done within MERCOSUR.

The inequalities and disparities among Latin American countries have produced various types of trading agreements according to the needs and level of economic integration among members. Some scholars use a broad definition of regional integration to describe all types of arrangements. However, others like Hurrell, break down the definition to fit various forms of agreements. Hurrell identifies five different categories of

³⁰ C. A. Cooper and B. F. Massell, "Towards a General Theory of Customs Unions for Developing Countries," *The Journal of Political Economy* 73, no. 5 (October 1965): 462.

³¹ Pedro Moncarz, Marcelo Olarreaga, and Marcel Vaillan, "Regionalismo Y Política Industrial En Los Países En Desarrollo: El Caso Del MERCOSUR," In *Integración Regional En América Latina: Desafíos Y Oportunidades*, (UNCTAD/DTL/KTCD/2010/3. Geneva: United Nations, 2010), 51.

³² Ibid.

integration: regionalization, regional awareness and identity, regional interstate cooperation, state-promoted regional integration, and regional cohesion.³³ Such distinctions are needed when discussing regional integration in Latin America because of different competing ideologies. The first category Hurrell identifies, regionalization, or “soft regionalism” refers to the growth of social and economic integration and the informal processes of interaction. Regional awareness and identity, the second category, refers to the collective perspective of belonging to a specific community. For instance in Latin America, there is a generalized shared perception of Simón Bolívar’s dream for a united region. Hurrell’s third category, regional interstate cooperation, encompasses the creation of intergovernmental agreements among the region; while state-promoted regional integration, a subcategory of regional cooperation refers to regional economic integration.³⁴ Lastly, regional cohesion is the combination of all four previous categories to form a consolidated unit. While Balassa’s theory of integration focuses mainly on economic integration, Hurrell’s encompasses a more diverse picture of what integration signifies.

There are several factors apart from financial demands that contribute to integration, such as, regional identity and willingness of political officials to commit to the integration process. However, while classical models of integration are necessary to discuss and analyze Latin America’s performance and prospects, they do not directly explain why Latin American countries have been unable to integrate successfully, given that various factors are in place to facilitate the process (i.e. shared history/background,

³³ Andrew Hurrell, “Regionalism in Theoretical Perspective.” In *Regionalism in World Politics: Regional Organization and International Order*, by Louise L'Estrange Fawcett and Andrew Hurrell, 37-74. (New York: Oxford University Press, 1996), 39-45.

³⁴ Andrew Hurrell, “Regionalism in Theoretical Perspective,” 42-43.

language, etc.). Additionally, most sources do not offer a viable solution for “undoing” or merging the dozen plus regional organizations in existence. While many sources delve into how Latin America would benefit or suffer from becoming integrated and having a common market, not many do extensive research about what the process would entail, given the massive web of regional organizations already in existence. Additionally, there are two distinct disciplines (politics and economics) scholars utilize to analyze current and past efforts to integrate the region. There is a shortage of sources that use both political and economic perspectives simultaneously to examine the integration processes in Latin America. While there is a call for more analyses using both schools of thought, social aspects are not often taken into consideration. While it is true that the vast majority of the region shares the same language and religion, there are still differences that prevent a full integration. Furthermore, the impact the region’s colonial past has on current efforts to integrate is often underplayed or forgotten. One significant impact of colonial rule was the creation of four distinct geographical regions: Brazil, Mexico and Central America, Andean countries, and the Southern Cone.³⁵ However, despite the lack of multi-disciplinary analysis, there is a consensus that efforts to integrate have not been successful. Furthermore, the major issues impeding the process have been: different economic realities within the region, historical factors, and competing ideologies.

³⁵ Ambassador Miguel Ruíz-Cabañas Izquierdo, “Interview with Mexican Ambassador to Italy,” Interview by author. May 11, 2015

III. Four Waves of Integration

Historical Context

Often left out in official reports and scholarly sources, is Spain's legacy in the country. However, Spain's administrative style and economic policies within present-day Latin America are a major reason for the region's current predicament. Additionally, the road from colonialism to independence in Latin America set the precursors for their struggle to achieve full consolidation. In particular, the institutions set up by the colonial powers still have influence amongst the political and economic sphere of the region. At the height of colonial Latin America, the Spanish had one obsessive goal: gold, glory, and God.³⁶ The Spanish crown was not interested in setting up a legitimate government and the institutions it did instill were susceptible to corruption.³⁷ Furthermore, the biggest threat to the Spanish monarchy in the New World was the potential rise of a noble class because of the perceived power they could have over the region. Thus, to eliminate any threat, Spain introduced a strict feudal system that became difficult to remove after independence.³⁸ However, one of the most significant impacts of Spanish colonial rule

³⁶ Kathleen Deagan, "Dynamics of Imperial Adjustment in Spanish America: Ideology and Social Integration," In *Empires: Perspectives from Archaeology and History*, edited by Susan E. Alcock, et al., (Cambridge, UK: Cambridge University Press, 2001) 179.

³⁷ Matthew Restall and Kris E. Lane. *Latin America in Colonial times*. (Cambridge: Cambridge University Press, 2011) 57.

³⁸ Samuel A. Morley, *The Income Distribution Problem in Latin America and the Caribbean*. (Santiago, Chile: ECLAC, 2001) 15.

was the fact that Spain never made preparations for the transfer of power since they never expected to cede control.³⁹ Consequently, at the onset of liberation there were few proficient and educated staff to handle the transition. Furthermore, the lack of experience was one of the main reasons the Congress of Panama (1826) was a not a success.

According to Higley and Gunther, the key to democratic consolidation is mass mobilization.⁴⁰ Unlike other regions, such as Eastern Europe, Latin American countries did not have mass mobilization at the commencement of liberation, and the roles of establishing governments were left to the elites.⁴¹ Furthermore, many countries of the region were composed of large indigenous, poor, populations, and they were often excluded in the process towards establishing new governments. Additionally, inadequate infrastructure prevented mass participation during key transition periods.⁴² Consequently, elites focused more on bridging authoritarian regimes with democracy instead of creating legitimate consolidated democratic states.⁴³ In the long-term, the lack of mass participation indirectly prompted instability and undermined the legitimacy of governments established after independence.⁴⁴

The region went through a few eras, which are reflected in the types of regional organizations created over the past 50 years. Starting from the caudillo period, to the populist era and Cold War, to the “pink tide” there is a clear distinction in the original

³⁹ Salvador Rivera, *Latin American Unification: A History of Political and Economic Integration Efforts*, (Jefferson: McFarland & Company Publishers, 2013).

⁴⁰ John Higley and Richard Gunther. *Elites and Democratic Consolidation in Latin America and Southern Europe*. (Cambridge: Cambridge University Press, 1992) 8.

⁴¹ Arceneaux, Craig L. *Democratic Latin America*. (Boston: Pearson, 2013).

⁴² *Ibid.*, 58.

⁴³ Salvador Rivera, *Latin American Unification: A History of Political and Economic Integration Efforts*, (Jefferson: McFarland & Company Publishers, 2013).

⁴⁴ Kathleen Deagan, “Dynamics of Imperial Adjustment in Spanish America: Ideology and Social Integration,” 187.

intents of the region. Malamud and Dabène break down the integration movements that begun after the Second World War into four different waves (see Appendix B).⁴⁵ By looking at each wave, it will become easier to decipher why integration efforts have not been consistent over time. Additionally, it will shed light on the type of events that trigger changes in the types of inter-governmental organizations created. Identifying the main factors contributing to the region's unsuccessful attempts during each wave will provide insight actions that could be done differently in future efforts.

First Wave (1951 – 1969)

After World War II, Latin American countries focused on a different type of regional policy geared more towards economic integration. The first wave of regional integration was heavily influenced by events prior to 1951 and by Raúl Prebisch's publication, "The Economic Development of Latin America and its Principal Problems."⁴⁶

Prior to 1951, the region's economy suffered greatly during the Great Depression, and both World Wars. Although little changed in the daily lives of people after the

⁴⁵ Olivier Dabène, *Explaining Latin America's Fourth Wave of Regionalism, Regional Integration of a Third Kind*. Panel "Waves of Change in Latin America. History and Politics". Paper for Delivery at the 2012 Congress of the Latin American Studies Association (LASA). May 25, 2012.

⁴⁶ United Nations Economic Commission for Latin America. *The Economic Development of Latin America and Its Principal Problems*. By Raúl Prebisch. (New York: United Nations of Economic Affairs, 1950).

Second World War, foreign investments had significantly stopped flowing in during those times.⁴⁷ Additionally, there was a significant rise in nationalism shortly after WWII, which was in part provoked by USA interventions in the region.⁴⁸ Furthermore, after WWII economies began to grow, albeit a slow, stagnant pace. Moreover, for the past 150 years there has not been significant real economic development, only steady progress.⁴⁹

The rise in nationalism plus the economic hardships suffered during the Great Depression and the World Wars gave rise to a new approach to economic development. Many like Malamud, believed the shift in focus from political to economic integration came from the functionalist claim “that international organizations would be better served by functional arrangements in economic, social, and cultural affairs than by political or federal integration.”⁵⁰ Additionally, the various groups established, OCAS, LAFTA, GRAN, were done so to try to promote industrialization in the region.⁵¹ However, the biggest push to integrate came from the United Nations Economic Commission for Latin America and the Caribbean (ECLAC) in the hopes of speeding up development through the establishment of a common market. Furthermore, Latin America's growth was stagnant because they relied heavily on the export of primary products and during the wars, demand dropped drastically. Thus, in his report for ECLAC, Raúl Prebisch

⁴⁷ James Lockhart, James, “History of Latin America.” *Encyclopædia Britannica Online*. Accessed March 13, 2015.
<http://www.britannica.com/EBchecked/topic/331694/history-of-Latin-America/60901/The-emerging-force-of-nationalism>.

⁴⁸ Ibid.

⁴⁹ Ambassador Miguel Ruíz-Cabañas Izquierdo, “Interview with Mexican Ambassador to Italy,” Interview by author. May 11, 2015.

⁵⁰ Andrés Malamud, “Latin American Regionalism and EU Studies” 639.

⁵¹ Olivier Dabène, *Explaining Latin America's Fourth Wave of Regionalism, Regional Integration of a Third Kind*, 3.

advocated for a new model, import substitution industrialization (ISI). Many countries implemented this policy in attempts to revitalize their economies and to limit their dependence on primary products.⁵²

Others like Mattli, claim that the commencement of integration efforts in Europe prompted the creation of regional organizations in Latin America because new trading agreements threatened the region's exports of primary products.⁵³ After that in 1960 the Latin American Free Trade Association (LAFTA) and the Central American Common Market (CACM) were created to facilitate economic integration.⁵⁴ However, not much effort was made to keep expanding the organizations even though the 1967 Declaration of the Presidents of America stated that a common market would be created starting in 1970.⁵⁵ However by 1970, initiatives to develop a free market were dismantled. Nonetheless, the Andean Group (GRAN) was established a year before in 1969, which signals that there was no serious commitment to full integration since many other organizations were formed. Additionally, GRAN was not fully committed to lowering all trade barriers.⁵⁶

⁵² United Nations Economic Commission for Latin America. *The Economic Development of Latin America and Its Principal Problems*. By Raúl Prebisch. (New York: United Nations of Economic Affairs, 1950).

⁵³ Walter Mattli, *The Logic of Regional Integration: Europe and beyond*. (New York: Cambridge University Press, 1999).

⁵⁴ Andrés Malamud, "Latin American Regionalism and EU Studies" 638.

⁵⁵ The Presidents of the American States and the Prime Minister of Trinidad and Tobago. *Declaration of the Presidents of America, Punta Del Este, Uruguay*. April 4, 1967. http://avalon.law.yale.edu/20th_century/intam19.asp.

⁵⁶ James Lockhart, James, "History of Latin America." *Encyclopædia Britannica Online*. Accessed March 13, 2015.

Second Wave (1973 – 1986)

During the second wave of integration, there was not much progress made on the integration of Latin America due to several external factors. One of these external factors was the rising nationalism of individual countries. Prebisch noted that the rise in nationalism was a missed opportunity because had it converted to a regional Latin American nationalism, it would have incentivized the process of establishing a common market.⁵⁷ Nationalism goes back to Hurrell's five categories of integration, where the second category, "regional awareness and identity," plays a critical role in establishing a sense of belonging in a particular region.⁵⁸

Nevertheless, the first Latin American organization created during this wave of integration was the Latin American Economic System (SELA) in 1975. The main objectives of the organization were to promote social development and economic integration; however, not much has been achieved within the organization.⁵⁹ Nonetheless, SELA still meets once a year and all Latin American countries are members. SELA is an early example of trying to focus on social development across the region. Throughout the first three waves of Latin American integration, most of the focus is on developing economic integration, however, SELA attempted to bring about social issues to encourage development.

⁵⁷ Raúl Prebisch, *Exposición Del Secretario Ejecutivo de la CEPAL en el Decimotercer Periodo de Sesiones*. Santiago: Economic Commission for Latin America and the Caribbean, 1969.

⁵⁸ Andrew Hurrell, "Regionalism in Theoretical Perspective," 42.

⁵⁹ "SELA - Objetivos y Documentos Institucionales." Sistema Económico Latinoamericano Del Caribe. Accessed March 31, 2015. <http://sela.org/view/index.asp?ms=258&pageMs=26201>.

During the 1970s, there was a rise in leftist movements and military regimes began to be enacted across the region. The instability of this decade prevented any further attempts at integration until 1980.

In 1980 the Latin American Integration Association (LAIA) replaced the old LAFTA organization during the 1980 Montevideo Treaty.⁶⁰ The main purpose of the treaty is to develop and promote economic integration with a long-term goal of establishing a common market.⁶¹

Alternately the Rio Group was created in 1986 to facilitate dialog with external unions, such as the EU; however it shows no commitment to developing a common market and has no permanent institutions.⁶²

The second wave of integration was dominated by a change to the developmentalism theory brought upon during the first wave of integration. Furthermore, this surge of integration was characterized by flexible planning and no fixed deadlines, which hindered integration efforts. However, the lack of commitment was partly due to the region's 1980s debt crisis, which forced many countries to default on their debts.⁶³ Furthermore, the debt crisis reversed many of the region's previous open global policies and many enacted protectionist policies.

⁶⁰ "¿ Quiénes Somos ?" Asociacion Latinoamericana De Integracion. Accessed April 13, 2015. http://www.aladi.org/nsfaladi/arquitect.nsf/VISITIOWEB/quienes_somos.

⁶¹ Ibid.

⁶² "The EU and the Rio Group." European Union External Action. Accessed March 23, 2015. http://eeas.europa.eu/la/riogroup_en.htm.

⁶³ Dwighr H. Perkins. *Economics of Development*. (New York: W. W. Norton & 2013) 141.

Third Wave (1991 – 2000)

The agenda during the third wave was trade liberalization through the implementation of tariff reductions; during this era, two of the most prominent organizations to date were created, MERCOSUR and CAN.⁶⁴ Additionally, the Washington Consensus played a significant role in the development of Latin American economies during this decade.

The Southern Common Market (MERCOSUR) was created in 1994 and acts as a customs union; members include Argentina, Brazil, Paraguay, Uruguay, and Venezuela.⁶⁵ However, this trade bloc represents the biggest protectionist economies in South America, Brazil and Argentina. There have been various unsuccessful attempts at expanding the customs union into a common market, which is the next stage in Balassa's theory of economic integration.

The main reason there have been no successful attempts is because there is no real commitment from its two most influential members (Argentina and Brazil). According to the Mexican Ambassador to Italy, Mr. Miguel Ruíz-Cabañas Izquierdo, it is used mainly as a political instrument rather than an economic union.⁶⁶

⁶⁴ Olivier Dabène, *Explaining Latin America's Fourth Wave of Regionalism, Regional Integration of a Third Kind*, 13.

⁶⁵ "Bienvenido al Portal del MERCOSUR - Su Funcionamiento." Mercosur. Accessed March 12, 2015. http://www.mercosur.int/innovaportal/v/6500/4/innova.front/su_funcionamiento.

⁶⁶ Ambassador Miguel Ruíz-Cabañas Izquierdo, "Interview with Mexican Ambassador to Italy," Interview by author. May 11, 2015.

On the other hand, in 1996, GRAN was replaced by the Andean Community (CAN); its members are Bolivia, Colombia, Ecuador, and Peru.⁶⁷ Similar to MERCOSUR, it is a full customs union. CAN arose originally mainly because there was a “demand” from the less developed countries to form a trading agreement that would not benefit the largest economies solely. This demand reflects the “polarization effect” that could potentially occur in many regional organizations; thus CAN aims to improve the state of weaker economies within South America.

Washington Consensus

Although, there were impediments to establish economic and political integration, countries in South and Central America are breaking away from “Washington consensus” mold, which is in line with the relative new trend of leftist governments in the region. Such trends have given rise to shared ideas and consensus. For instance at the 2005 Summit of the Americas, Latin American countries made it clear to the world and especially the United States that the neoliberal model was not working. The Argentine president at the time, Nestor Kirchner, asserted that the United States had the “inescapable and inexcusable responsibility for economic policies that caused poverty and undermined democratic rule.”⁶⁸ Furthermore, the former Argentinian president

⁶⁷ "Somos Comunidad Andina." Comunidad Andina. Accessed February 13, 2015. <http://www.comunidadandina.org/Seccion.aspx?id=189&tipo=QU&title=somos-comunidad-andina>.

⁶⁸ Arceneaux, Craig L. *Democratic Latin America*. (Boston: Pearson, 2013) 83.

asserted that during this conference, Latin American nations, collectively, for once were able to speak out.⁶⁹ Additionally, elections that took place this past decade in Argentina, Venezuela, Brazil, Bolivia, Chile, Ecuador, Nicaragua, and Uruguay all had frontrunner politicians from the left. Such politicians like the late Hugo Chavez, Evo Morales and Luiz Inacio Lula da Silva had a confrontational approach towards Western interference and a newfound independence, which was due to their rising economies. While there is no direct correlation that proves that these nations turned leftist due to the pressures and manipulation of western politicians, breaking off all relations with the West is not possible due to the dynamics of the world economy. However, by forming a common market, they can assert their position better to the rest of the world. Some nations, like Venezuela, have tried in the past to limit Western imports by turning to ISI (first wave) and focusing solely on domestic productivity.⁷⁰ Nonetheless, this ended up slowing down their local markets instead of restoring them.

Fourth Wave (2001 – Today)

The fourth wave represents the most recent attempts to integrate within the region. Out of all four waves of integration, this one tries to deal with post-trade issues such as development and cohesion. The leading organizations created during this era are the Pacific Alliance (PA) and the Union of South American Nations (UNASUR).

⁶⁹ Ibid.

⁷⁰ Olivier Dabène, *Explaining Latin America's Fourth Wave of Regionalism, Regional Integration of a Third Kind*, 13.

The UNASUR treaty was signed during the height of the world recession in 2008. However, its primary focus has been integrating MERCOSUR and CAN to form one customs union for the whole of South America.⁷¹ Furthermore, the organization announced that UNASUR has the capability of becoming a complete union by 2019.⁷² The aim of UNASUR is to create a single market; however CAN and MERCOSUR are two very distinct organizations with different ideologies. Additionally, neither CAN nor MERCOSUR has shown interest in merging into one customs union.

The Pacific Alliance, on the other hand, shows promising prospects for the future of Latin American integration. Created recently, in 2011 it is made up of Chile, Colombia, Mexico, and Peru.⁷³ The main objectives are to build economic development while making gradual moves towards the establishment of a free market.⁷⁴

All of its members have more or less open economies and do not enact protectionist policies to the extent that Argentina and Brazil do in MERCOSUR. Furthermore, they are also concerned with promoting cohesion policies and are committed to overcoming social inequalities and creating a better sense of inclusion within the member states.⁷⁵ Additionally, other nations have shown interest in joining the region, especially, Costa Rica, which is a sign that the regional trading bloc is showing progress and making an impact on the region.⁷⁶

⁷¹ Ibid., 17.

⁷² *Latin American Integration Association (Aladi) Handbook*. Vol. 1. Int'l Business Publications, 2007.

⁷³ "The Pacific Alliance and Its Objectives." Alianza Del Pacifico. Accessed March 8, 2015. <http://alianzapacifico.net/en/home-eng/the-pacific-alliance-and-its-objectives/>.

⁷⁴ Ibid.

⁷⁵ Andrés Malamud, "Latin American Regionalism and EU Studies" 642.

⁷⁶ "The Pacific Alliance and Its Objectives." Alianza Del Pacifico.

The Role of the IMF

The global financial crisis that developed in 2008 propelled the IMF into a prominent global economic actor. Since then, special attention has been paid to the way the IMF restructures loans and comes to decisions, especially by nations in Latin America. However, before the recession, the IMF received criticism for the way it handed out and supervised loans to developing countries. Specifically, the IMF has always been criticized and accused of being a diplomatic tool for Western nations, such as the United States. Empirical studies like Yackee and Oatley's confirm Latin American countries' accusations that the United States uses the IMF as a platform to pursue their goals in foreign policy.⁷⁷ By conducting a study, they tested their hypothesis that American financial interests determined the size and conditionalities of the loans. Their dependent variable in the analysis was the size of the IMF credit extended, and their independent variable was American foreign policy interests, which was measured by UN votes, US military assistance, and democratic relationships. In their results, they found that the IMF offers larger loans to countries that already have existing debt in American commercial banks. They also found that American foreign policy goals determine the size of loans. While such studies show a connection between allegiance to the United States and loan conditionality, the rise of collective action by Latin American nations is testament that the regional balance is changing.

⁷⁷ Thomas Oatley and Jason Yackee. "American Interests and IMF Lending." *International Politics* 41, no. 3 (2004): 415-29. doi:10.1057/palgrave.ip.8800085.

V. Conclusion

The primary goal of this thesis was to identify the main reasons why regional integration has not been successful in Latin America. Through the use of classic and modern integration theories, I analyzed the four different waves of integration identified by Dabène. Furthermore, by analyzing the four waves, I was able to identify the main factors influencing the creation of new organizations, such as the 1980s debt crisis and the end of the Washington Consensus. Although the first two waves have paved the way and influenced recent attempts at integration, I chose not to go in depth due to the major political and economic changes the region underwent from 1950 to 1990. The political and economic instability experienced during those years prevented serious attempts from manifesting themselves. However, within the past two decades, many Latin American countries have undergone drastic changes, changing their protectionist policies to allow for a more open global economy. Although not all Latin American countries are at the same speed of development, according to Mexican Ambassador to Italy Mr. Miguel Ruíz-Cabañas Izquierdo most are headed, more or less, towards adopting the same economic and political ideologies.⁷⁸ Some scholars, like Roberts, believe that further integration in Latin America will only propel the countries to the top of the global market because it gives them a stronger voice on the world stage.⁷⁹ While integration has proven to be

⁷⁸ Ambassador Miguel Ruíz-Cabañas Izquierdo, "Interview with Mexican Ambassador to Italy," Interview by author. May 11, 2015.

⁷⁹ Bryan R. Roberts, "Globalization and Latin American Cities," *International Journal of Urban and Regional Research* 29, no. 1 (2005): 112.

effective in other regions (i.e. EU, NAFTA, etc.) one cannot assume that the same results will be seen in Latin America. Nonetheless, what we do see is a collective action towards countries' willingness to enter into binding agreements with one another.

There are over a dozen regional organizations in South and Central America, however there is no strong sense of commitment. That is evident by the existence of the many bilateral trading agreements individual Latin American nations have negotiated with countries outside the region.⁸⁰ The first wave was dominated by *técnicos*' ideas of a fully integrated economy. However, countries did not have the resources to implement the policies.

The three top factors that are obstructing further integration in the region according to the Mexican Ambassador, Mr. Miguel Ruíz-Cabañas Izquierdo are historical/geographical, economic differences, and different visions/ideologies.⁸¹

The region's historical past plays a large role in present failures to integrate because during colonial times there was not much interaction among the nations in Latin America. Furthermore, geography plays a role as well because the topology of the land made it hard to communicate prior to and after independence. Hence there was not enough interaction between the nations in order to establish a common ground for integration.

Furthermore, there are different ideologies within the region that prevent it from creating anything deeper than a customs union. On one side, the "Atlantic" countries (i.e. Brazil, Argentina, etc.) are less willing to open up their economies to the global market.

⁸⁰ Claudia Kedar, *The International Monetary Fund and Latin America: The Argentine Puzzle in Context*. (Philadelphia: Temple University Press, 2013).

⁸¹ Ambassador Miguel Ruíz-Cabañas Izquierdo, "Interview with Mexican Ambassador to Italy," Interview by author. May 11, 2015.

They enact protectionist policies to safeguard against imports. Furthermore, Brazil has the potential to make a call for further integration due to its influence in the economy of South America. However, there is no interest in the higher levels of government to integrate their economies. MERCOSUR was effectively created by Brazil and Argentina as a way to counteract the newly formed NAFTA.⁸²

The “Pacific” countries (i.e. Chile, Mexico, Peru, Colombia, etc.) on the other hand, implement free trade and free markets while minimizing the role of the State. This approach is more in line with the present state of affairs in the global market. Most “Pacific” countries have experienced higher growth rates than the “Atlantic” side nations.⁸³ Furthermore, this shows that closed economies with limited participation in the global trade lag in economic growth. For instance, Brazil has been experiencing stagnant growth and has recently begun talks to enter into a free trading agreement with Mexico.⁸⁴ If the deal goes through, it would be a symbolic movement that could signal the start of significant bilateral trading agreements between Latin American nations, despite their differing ideologies.

Often times, countries allude to Bolivar’s dream, however it has become an idealized notion because ultimately countries will make trade agreements with any country they may benefit from. For example, Mexico’s agreement with NAFTA goes against the notion of a united Latin America. Furthermore, this indicates that while the

⁸² Ambassador Miguel Ruíz-Cabañas Izquierdo, “Interview with Mexican Ambassador to Italy,” Interview by author. May 11, 2015.

⁸³ David Luhnow, “The Two Latin Americas.” *The Wall Street Journal*, January 3, 2014.
<http://www.wsj.com/articles/SB10001424052702303370904579296352951436072>.

⁸⁴ Rogerio Jelmayer and Dudley Althaus. “Brazil, Mexico Agree to Extend Auto Trade Agreement.” *The Wall Street Journal*, March 9, 2015.
<http://www.wsj.com/articles/brazil-mexico-to-renew-auto-trade-agreement-1425899470>.

region may sympathize with Bolivar's dream it does not influence countries nor prevent them from seeking relationships with nations outside the region. As Ambassador Ruíz-Cabañas Izquierdo advises, the region would benefit more from working with each other to improve poverty levels and raise the standard of living. This type of cooperation requires no fiscal or monetary commitments, and the sharing of information and ideas will only benefit the region in the long run.

There are certain economic and social conditions that a region must arrive at before attempting to integrate; otherwise the stronger economies can create a polarization effect that can potentially cause harm to weaker economies. This topic deserves to be analyzed using several disciplines, such as psychology, economics, politics, and sociology. While many have tried to compare Latin America's process to the EU, there are a lot of differences that warrant it a unique model. Moreover, future studies can focus on creating new paradigms for the integration of Latin America to deal effectively with the mass of regional organizations already in existence. Furthermore, there are a few limitations that come about researching this topic because there are too many unknowns. However, in identifying the major obstacles, it can prompt further research into whether it will benefit the region in the long run.

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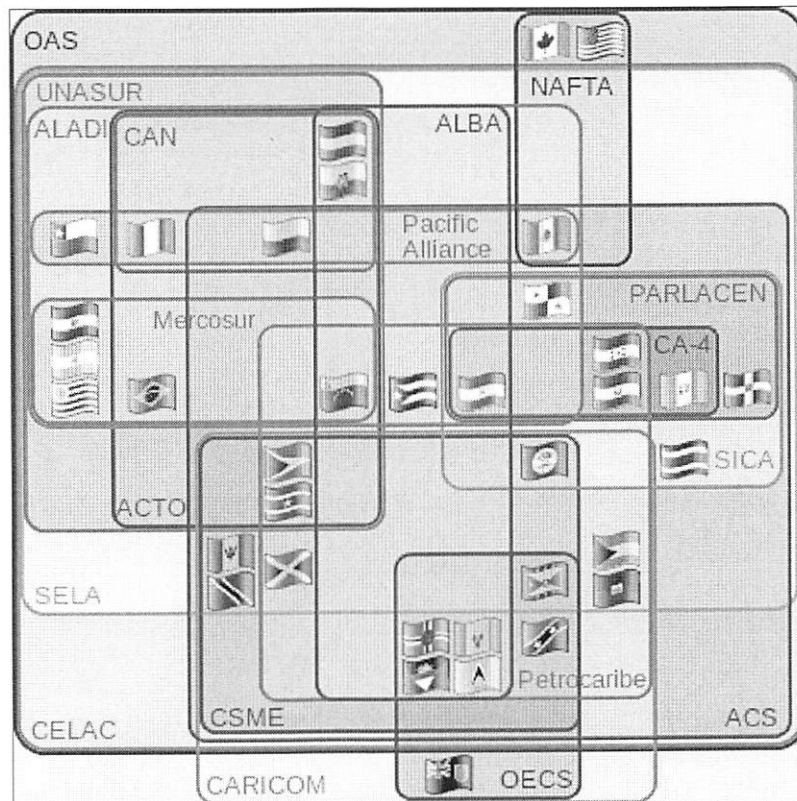
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Appendix A

Regional Organizations in the Americas (Source: DigPlanet)⁸⁵



⁸⁵ DigPlanet. "Latin American Integration Association." DigPlanet.com. 2014.
http://www.digplanet.com/wiki/Latin_American_Integration_Association.

Appendix B

Waves of Regional Integration within Latin America Based on Malamud⁸⁶ and Dabène⁸⁷

Waves	Paradigm	Agenda	Methodology	Organizations
1 st wave (1951 – 1969)	Developmentalism and structuralism	Economic integration and ISI	Planning	OCAS, LAFTA, GRAN
2 nd wave (1973 – 1986)	2 nd order change to Developmentalism, end of consensus	Economic integration	Flexible planning with no fixed deadlines	SELA, LAIA
3 rd wave (1991 – 2000)	Neo-liberalism, open regionalism	Trade liberalization	Tariff reduction	MERCOSUR, SICA, CAN
4 th wave (2001 – Today)	Neo- developmentalism	Post-trade issues areas	Flexibility and functional cooperation	ALBA, UNASUR, PA, CELAC

⁸⁶ Andrés Malamud, “Latin American Regionalism and EU Studies.”

⁸⁷ Olivier Dabène, *Explaining Latin America's Fourth Wave of Regionalism, Regional Integration of a Third Kind*, 10, 13, 16, 26.



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