

**REGIONALISM AMONG THIRD WORLD COUNTRIES:
A COMPARATIVE STUDY OF MERCOSUR AND ASEAN**

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This dissertation deals mostly with Third World regionalism, which has become more and more pronounced after the end of the Cold War. This is done taking two case studies of Mercosur and ASEAN, the two more important regional organisations of the Third World. In undertaking this, several hurdles stand in the way. I would like to thank a few people for helping me overcome these hurdles and enable me to complete this dissertation with ease.


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Lastly I bear all responsibility for any mistakes and errors that may have crept in the work.

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INTRODUCTION

The growth of regionalism and regional integration arrangements is one of the most significant developments in contemporary international relations. Out of the 108 regional integration arrangements notified to the General Agreements on Tariff and Trade (GATT) over the period between 1948-1994, 33 of them had been established in the early 1990s.¹ This trend has been particularly been significant in the Third World. Several changes, both in the developed and the developing countries brought this about. Some scholars have pointed out that this is the result of the economic marginalisation of much of the south during the cold war period.² These areas have also started to adopt new regionalist policies to reduce their dependence on the western countries.

Critics of this trend feel that the ideal of United Nations (UN) multilateralism is being threatened. They warned that this could lead to the division of the world between Europe, America, and Asia-Pacific. They also warned of trade divisions that could harm world efficiency and other World Trade Organisation (WTO) members, thus putting at risk the world trade system. Conversely, others believe that this would provide a better deal for the poor regions and help in reducing domestic and regional conflicts.³

Regionalism, by definition, is the process by which states, usually of a region, are organised on the basis of common interests. It also connotes integration whereby distinct political units are integrated for a common purpose and interests. Integration can be viewed as a process and as a condition. As a process, it is defined as, "the process whereby actors in several distinct national settings are persuaded to shift their loyalties, expectations and political

¹ WTO, *Regionalism and the World Trading Systems* (Geneva; WTO, 1995)

² Jean Grugel and Wil Hout (Eds.) *Regionalism Across the North-South Divide: State strategies and globalisation* (London; Routledge, 1999) p. 4

activities toward a new centre, whose institutions possess or demand jurisdiction over the pre-existing national states.”⁴ As a condition, it is, “the attainment within a territory, of a sense of community and of institutions and practices strong enough and widespread enough to assume, for a ‘long’ time, dependable expectations of ‘peaceful change’ among its population.”⁵

Regionalism in the Third World can be said to have emerged in phases. Although this will be dealt with in greater detail, a brief overview is given here.

In the first phase, initiatives were taken by western powers in the Third World. Third World countries entered into close relations and alliances with western powers for reasons of security and economic assistance. This brought into being explicit military groupings such as the Rio Pact, Central Treaty Organisation (CENTO) and Southeast Asian Treaty Organisation (SEATO).

In the second phase, some initiatives began to be taken by the Third World. They began to be more involved in the decision making process as well. The formation of the Organisation of African Unity (OAU) in 1963⁶, Association of Southeast Asia (ASA) in 1961, and the Asian and Pacific Council (ASPAC) in 1966 were especially significant. This new involvement opens a new chapter for the Third World; previously their membership was largely confined to the UN.

The Association of Southeast Asian States (ASEAN) opened a new phase in 1967 when it was established. Till today it still remain as an important regional organisation that is committed to maintain the peace, stability and security of the region. Similarly, the Economic

³ Debates concerning regionalism and multilateralism can be seen in “Regionalism Vs. Multilateralism,” (Series of articles) *American Economic Review*, Vol. 86 (2), May 1996, pp. 82-92

⁴ Ernst B. Haas, *Uniting of Europe: Political, Social and Economic Forces, 1950-1957* (Stanford; Stanford University Press, 1958) p. 16

⁵ Karl W. Deutsch et al., *Political Community in the North Atlantic Area: International Organisation in the Light of Historical Experience* (Princeton; Princeton University Press, 1957) p. 5

Community of West African States (ECOWAS) and the South African Development Community (SADC) were established in 1975 and 1980 respectively.

Since the late 1980s, there has been a renewed interest in regionalism and regional integration with emphasis on the formation of free trade areas. In 1989, a US-Canadian Free Trade Area (CUSTFA) was formed. Then in 1991, Mercosur (Mercado común del sur, the common market of the southern cone) came into being. In 1993, the North American Free Trade Area (NAFTA) and the Asia-Pacific Free Trade Area (APFTA) were formed. In 1994, an agreement on PAFTA was signed. Mercosur and ASEAN have also made commitments to create common markets within a time frame. The ASEAN Free Trade Area (AFTA) and a new China-ASEAN Free Trade Area are expected to change world trade in the near future.

In Africa, in recent years, the southern cone is moving towards closer integration on a free trade basis through the SADC. The Western African Economic and Monetary Union (WAEMU or UEMOA) has also raised plans to bring about a common external tariff, a joint commission and other elements of the European system. Mercosur in Latin America has also entered into free trade arrangements with the Andean Community, the Central American Community (CACM) and Bolivia and Chile.

As the world moves towards closer regional integration, trade within major regional groups is bound to increase. According to the WTO Annual Report of 1998, trade within NAFTA, the European Union (EU), European Free Trade Area (EFTA), Central European Free Trade Area (CEFTA) and Mercosur amounted to 36% of world exports and that these five groups account for 70% of world exports overall.⁷

But sadly, for the Third World, economic underdevelopment remains the biggest hurdle that stands in the way of economic integration and regional trade. At the same time, not all

⁶ The OAU has recently changed its name to African Union

Third World countries are weak. Therefore, disparity in this sense makes cooperation and trading difficult. Again these countries produce the same primary goods, which rather limits intra-regional trade. Recurrent economic crises weaken these economies too.

This dissertation studies the development of Third World regionalism, taking two case studies of Mercosur (the Southern Cone Common Market) and the Association of Southeast Asian Nation (ASEAN).

It starts out with an **Introduction** of the subject, which is an overview of the growth of regionalism in the Third World countries. It also deals, in a short way, with the main problems that are in the way of Third World integration.

The **First Chapter** deals with the growth of regionalism, not only in the Third World, but also in the developed world as well. It also takes up the concepts, theories and approaches that are associated with regionalism and integration. It concludes by stating that many of the theories propounded by western scholars are unsuitable when applied to Third World specific situations.

The **Second Chapter** deals with the Third World, its meaning, problems, prospects and approaches to regionalism.

The growth of Latin American regionalism is taken up in the **Third Chapter**. In the process, the social, political and economic condition of Latin America in general is presented. It mostly deals with Mercosur (Mercado Común del sur), the regional integration arrangement of the southern cone. Through it, it identifies the problems and prospects of Latin American regionalism.

⁷ WTO. *WTO Annual Report, 1998, Vol. II* (Geneva; WTO, 1998) pp. 28-30

In the **Fourth Chapter**, ASEAN is the main subject of study. Before studying the formation of ASEAN, its activities and organisation, it presents a country-wise survey of the original members of ASEAN.

A comparative study of Mercosur and ASEAN is undertaken in the **Fifth Chapter**. Comparison of Third World regionalism is done on the bases of major variables such as the problems facing the countries, their policy positions, organisational structure and activities and the external relations and influences should be kept in mind. By a comparative assessment of Mercosur and ASEAN, these problems, activities, influences, policies and likely prospects of Third World regionalism and regional organisations can be better understood.

The dissertation concludes with a **Conclusion**, which is a summary of the points made. It makes up the **Sixth Chapter**.

CHAPTER ONE

Regionalism: History and Theory

Since the Second World War ended, there has been an increase in the number of regional integration arrangements in all parts of the world. This opening chapter deals with this growth of regionalism in the historical perspective as well as with the concepts, approaches and theories of regional integration¹. Here, it deals with the growth of regionalism in Europe, the Americas, Asia, and Africa. It concludes by asking if these theories and approaches could be applied in the Third world.

REGIONALISM IN THE HISTORICAL PERSPECTIVE

The European context

It is difficult to place the real origins of regionalism much before 1945. However, the first movements towards regional integration can be seen after the French Revolution when the rules impeding the free traffic of goods and people and the application of extra-national customs duties were abolished. The Napoleonic Integration Arrangement known as Napoleon's Continental System was designed to isolate Britain and was another example of early attempt.

In 1834, eighteen German states formed the Zollverein Customs Union integrating their markets and railway networks. This union eventually paved the way for political unification of Germany in 1870. In 1860, the Cobden-Chevalier treaty was signed whereby France could access superior and cheaper British coal and iron. More attempts were made

¹ The term 'regional integration' is used to mean the formal or institutionalised regionalism that has emerged as the predominant form.

during this time, but most of them failed. Some of the failed attempts were: the proposal of Hungary for the creation of a Central European Union in 1885-1886, French efforts to forge a customs union with Germany in 1888 and the various proposals for the establishment of a central European Economic Association between Austria-Hungary, Belgium, Denmark, Germany, Holland, Italy, Romania, Sweden and Switzerland.

Very few regional groupings existed during the inter-war period (1918-1939). This was because of the effects of the First World War. This period was aptly referred to as a period of “national economic integration and international disintegration.”² However, during this period, there were a growing number of international public and private associations. The General Postal Union and the International Law Association were such associations formed during this period.

After the Second World War, the picture changed. Regional integration regained a new importance, and soon many regional groupings emerged. Louise Fawcett wrote, “that it did so at much rapid speed owes much to two factors: the great international upheaval of the 1930s and 1940s and the expansion and transformation of international society. The Second World War and its consequences demolished the old European order and crudely divided the world into two competing spheres where the new superpowers vied for influence. The region as a unit of analysis became important not only in a Cold War context, but increasingly as a result of the growing assertiveness and self consciousness of regions themselves.”³ Among those formed were the International Monetary fund (IMF), General Agreement on Tariffs

² Gunnar Myrdal, *An International Economy: Problems and Prospects* (New York; Harper and Bros., 1956)

³ Louise Fawcett, “Regionalism in the Historical Perspective,” in Louise Fawcett and Andrew Hurrell (Eds.) *Regionalism in World Politics* (new York; Oxford University Press, 1994) p. 12

and Trade (GATT), International Bank for Reconstruction and Development (IBRD) and the United Nations (UN).

In 1948, the Organisation for European Economic Cooperation and Development (OEEC), later known as the Organisation of Economic Cooperation and Development (OECD) was formed to assist in the reconstruction of the war-ravaged Western Europe. The same year, the Benelux Nations (Belgium, Netherlands and Luxembourg) established a customs union between themselves. In addition, in 1949 and 1954, the Council for Mutual Economic Assistance (CMEA) and the Western European Union were formed respectively.

On 18 April 1951, the most ambitious regional integration arrangement, the European Coal and Steel Community (ECSC) was signed at the treaty of Paris between France, Germany, Italy, and the Benelux countries. The United Kingdom did not join the community because it was more interested in forming an intergovernmental association. However, steps towards the creation of a single European political system failed when the European Defence Community (EDC) was defeated in the French National Assembly. The European Political Community (EPC) could not see the light of day. But the ECSC became the forerunner of the European Economic Community (EEC), which was signed on 25 March 1957. The European Atomic Energy Community (EAEC) was also established in 1958. Such steady progress indicated the great successes of regional economic integration in Europe.

Elsewhere, the European Free Trade Area (EFTA) was formed by Austria, Denmark, Norway, Sweden, Switzerland, Liechtenstein, Portugal and the United Kingdom (UK) in 1960 as a rival regional arrangement to the EEC. As the name suggests, EFTA was less ambitious in its intentions than the EEC. Finland and Iceland became members in 1961 and

1970 respectively. But of late, the future of EFTA became quite uncertain with its members leaving the arrangement.

In 1967, the merger treaty of the three communities – ECSC, EAEC and EEC was signed giving birth to the European Community (EC). The UK, Denmark and Ireland acceded to the EC in 1973, Greece in 1981. In 1986, the Single European Act (SEA) was signed which committed the signatories to an eventual single currency. The Maastricht Treaty on European Union was signed in 1991. The single currency was envisaged by as early as 1997 or 1999 at the latest between the majorities of the EU. The Treaty was finally ratified on November 1993. At the Madrid Summit on December 1995, the EU leaders decided upon the name ‘Euro’ for the future single currency.

Euro notes and coins were finally circulated on 1 January 2002 amid a glittering ceremony in Brussels, Europe’s administrative capital. Though the Euro had existed since January 1999, it was only for inter-bank transactions. Euro single currency notes and coins were introduced across twelve Euro-zones countries, while the UK, Denmark and Sweden opted out of it. It now meant that European could pay for goods anywhere in these twelve countries with the same money. The arrival of the Euro in physical form is a great landmark in the movement towards complete European integration. It completed the European Monetary Union (EMU), aimed at securing greater prosperity and greater security. Now, it appears that European political integration will only be a matter of time. As the Spanish Prime Minister Jose Maria Aznar said, “the Euro is the symbol of the strength of our union.”

The American Context

The Organisation of American States (OAS) was established in 1948. Though it was not a

regional integration arrangement, it brought together countries in the Americas. In North America, the Canada-US Auto Pact was signed in 1965. It established free trade between its two signatories in the automobile industry. Then in 1988, the two countries signed an agreement on the formation of the Canada-US Free Trade Agreement (CUSFTA). The CUSFTA led to the formation of the North American Free Trade Agreement (NAFTA) in 1993.

It can be said that since the beginning of the 1980s, the US's interest in regionalism has significantly been growing. This recent US interest may have been due to what Bhagwati coined as the 'diminished giant syndrome.'⁴ Besides, the growing trend in Europe and other parts of the world towards regional exclusivism, the immense domestic pressure on its regional policy to change because of the growing interdependence between states, the change in the systems of government from authoritarianism to democracies in South America, and the changed attitude of these countries towards the US may have also added to the transformation of US strategy towards regionalism in general and towards Latin America and the Caribbean in particular. The transformed US strategy towards was shown by the announcement of the Enterprise for Americas Initiative (EAI) by Bush on June 1990, and its endorsement by Clinton at the Miami Summit held in 1994. Unsurprisingly, the share of Latin America in total US exports between 1980-1987 had also rose from 32.2% to 38.2%.

As with the US, other countries also began to show their interests in regional arrangements. Canada became a member of the OAS in 1990. After 1980, the Mexican Government was forced to adopt market liberal economic policies and to open up. It

⁴ Jagdish Bhagwati, *Multilateralism at Risk*, The Harry Johnson Memorial Lecture, London, July 1990, quoted in Christopher M. Dent, *The European Economy: The Global Context* (London; Routledge, 1997) p. 49

apparently realised that it stood a chance of being marginalised if it stayed shut, because of the increasing trend toward new regional economic tie-ups. Mexico, as a result, entered the GATT in 1986, and subsequently joined a trilateral free trade agreement with Canada and the US.

In the South, contemporary regionalism began after the Second World War. As the world became divided into blocs, the Latin American and Caribbean (LAC) was effectively cut-off from the rest of the world – the region being under the US influence. The OAS became the means of transmitting US policy over the region. However, the UN Economic Commission for Latin America and the Caribbean (ECLAC/CEPAL), created in 1948 gave Latin American regionalism much of its shape during this period.

By the 1960s, the drive for integration led to the signing of the Montevideo Treaty aimed at the organisation of a broad Latin American Free Trade Area. Thus, the Latin American Free Trade Area (LAFTA) was born on February 1960. It was the first regional integration arrangement and was established between Mexico and the Spanish and Portuguese speaking nations of South America. The LAFTA failed to make much of headway. Its place was taken by the Latin American Integration Association (LAIA/Aladi), established in 1980. The LAIA acts as the umbrella organisation for all negotiations and agreements among its members. It has, as its objective, the inauguration of a single Latin American market.

In 1969, Bolivia Colombia, Ecuador, Peru and Venezuela signed the Andean Pact with the objective of creating a free internal trade by 1992, the establishment of a customs union between Peru, Colombia and Venezuela by 1993 and a common market by the end of

1995. Disparities between member countries soon led to a split in the Pact and subsequent attempts to revive the Pact could not work either. Two other regional integration attempts – the Rio Plata Basin Group (1969) and the Treaty for Amazonian Cooperation (1978) – were made. These attempts however could not prove to be effective enough.

In the Caribbean, the Caribbean Free Trade Association (CARIFTA) was formed in 1965 giving rise to the Caribbean Common Market (CARICOM) in 1973. In 1984, the Caribbean Basin Economic Market Recovery Act was signed by the US and 28 Caribbean and Central American countries with the aim of enabling duty free entry to the US on selected products. In Central America, the Central American Common Market (CACM) was established in 1960 with Guatemala, Honduras, El Salvador, Nicaragua and Costa Rica as members. But this arrangement broke up in the 1970s. New plans have been made for integration and free trade arrangements among its members.

In most cases, the objectives of regional integration were only partially achieved. This was because of the many problems facing the LAC countries during the 1970s. The oil-price hike and the consequence of worldwide economic disequilibria, the Panama Canal dispute, ideological disputes, excessive dependence on the US for capital investment, half-hearted efforts of members towards the objectives and conflicts for power were some of the problems facing regional integration in LAC. Regionalism therefore practically collapsed in the 1970s.

The free-falling Latin American regionalism bounced back with the formation on the Contadora Group, comprising of Mexico, Venezuela, Colombia and Panama. An Integration and Cooperation Programme (PICAB) was also established followed by the

Treaty of Integration and Cooperation and Treaty of Integration, Cooperation and Development on November 1988 and August 1989 respectively.

The second half of the 1980s also saw increased cooperation and confidence building between Argentina and Brazil. This cooperation was mainly in the economic, political and military fields. Being the two biggest economies in Latin America, this cooperation between the two had a big effect. An Integration Act was signed by these two in 1986 and in 1991, by which they agreed to lower tariffs and to remove all non-tariff barriers between them. Thus, through the Treaty of Asunción, signed on March 1991 between Brazil, Argentina, Paraguay and Uruguay, Mercosur (Mercosul in its Portuguese acronym) was created. It was transformed into a customs union at the beginning of 1995. It created new opportunities for more inter and intra-regional cooperation and trade. A giant step was taken in this direction when a Framework Cooperative Agreement was signed on December 1999 between the EU and Mercosur. Chile and Bolivia became associate members in 1996. A framework agreement was also reached with the Andean Community in early 1998. However, the Second Presidential Summit of the Americas, held in April 1998 could not take it any further. On 21 June 1999, a mandate was finally agreed to for a Framework Agreement between the EU and Mercosur just a few days before the first-ever EU-Mercosur Summit in Brazil. Besides, Mercosur is involved in negotiations for a Free Trade Area of the Americas (FTAA) with several other countries. This project was launched on December 1994 but formal negotiations could begin only in November 1998. These negotiations are not expected to end before 2005.

In size and consumer boom it has generated, Mercosur's market for goods produced in all its members has greatly expanded from a value of US \$ 4 billion in 1990 to \$ 14.5 billion in 1995 and over \$ 20 billion by the end of 1997.

In August 1995, another regional integration arrangement, the Association of Caribbean States was formed. Its members include CARICOM, Colombia, Dominica Republic, Haiti, Mexico, Venezuela and the Central American states. The aim of this association is to reduce any trade barriers between members. This was in preparation for the Free Trade Area of the Americas (FTAA).

The Asian Context

The growth of Asian regionalism during the last few decades was indeed remarkable. Trade within the continent grew from 40% in 1979 to 50% in 1993.⁵ According to a World Bank Report, in 1992, the combined size of the economies of Japan, the Newly Industrialising Countries (NIC) of Asia, ASEAN states and China amounted to 25.5% of the world's Gross Domestic Product (GDP).⁶ Intra-Asian trade has also been growing at an amazing pace.

The establishment of the Southeast Asian Treaty Organisation (SEATO) in 1954 gave an important impetus for the formation of more regional organisation in the region. Though SEATO was not meant for integration, it sowed the seed.

In the early 1960s, under the Japan Economic Research Centre (JERC), the concept of Pacific Economic Cooperation (PEC) was articulated. This concept however died out. In

⁵ Christopher M. Dent, *Op. cit.*, p. 51

⁶ World Bank, *World Development Report, 1994: Infrastructure and Development* (Oxford; Oxford University Press, 1994) pp. 166-167

1961, the Association of Southeast Asia (ASA) was formed by Malaysia, Thailand and the Philippines. This association, within a few months began to lose support and started to linger in a shadowy form. In 1966, another broad-based structure, the Asia and Pacific Council (ASPAC) was established by Japan, South Korea, Taiwan, Australia, New Zealand, Malaysia, the Philippines, Thailand and South Vietnam. The ASPAC, it was agreed would promote economic cooperation between member countries. But it could not work properly and by 1974-1975, it ceased to operate effectively.

In 1966, the Asian Development Bank (ADB) was set up in the United Nations Economic Committee, Asia and the Far East (ECAFE) under the Japanese leadership. The ADB had Manila, the Philippines as its headquarters. That same year, the Japanese government convened the Ministerial Conference on Economic Development in Southeast Asia (MCEDSEA). Like the rest, MCEDSEA too could not function properly and by 1975, it ceased to meet.

A relatively successful organisation, the Pacific Basin Economic Council (PBEC), a non-governmental organisation was formed in 1967. Annual meetings of the PBEC were held with businesspersons and enterprises from different Asian states participating in it. Such an initiative led to the establishment of the Pacific Trade and Development Conference (PAFTAD). The PAFTAD met for the first time in Tokyo in 1968.⁷ These non-governmental organisations, rather than focusing on political negotiations, emphasised personal networking and exchange of information.⁸

⁷ Donald Crone, "Does Hegemony Matter? The Reorganisation of the Pacific Political Community," *World Politics*, Vol. 45 (4), July, pp. 501-525.

⁸ Peter J. Katzenstein, "Regionalism in the Comparative Perspective," *Cooperation and Conflict*, Vol. 31 (2), 1996, pp. 123-159, p. 138.

Attempts to revive the comatose ASA resulted in the beginning of a new era of cooperation among its members, with Indonesia and Singapore becoming additional members.⁹ This gave way to the establishment of the Association of Southeast Asian Nations (ASEAN) on August 1967. ASEAN was, thus far, the most advanced regional organisation in Asia. The aims and objectives of ASEAN were set out in the Bangkok Declaration of August 1967. They were to 'accelerate the economic growth, social progress and cultural development in the region.' During the 1970s, ASEAN entered in negotiations with other countries and organisations. In 1973, through the special Coordinating committee of ASEAN Nations (SCAN), it entered into negotiations with the EEC and with the GATT through the ASEAN Geneva Committee. It also conferred with Japan and Australia during the same period. In 1979, a preferential trade agreement was signed. But until recent years, ASEAN functioned only as a forum for debates and was not able to deliver any concrete achievements. However, the 1991 and 1995 Summits of ASEAN heads of states broke new grounds. The outcome was their decision to adopt the proposal for the formation of the ASEAN Free Trade Area (AFTA) by 2003. ASEAN, its birth, growth, nature, achievements and influences will be dealt with in a different chapter.

Through the joint initiative of Japan and Australia to encompass Asia-Pacific in regional integration arrangements, the Pacific Economic Cooperation Conference (PECC) was formed in 1980. In November 1989, another regional arrangement, the Asia-Pacific Economic Cooperation (APEC), was established with its secretariat located at Singapore.

⁹ Pushpa Thambipillai, "Continuity and Change in ASEAN: the Politics of Regional Cooperation in Southeast Asia," in Andrew Axline (Ed.) *The Political Economy of Regional Cooperation: Comparative Case Studies*, (London; Pinter Publishers, 1994) p. 107.

Being a mere consultative forum, APEC discusses investment regulations, liberalisation of trade, fisheries and various other topics.

In South Asia, the South Asian Association for Regional Cooperation (SAARC) is the biggest regional cooperative organisation. SAARC was formally launched on 1983 and institutionalised on December 1985. At the Dhaka Declaration of 1985, it was agreed and pledged that SAARC would play an important role in bringing about social and economic development, peace, self-reliance, progress and stability in South Asia and the world.

Building upon previous ideas, the Malaysian Prime Minister Mahathir proposed, in 1990, the formation of the East Asian Economic Grouping (EAEG). This would become an alternative to the APEC. However, due to lack of support from most Asian states and strong US opposition, Mahathir's idea of EAEG was changed to the East Asian Economic Caucus (EAEC).¹⁰

The African Context

Several attempts at integration were made in Africa. But most of these attempts were unsuccessful or failed to emulate the successes of Europe and some other regions. Of late, the African states have begun afresh with some successes. The formation of the Economic and Monetary Union of West Africa (UEMOA) in 1994 was one of the recent integrative attempts in Africa creating a monetary union between its members. Its members include Benin, Burkina Faso, Ivory Coast, Mali, Niger, Senegal and Togo.

¹⁰ Katzenstein, *Op. cit.* p. 140.

One of the earliest attempts at regional integration in Africa was the East African Community (EAC) established in 1928. Its members were Kenya, Uganda and Tanzania. It created a monetary union between its members. But the EAC could not continue and was dissolved in 1978. Then, in 1963, the Organisation of African Unity (OAU) came into being. The OAU, till today, remained an important regional body. Dissensions in the OAU led to the establishment of the Africa-Malagasy Organisation for Economic Cooperation (AMOEC) among the French speaking states of Africa. They are sometimes known as the Brazzaville Group. In 1964, a central African customs and economic union, the *Douanière et Economique de l'Afrique Centrale* (UDEAC) was established. One of its objectives was the formation of a monetary union. The Southern African Customs Union (SACU) was also formed in 1969 with Botswana, Lesotho, South Africa and Swaziland as its members.

In the west, two countries – Liberia and Sierra Leone formed the Mano River Union (MRU) in 1975. It established a customs union between them. Guinea became a member in 1980. It now has links with UEMOA and UDEAC. Another arrangement, the Economic Community of Western African States (ECOWAS) was also established in 1975 with the objective of creating a common external tariff. The membership of ECOWAS consists of 16 French and English-speaking West African states. However, since its inception and formation, ECOWAS was plagued with problems and could not function effectively.

Burundi, Rwanda and Zaire established the *Communauté Economique de Pays des Grands Lac* (CEPGL) in 1976. The CEPGL sought liberalisation in agriculture, energy, technology and finance.

A significant step towards successful regionalism was taken when the Southern African Development Coordination Conference (SADCC) was established in 1980. The

SADCC comprised of nine Southern African states – Angola, Botswana, Lesotho, Malawi, Mozambique, Swaziland, Tanzania, Zambia and Zimbabwe. It was mainly formed to promote regional cooperation among its members and to reduce members' dependence on South Africa. The SADCC in 1994 signed a cooperation agreement with the EU, which would cover trade and economy.

A Preferential Trade Area for Eastern and Southern Africa (PTA) was established in 1981. The PTA has recently made attempts to create a common market arrangement for eastern and southern Africa. In 1983, another community, the Communauté Economique des Etats de l'Afrique Centrale (CEEAC) was formed with future plans for liberalisation of trade and common external tariff.

Sadly enough, many of the regional integration attempts could not deliver the desired objectives and most of them could not even function properly. In 1989, the Arab Maghreb Union (AMU) was established representing a fairly serious attempt at regional integration. The AMU removed trade barriers between members and set up cooperative arrangements. Algeria, Libya, Mauritania, Morocco and Tunisia are its members. But again, the AMU could not forge desired links between members and in the late 1990s, began to face great domestic and economic problems.

In the Middle East, the Arab League, formed in 1945, became the first non-Western regional organisation. The Organisation of Petroleum Exporting Countries (OPEC) and the Gulf Cooperation Council (GCC) are playing important roles as well. The GCC, formed in 1981, has been fairly successful in bringing its members towards some reductions in tariffs and some monetary policy.

Thus, be it Europe, America, Asia or Africa, the trend towards regional integration has been indeed one the most significant development in contemporary international politics. Beside the advances made in Europe, inter-regional trade has increased in most parts of the globe. For example, US exports to Latin America increased from 32.2% to 38.2% during the period from 1980-1987. In North America itself, intra-regional trade from 1985-1996 has increased from US \$ 177 billion to US \$ 407 billion. In Asia, it grew from 40% in 1979 to more than 50% in 1995. In Africa too, it as increased from 6% in 1990 to 10% in 1995. Not only has intra-regional trade witnessed growth, inter-regional trade has also increased. The European Community's exports to East Asia during 1985-1996 has increased from US \$ 56 billion to US \$ 147 billion while the latter's export to the former rose from US \$ 54 billion to US \$ 166 billion during the same period. This has been more or less the picture in other areas too. As the world moves towards regional integration, trade within major regional groupings increased. According to the World Trade Organisation (WTO) Annual Report of 1998, trade within NAFTA, EU, EFTA, CEFTA and Mercosur amounted to 36% of world exports and these five groups account for 70% of world exports overall.¹¹

The emergence of new regionalist projects at the end of the 1980s, as Andrew Gamble and Anthony Payne said, was preceded by the failure of the Bretton Woods International Monetary System, the decline of US hegemony and the collapse of the communist regime, and it "coincided with the breakdown of the oldest regionalism in the global political economy, the division between the capitalist and socialist worlds..."¹² With such a backdrop, many observers warned that this process could undermine world stability

¹¹ WTO, *WTO Annual Report, 1998*, Vol. 11 (Geneva: WTO, 1998) pp. 28-30.

¹² Andrew Gamble and Anthony Payne (Eds.), *Regionalism and World Order* (Houndmills; Macmillan, 1996) p. 249.

and result in the formation of regional blocs. According to the hegemonic stability theory, in the absence of hegemony, the world would degenerate into conflict. Gamble and Payne rejected this and argued that regionalism is a state led or states led project and that the world is becoming more "unified as barriers to trade and financial and cultural flows continue to be dismantled."¹³ They also argued that the two apparently competing tendencies of regionalism and globalisation still appear to be on the balance. In fact these two tendencies are complementary to each other.¹⁴

CONCEPTS, THEORIES AND APPROACHES

Region

Regionalism is the process by which states, usually of a region, are organized on the basis of common interests. This was the meaning that was given at the beginning. It also connotes integration. But before we proceed any further, it is important to see what a region and integration is.

There is no settled conception of what a region is. Its definition differs from person to person. Bruce Russett, using a vast amount of empirical data and elaborate quantitative techniques, delineated regions on the premises of social and cultural homogeneity, political attitudes on external issues as manifested in the voting of governments in the United Nations,

¹³ Ibid. p. 2

¹⁴ Katzenstein, Op. cit. p. 126

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political interdependence as indicated by participation in inter-governmental networks, economic interdependence as indicated by intra-regional trade in relation to national income and geographical proximity.¹⁵ Therefore, the community in the region would have:

1. Common culture and historical tradition;
2. A sense of homogeneity, of shared values and interests, and of a common identity;
3. A sense of common interests as opposed to those outside the community, and
4. A shared expectation of the peaceful settlement of the disputes.¹⁶

Raimo Vayrynen talks of two approaches to a region – the inductive and deductive approaches.¹⁷ The inductive approach involves the division of the territorial units of the world into regions. This is done based on the premises provided by Bruce Russett.¹⁸ The deductive method deduces the concept of a region from certain theoretical premises. Vayrynen criticizes the inductive method as state-centric and static, and finds the deductive method as more appropriate for the study of regional security complexes.¹⁹

Louis J. Cantori and Steven L. Spiegel talks of a subordinate system and define it as “two or more geographically proximate and interacting states, which share in some degree, common, ethnic, linguistic, cultural, social and historical bonds and whose sense of identity

¹⁵ Bruce Russett, *International Regions and the International System: A Study in Political Ecology*, (Chicago; Rand McNally, 1967) p. 11.

¹⁶ Bruce M. Russett, “The Growth of Atlantic Institutions,” in Bruce L. Sanders and Alan C. Durbin (Eds.), *Contemporary International Politics: Introductory Readings* (New York; John Wiley and Sons, 1971) pp. 307-308.

¹⁷ Raimo Vayrynen, “Regional Systems and International Relations,” in Helena Lindholm (Ed.) *Approaches to the Study of International Political Economy*, Padrigu Papers, 1992, pp. 119-137.

¹⁸ Bruce Russett, *International Regions and the International System: A Study in Political Ecology*, p. 11.

¹⁹ Barry Buzan defines a security as “a set of states whose primary security perceptions and concerns are so interlinked that their national security problems cannot reasonably be analysed or resolved apart from one another.” In Barry Buzan, “The Logic of Regional Security in the Post-Cold war World,” in Bjorn Hettne et al., (Eds.), *The New Regionalism and the Future of Security and Development*, Vol. 4, (Helsinki: UNU/WIDER, 2000) pp. 1-25, p. 2.

is sometimes increased by the actions and attitudes of states external to this.”²⁰ They divide regimes into three sectors – core, periphery and intrusive. The core sector is a group of states that shared certain organisational, cultural, economic, social and political commonalities. The peripheral sector consists of states that are alienated by the core by economic, social and political and organisational factors. The intrusive sector consists of politically significant participation by external powers.

Michael Brecher also talks of a subordinate state system. It is the system that is subordinate to the dominant system. Brecher recognised five such subordinate systems – Middle Eastern, American, Southern Asian, West European and West African. He also accepts that other such systems may emerge. Brecher points out six criteria for a subordinate state system. It must: be of limited geographical scope; consist of at least three members; be recognised by others; be considered as distinct by other members; be inferior to the dominant system and be more affected by change in the dominant system than vice versa.²¹ Werner J. Feld and Gavin Boyd have also listed the configurations of a region, which they built upon by mapping the basic attributes of the states in the area and their major pattern of relations. “The significant features of a regional configuration,” they wrote, “are its relative degrees of balance and complementarities, and the extent to which its status are oriented toward integrative behaviour.”²²

²⁰ Louis J. Cantori and Steven L. Spiegel, “The International Relations of Regions,” *Polity*, Vol. 2 (4), 1970, pp. 397-425. Also in Cantori and Spiegel (Eds.) *The International Politics of Regions: A Comparative Approach* (Englewood Cliffs; Prentice Hall, 1970) p. 6-7.

²¹ Michael Brecher, “The Subordinate State System of Southern Asia,” *World Politics*, Vol. XV, January 1963, pp. 213-235.

²² Werner J. Feld and Gavin Boyd (Eds.), *Comparative Regional Systems: West and East Europe, North America, the Middle East and Developing Countries* (New York; Pergamon Press, 1980) p 3-17.

William R. Thompson has addressed this question too, and concluded that there is not any coherence among scholars of international relations in their use of the term 'region'.²³ He specifically made an inventory of twenty-one attributes that has been expressed by analysts for identifying regional subsystems, and then made a dyadic index of inter-analyst agreement. He concluded that the analysts disagree most of the time. There were only two attributes that are included by over 80% of the analysts – geographical proximity and the pattern of relations and interactions having a certain degree of regularity and intensity. What this implies, according to him, is that the concept of regional subsystem is very immature and is incapable of relating and explaining to the existing empirical universalisation.

From the discussions above, it can therefore be said that there is no fixed or ideal definition of a region. Referring to the elusiveness of the concept, Kym Anderson and Hege Norheim wrote, "While there is no ideal definition [of a region], pragmatism would suggest basing the definition on the major continents and subdividing them somewhat according to a combination of cultural, language, religious, and stage-of-development criteria."²⁴ Still, some scholars argue that regardless of locations, countries sharing a communal identity comprise a region.²⁵ Katzenstein thus notes that, "geographical designations are not 'real', 'natural' or 'essential'. They are socially constructed and politically contested and thus open to change."²⁶ However, from the agreements of most scholars, a region may be thought of as an

²³ William Thompson, "The Regional Subsystem: A Conceptual Explication and a Proportional Inventory," *International Studies Quarterly*, Vol. 17 (1), March 1973, pp. 89-117.

²⁴ Kym Anderson and Hege Norheim, "History, Geography and Regional Economic Integration," in Kym Anderson and Richard Blackhurst (Eds.), *Regional Integration and the Global Trading System* (London; Harvester and Wheatsheaf, 1993) pp. 19-51, p. 26.

²⁵ For example, Charles A. Kupchan, "Regionalising Europe's Security: The Case for a New Mitteleuropa," in Edward D. Mansfield and Helen v. Milner (Eds.), *The Political Economy of Regionalism* (New York; Columbia University Press, 1997) p. 209-238.

²⁶ Peter Katzenstein, "Introduction: Asian Regionalism in Comparative Perspective," in Peter J. Katzenstein and Takashi Shiraishi (Eds.), *Network Power: Japan and Asia* (Ithaca, New York; Cornell University Press, 1997) p. 7.

area where the states are politically and economically interdependent, evidenced through their relations and interactions, geographical proximity, and social, cultural, linguistic, ethnic and historical bonds or commonality.

Integration

Integration, like a region, is an ambiguous concept. It has basically been viewed in two different ways – as a process and as a condition.

Ernst B. Haas, taking up the first view defined it as, “the process whereby political actors in several distinct national settings are persuaded to shift their loyalties, expectations and political activities towards a new centre, whose institutions possess or demand jurisdiction over the pre-existing national states.”²⁷ Therefore, a regional integration theory would be “concerned with explaining how and why states cease to be wholly sovereign, how and why they voluntarily mingle, merge, and mix with their neighbours so as to lose the factual attributes of sovereignty while acquiring new techniques for resolving conflicts between themselves. Regional cooperation, organisations, systems and subsystems may help describe steps along the way; but they should not be confused with the resulting definition.”²⁸

Leon N. Lindberg looks at integration along the same lines and defines it as, “1. The process whereby nations forego the desire and ability to conduct foreign and key domestic

²⁷ Ernst B. Haas, *The Uniting of Europe: Political, Economic and Social Forces, 1950-1957* (Stanford, Calif.; Stanford University Press, 2nd Ed., 1968) p. 16.

²⁸ Ernst B. Haas, “The Study of Regional Integration: Reflections on the Joy and Anguish of Pretheorising,” *International Organisation*, Vol. 24, Autumn 1970, p. 610.

politics independently of each other, seeking instead to make joint decisions or to delegate the decision-making process to new central organs; and, 2. The process whereby political actors in several distinct settings are persuaded to shift their expectations and political activities to a new centre.”²⁹

Karl W. Deutsch, on the other hand sees integration as ‘community building’. Rather than a process, integration becomes a condition or “the attainment within a territory, a sense of community and institutions and practices strong enough and widespread enough to assure, for a ‘long’ time, dependable expectations of ‘peaceful change’ among its populations.”³⁰

Amitai Etzioni, while evading the problem of defining integration, focused on unification. According to him, a state, which possessed effective control over the use of the means of violence, which have a centre of decision-making and is the dominant focus of political unification is “a political community and this condition could be seen as the culmination of the process of political unification.”³¹ He defined unification as a “process in which the integration of a system is increased...”³² The meaning and definition of region and integration therefore differs from person to person.

²⁹ Leon N. Lindberg, *The Political Dynamics of European Economic Integration* (Stanford; Stanford University Press, 1963) p. 6.

³⁰ Karl W. Deutsch et al., *Political Community in the North Atlantic Area: International Organisation in the Light of Historical Experience* (Princeton; Princeton University Press, 1957) p. 5.

³¹ Amitai Etzioni, *Political Unification: A Comparative Study of Leaders and Forces* (New York; Holt Rinehart and Winston, 1965) p. 2.

³² Ibid. p. 34.

APPROACHES

Federalism

Federalism, in short, envisaged a supranational goal, i.e., a supranational system that would possess sufficient collective security for its members. The federated parts would have local autonomy.

This approach however does not seem to hold much promise for the promotion of peace, harmony and prosperity. It has come under much criticism. David Mitrany, the functionalist has examined it and calls it “an old idea” and that “it always expressed some antagonisms.”³³ On the question of membership, it “is bound to be closed and exclusive” and that “a federal constitution is a balancing act in regard to a whole range of social and political factors: With any change in membership the whole structure may have to be re-organised and probably be re-negotiated...”³⁴

Functionalism

Mainly associated with David Mitrany, the ‘father’ of functionalism, functionalists attempt to identify common international economic and social problems and construct organisations (regional or global) to deal with these problems. Their method was to create a web of international activities and agencies. These agencies would be mono-functional.

³³ David Mitrany, “The Prospect of Integration: Federal or Functional?” *Journal of Common Market Studies*, December 1965, pp. 119-149, p. 127.

³⁴ Ibid: p. 141

Functionalists envisaged that this would result in the removal of sovereignty from the state and the reduction of sentimental attachments of individuals towards these organisations. Mitrany states, "By entrusting an authority with a certain task, carrying with it command over the requisite powers and means, a slice of sovereignty is transferred from the old authority to the new: and the accumulation of such partial transfers in time brings about a translation of the true seat of authority." Functionalism thus, "would...overlay political divisions with a spreading web of international activities and agencies, in which and through which the interests and life of all the nations would gradually be integrated."³⁵

As people begin to perceive increased benefits and the greater efficiency of the regional organization to solve problems, the functionalists argued, demands would be raised for the solution of other problems by the creation of functionally specific organisations. They call this process as 'spill over'. "The strategy, therefore," as A. J. R. Groom maintains, "suggests itself that functional organization should start from those spheres in which welfare is maximised through transnational cooperation so that the domain of legitimised politics gradually expands while that of power politics gradually contracts."³⁶ That is, the international activities and agencies must be confined to issues that have a low salience in terms of sovereignty and nationalistic attachments. This would make it easier for the individual to redirect his attention to the international organisation.

Concerning the contribution of functional tie-ups towards the prevention of violence and the maintenance of peace, Joseph S. Nye states, "The argument is that regional organisations, particularly those involving economic integration, are the best setting for

³⁵ David Mitrany, *A Working Peace System* (London; Royal Institute of International Affairs, 1946) pp. 9-14.

³⁶ A. J. R. Groom and Paul Taylor (Eds.), *Functionalism: Theory and Practice in International Relations* (London; 1975) pp. 94-95.

functional cooperation that can make states less prone to exercise their sovereign power for violent conflict. Along with this cooperation, a sense of community or positive feeling may develop between people of different states. The emphasis is not so much on diminishing sovereignty but on making it less dangerous by tying states in a tight web of functional relationships. While such relationships would not necessarily prevent states from resorting to violence, they would introduce additional pacific influences and raise the cost of violence for any particular leader.”³⁷

Functionalism too could not deliver all that it promised. The failures of functionalism prompted Haas to point out that politics cannot be kept separate from the process of regional integration. He also added that instead of the evolutionary process, incremental growth should be stressed.³⁸

Leon N. Lindberg and Stuart A. Scheingold also warned of ‘spill back’ and ‘encapsulation’.³⁹ Philippe Schmitter gave a further elaboration of these themes and wrote, “in response to tensions, actors consequently withdraw from their original objective, downgrading their commitment to mutual cooperation.”⁴⁰

Neo-functionalism

Neo-functionalism emerged when plans for the unification of the coal and steel markets in

³⁷ Joseph S. Nye, *Peace in Parts: Integration and Conflict in Regional Organisation* (Boston; Little Brown and Co., 1971) p. 10.

³⁸ Haas, *The Uniting of Europe*.

³⁹ Leon N. Lindberg and Stuart A. Scheingold, *Europe's Would-be Polity: Patterns of Change in the European Community* (Englewood Cliffs, N. J.: Prentice Hall, 1970) Chap. 4. Also Philippe Schmitter, “Central American Integration: Spill-Over, Spilt-Around, or Encapsulation?” *Journal of Common Market Studies*, Vol. 9, 1970, pp. 1-48.

⁴⁰ Philippe Schmitter, “A Revised Theory of Regional Integration,” *International Organisation*, Vol. 24, Autumn 1970, pp. 840-842.

Europe were suggested in the 1950s. Then, it was felt that functionalism lacked political realism. The reality was that the member states of the ECSC were unwilling to share even the smallest degree of sovereignty. Neo-functionalism was thus born with certain innovations on the previous approach.

Nye comments, "Basically, the neo-functionalists were federalists in functional clothing, pursuing federal ends, through what appeared to be functional means. Thus while the Schuman Plan looked rather functionalist it was functionalist with two important innovations. First, the neo-functionalist avoided the approach of quiet technical self-determination that seemed to lead to political irrelevance. Rather, they deliberately chose a sector that was politically important, yet that could be planned by technocrats and did not demand immediate commitment to federal institutions."⁴¹

"A second important neo-functionalist departure from classical functionalism," Nye continues, "was in its deliberative design of institutions that would lead to further integration... In short, the neo-functionalists argue that power and welfare cannot be kept radically separate and that true technical self determination on non-controversial topics will be condemned to triviality."⁴²

Haas, Lindberg and Scheingold also made important contributions towards the neo-functional approach.⁴³ It was their argument that politics cannot be kept separate from economics or other welfare functions. Haas remarked, "there is no longer a distinctly

⁴¹ Nye, *Op. cit.* p. 51

⁴² Ibid. p. 52.

⁴³ See Haas, *The Uniting of Europe*; Lindberg and Scheingold, *Op. cit.*

political function, separate from economics, welfare or education, a function which finds its reason for being in the sublime heights of foreign policy, defence and constitution making.”⁴⁴

Neo-functionalism has its own difficulties and problems. As Charles A. Duffy and Werner J. Feld argues, the efforts of revision and innovations “led to further theoretical difficulties. The overemphasis on process, as characterized by Lindberg and Scheingold’s adaptation of structural-functional analysis led to the abandonment of the key notions of beginning and ending. Little attention was paid to the question of why regional integration efforts were undertaken, and what would be the final or ultimate shape of institutional arrangements.”⁴⁵

Haas, since 1965, has also gradually moved away from some of his earlier claims. In 1975, he wrote. “I agree that the familiar regional integration theories are obsolete in Western Europe and obsolescent – though still useful – in the rest of the world.”⁴⁶

Transactionalism/Communication

The central issue of transactionalism is communication, and for this reason, it is sometimes called the communication or pluralist approach. This approach owes its origin to Karl W. Deutsch who provided several key foundations. The main concern of communication approach is to develop a ‘sense of community’. According to Deutsch, integration takes place amongst states when mutual conflicts are resolved, and when the conflicts are resolved,

⁴⁴ Ernst B. Haas, *Technocracy, Pluralism and the New Europe* (Berkeley, Calif.; University of California, 18th rep., n. d.) p. 78

⁴⁵ Charles A. Duffy and Werner J. Feld, “Whither Regional Integration Theory?” in Werner J. Feld and Gavin Boyd (Eds.), *Op. cit.*, p. 505.

⁴⁶ Ernst B. Haas, *The Obsolescence of Regional Integration Theory* (Berkeley; Institute of International Studies, University of California, 1975) p. 1.

the community is created. By 'sense of community', he means "a belief on the part of the individuals in a group that they have come to agreement on at least this one point: that common social problems must and can be solved by process of peaceful change."⁴⁷

Deutsch breaks down his idea of community into two types: (1) Amalgamated security community and, (2) Pluralistic security community. The difference between them being the absence or presence of real central decision-making institution. The former is identified by the presence of a central governing institution while the second is composed of interacting, but separate and different sovereign states. Deutsch defines amalgamation as "the formal merger of two or more independent units into a large unit, with some type of government after amalgamation."⁴⁸ It is thus the coming into being of a political system. Describing Deutsch's model of integration, Donald J. Puchala wrote that "political unification – national or international – consists in moving first from communities to community, and the from community to state. This follows from initial functional linkage, increased transaction, social assimilation, community formation, and ultimately political amalgamation."⁴⁹

Deutsch listed the essential conditions for the creation of an amalgamated community. The original list had nine conditions, and some more were added later: mutual compatibility of main values; a distinct way of life; the expectation of stronger economic ties or gains; a marked increase in political and administrative capabilities of at least some particular units; unbroken links of social communications; a superior economic growth of at

⁴⁷ Deutsch et al., *Op. cit.*, p. 5.

⁴⁸ Ibid. p. 6.

⁴⁹ Donald J. Puchala, "Integration Theory and the Study of International Relations," in Richard L. Merritt and Bruce M. Russett (Eds.), *From National Development to Global Community: Essays in Honor of Karl W. Deutsch* (London; George Allen and Unwin, 1981), p. 156.

least some particular units; broadening of political elites; mobility of persons; multiplicity of ranges of communications and transaction; a compensation of flows of communications and transactions; not too infrequent and; considerable mutual predictability of behaviour.

Deutsch also suggests three factors that could lead to the disintegration of an amalgamated security community: (1) excessive military commitments; (2) steep increase in regional economic, cultural, social, ethnic or linguistic differentiations, either in the community or in the particular participating unit, and; (3) an increasing political awareness of such differentiations.

Besides these approaches, there are also the nationalist and consociationalist approaches to integration. Lindberg and Scheingold call the nationalists as 'rebuilders'.⁵⁰ The main concern of the nationalists, as the term implies, is the maintenance of national sovereignty. Consociationalism is associated with Arend Lijphart and Paul Taylor. Consociationalists usually look only at one case – European integration. Paul Taylor, in particular, argued that integration in Europe in the 1980s and 1990s has a symbiotic nature. Taylor thus concludes that integration (regional) does not necessarily weaken the state (unit).

TYPES OF INTEGRATION

There are basically three types of integration – political, economic and social.

Nye maintains that there are three aspects of political integration: (1) the existence of some rudimentary structure, (2) a certain interdependence in policy formation; and (3) a

⁵⁰ Lindberg and Scheingold, *Op. cit.*, p. 7.

sense of mutual identity and obligation.⁵¹ He calls them institutional, policy and attitudinal integrations and labels them as PI1, PI2 and PI3 respectively. A high level of all integration becomes PI4.

PI1 consists of bureaucratic and jurisdictional integrations. PI2 is the extent to which a group of people agrees to a particular policy, and PI3 is the extent to which a group of people has a common sense of identity. Nye argues that PI1 (B+J) is necessary for PI2, PI3 and PI4. In other words, bureaucratic and jurisdictional integration is necessary for other integrations.

Functionalists like Mitrany would, however, argue that a high level of PI2 would make PI1 and PI3 irrelevant to PI4. Neo-functionalists would argue that PI2 is obviously necessary, but also an intermediate level of PI1 would lead to higher PI3 and also possibly PI1 and PI4.

As regards economic integration, Ali M. El-Agraa defines it as “the discriminatory removal of all trade impediments between the participating nations and with the establishment of certain elements of cooperation and coordination between them.”⁵² It is commonly defined as the formation of ‘trading blocks’⁵³ – the formation of preferential trading arrangements between groups within a region.

⁵¹ Nye, *Op. cit.*, Chap. 2.

⁵² Ali M. El-Agraa, *Trade Theory and Policy: Some Topical Issues* (London; Macmillan, 1984) p. 79.

⁵³ Jaffrey J. Schott, in his “Trading Blocs and the World Trading System,” *The World Economy*, Vol. 14 (1), March 1991, pp. 1-2, defines a trading bloc as “an association of countries that reduces intra-regional barriers to trade in goods... [that] seek(s) to (1) generate welfare gains through income and efficiency effects and trade creation, (2) augment negotiating leverage with third countries, and (3) sometimes promote regional political cooperation.”

According to Bela Balassa, there are five progressive stages of regional economic integration – (1) Free Trade Area (FTA), (2) Customs Union (CU), (3) Common Market (CM), (4) Economic Union (EU), (5) Total Economic Integration (TEI).⁵⁴

A Free Trade Area (FTA) is defined by the absence of tariffs and quotas, and is the weakest form of economic integration. As El-Agraa said, an FTA is “where the member states remove all trade impediments among themselves but retain their freedom with regard to the determination of their policies vis-à-vis the outside world (the non-participants).”⁵⁵ Thus while an FTA is being created, member countries retain their autonomy to formulate their own external trade policy.

Secondly, in a Customs Union (CU), besides the absence of tariffs and quotas, there is a common external tariff (CET). That is, all members must conduct common external commercial relations.

Thirdly, a Common Market (CM) will have, in addition, factor mobility, i.e., the free flow of the forces of production. Factors of production will enjoy freedom of movement within the arrangement.

Fourthly, in an Economic Union (EU), there will be harmonisation of policies and complete unification of monetary and fiscal policies.

Total Economic Integration (TEI) is the final stage. It is where the members become ‘one nation’. It is marked by the formation of a common political institution and the abolition of the sovereignty of member states.

⁵⁴ Bela Balassa, *The Theory of Economic Integration* (Boston; Allen and Unwin, 1961)

⁵⁵ Ali M. El-Agraa, *Op. cit.*, p. 79.

Positive and Negative Integration

Integration involves both the removal of all obstacles as well as the creation of conditions favourable for it. The former is negative and the latter, positive integration. El-Agraa defines negative integration as, “the removal of impediments on trade between the participating nations or to the elimination of any restrictions on the process of trade liberalization,” and positive integration as, “the modification of existing instruments and institutions and, more importantly, to the creation of new ones so as to enable the market of the integrated area to function properly and effectively and also to promote other broader policy aims of the union.”⁵⁶

STATIC CUSTOMS UNION THEORY

Traditional customs union theory has been mostly attributed to Jacob Viner.⁵⁷ It mostly deals with detrimental preferential trading arrangements (static welfare effects of lowering tariff barriers of a trade area) and is known as a ‘static customs union theory’. This theory is also associated with Meade, Lipsey and others.⁵⁸ It was Viner’s argument that only a ‘second-best’ position could be achieved by any regional integration arrangement.

Viner based his theory on his concepts of trade creation and trade division. He says that the tendency towards protectionism in free trade could result in ‘trade creation’ and

⁵⁶ Ibid. p. 80.

⁵⁷ Jacob Viner, *The Customs Union Issue* (London; Steven and Sons, 1950)

⁵⁸ For example, R. G. Lipsey, “The Theory of Customs Unions: Trade Division and Welfare,” *Economica* 24; J. E. Meade, *The Theory of Customs Unions*, (Amsterdam; North Holland, 1955)

‘trade division’. Trade creation entails the replacement of domestic production by cheaper imports from a partner. Trade division, on the other hand, is the replacement of cheap imports from outside (non partners) by expensive imports from a partner. Viner argued that while trade creation is beneficial, trade division is harmful. He wrote, “Where the trade creating force is predominant, one of the members at least must benefit, both may benefit, the two combined must have a net benefit, and the world at large benefits... Where the trade diverting effect is predominant, one at least of the member countries is bound to be injured, both may be injured, the two combined will suffer a net injury, and there will be injury to the outside world and to the world at large.”⁵⁹

DYNAMIC CUSTOMS UNION THEORY

While static customs union theory focuses on the allocative efficiency, dynamic customs union theory delves on the long-term advantage and how productive capacity will be affected. It deals with the dynamic gains from the creation of larger markets by the movement to freer trade. The dynamic gains include economies of scale, greater competition and the stimulus of investment.

Market enlargement under customs would give more opportunities for firms to take advantage of economies of scale. Specialisation of workers and machinery and more efficient use of equipment are some of the results. Such enlargements in the market promote greater competition among firms. Increased competition would result in price reduction, better technologies and efficiency in the market. Capital investment is bound to rise in such conditions. Besides, the terms of trade would greatly improve.

⁵⁹ Viner, *Op. cit.* p. 44.

Conclusion

The focus of this chapter has been the growth of regionalism and that of regional organisations in all parts of the world. Indeed, there have been a growing number of regional arrangements. Many of the approaches mentioned tend to neglect the Third World problems, and their approaches to integrative movements. It is understandable that most of these theories and approaches have been based on the European experience, where most of the early integrative movements have been present. But in the final analysis, many of these become redundant when applied to Third World regionalism. For example, the functionalist theory of integration cannot be applied to the Third World where political and strategic factors play the all-important role. Indeed, as it was shown by the emergence of neo-functionalism, it cannot even be applied in Europe. The nature of the Third World also undermined the neo-functionalist logic of 'spill over'. According to the static customs union theory, trade division is harmful, and since the Third World seeks to industrialise, the effects of integration is bound to be trade diverting. Nevertheless, trade diversion is not always harmful. In fact, as S. B. Linder wrote, "it is almost the very essence of the customs union postulated. It enables the concentration of scarce foreign exchange or input imports, thereby enhancing capacity use and growth."⁶⁰ If even trade diversion, that is supposed to be harmful, then the dynamic benefits of integration will lead to optimal and efficient use of resources. Therefore, in an analysis of regional integration, the uniqueness of the Third World becomes quite conspicuous.

⁶⁰ S. B. Linder, "Customs Unions and Economic Development," in Miguel S. Wionczek (Ed.), *Latin American Integration* (New York; Praeger, 1966) pp. 32-41, p. 39. Also see Fuat Andic, Suphan Andic and Douglas Dosser, *A Theory of Economic Integration for Developing Countries* (London: Allen and Unwin, 1971); Hiroshi Kitamura, "Economic Theory and Economic Integration of Underdeveloped Regions," in Miguel S. Wionczek (Ed.), *Latin American Integration*, p. 52

CHAPTER TWO

Regionalism Among Third World Countries: A General Survey

Since the end of the Cold War, there has been renewed interest in regionalism, particularly among the Third World countries. This was brought about by several changes both in the developed and developing worlds. The Third World, hitherto an almost non-existent economic force, has suddenly emerged as one of the centre for many kinds of economic activity. As a result, momentous changes have been made in regionalism among the Third World countries. It is pointed out that this renewed interest in regionalism is basically the Third World's "defensive response to the economic marginalisation of much of the South in the 1980s, its political reconfiguration during the political and economic turmoil at the end of the Cold War, and a fear of, or reaction to, the trend towards a globalised economy."¹ This is also seen as the result of the new attitudes towards international cooperation and the decentralisation of the international system.² This renewed interest, and moves toward new regional tie-ups, is generally known as the new regionalism. Bjorn Hettne defines new regionalism as "a multidimensional form of integration which includes economic, political, social and cultural aspects and thus goes far beyond the goal of creating region-based free trade regimes or security alliances."³ The term 'new regionalism' thus implies that there was an old regionalism. Stated simply the old regionalism was mostly political and strategic, inward-oriented and trade liberalising in nature, where most of the initiatives were taken by outside powers (Western countries). Compared to the 'old' regionalism, the 'new'

¹ Jean Grugel and Wil Hout (Eds.), *Regionalism Across the North-South Divide: State Strategies and Globalisation*, (London: Routledge, 1999) p 4.

² Louise Fawcett, "Regionalism in the Historical Perspective," in Louise Fawcett and Andrew Hurrell (Eds.), *Regionalism in World Politics*, (New York: Oxford University Press, 1994) p. 17-23.

³ Bjorn Hette, "The New Regionalism: A Prologue," in Bjorn Hettne et al., (Eds.), *The New Regionalism and the Future of Security and Development*, (Helsinki: UNU/WIDER, 2000) p. XIX.

regionalism is more from 'below' and 'within,' and also includes ecological and security imperatives and is more extroverted than introverted.⁴

Regions are usually divided into the 'core' and 'periphery.'⁵ Peripheries are sometimes divided into semi-peripheries and peripheries.⁶ The core consists of regions that are economically and politically strong, while the periphery consists of regions that are weak. Thus, the Third World usually falls into the periphery and the semi-periphery while Europe and North America comes under the core regions.

Thus, in short, the peripheral Third World has, in recent years regained new interests in regionalism. This new regionalism is seen as the result of the newfound role of the Third World after the Cold War ended. This chapter attempts to elaborate on the growth of regionalism among the Third World and identify the problems that afflict Third World regionalism. It also probes the likely prospect for the Third World in regionalist undertakings. It starts by clarifying the meaning and nature of the Third World.

THE THIRD WORLD

After the end of the Second World War, the world came to be divided into two antagonistic camps – one led by capitalist US and the other led by socialist Soviet Union. The capitalist states came to be characterised as the 'First World' while the socialist states came to be known as the 'Second World'. The remaining poor states came to be known as the 'Third World'.

⁴ Ibid. p. xx.

⁵ An important contribution was made by Raúl Priebisch in his, *The Economic Development of America and its Principal Problems* (New York: ECLA, 1950)

⁶ For example, Grugel and Hout, *Op. cit.*

Many problems face the definition of a Third World. The very existence of a Third World has also come under attack.⁷ At the same time, others talk of 'Fourth' and 'Fifth' worlds.⁸ Since the term Third World has its origins in the Cold War, one can ask if it is still relevant in the post-cold war multi-polar world order. Several criteria are associated with the term Third World: ex-colonies, artificial constructs, underdeveloped and unstable. Therefore, as long as these features are present (this is not to say that Western countries are free from all these and that all Third World countries must essentially possess these features, there are exceptions), it is clear that the Third World does exist. According to Jacqueline A. Braveboy-Wagner, "The term 'Third World' is used to refer to those countries that in a general way share at least these characteristics: a political background of colonialism, quasi-colonialism, or neocolonialism; a socioeconomic and technological position of relative underdevelopment vis-à-vis Europe and North America, which industrialised earlier in the eighteenth and nineteenth centuries; a relative lack of and interest in adopting (sometimes *adapting*) modern (Western) economic and social advances; and, with varying degrees of commitment, an unwillingness to become involved in the politics of the superpowers and 'great' powers, and a commitment to economic and social changes toward greater world equality."⁹ The

⁷ The debates can be seen in *Third World Quarterly*: L. Wolf-Phillips, "Why Third World?" Vol. 1 (1), January 1979; P. Worsley, "How Many Worlds?" Vol. 1 (2), April 1979; S. D. Muni, "Third World: Concept and Controversy," Vol. 1 (3), July 1979; J. L. Love, "Third World: A Response to Professor Worsley," Vol. 2 (2), April 1980; G. McCall, "Four Worlds of Experience and Action," Vol. 2 (3), July 1980; M. T. Berger, "The End of the Third World?" Vol. 15 (2), 1994; And Alan Thomas, *Third World: Images, Definitions, Connotations* (Milton Keynes, Open University Press, 1983); N. Harris, *The End of the Third World: Newly Industrialising Countries and the Decline of an Ideology* (London: I B Tauris, 1986).

⁸ For example, Timothy M. Shaw, "Africa in the Global Economy: Globalisation, Regionalisation, or Marginalisation?" in Bjorn Hettne et al., (Eds.) *Op. cit.* pp. 93-120.

⁹ Jacqueline Braveboy-Wagner, *Interpreting the Third World: Politics, Economic and Social Issues* (New York: Praeger, 1986) p. 2.

Third World is also characterised by weak, divisive and unstable socio-economic and political structures; dependence on the industrialised countries; lack of basic amenities, overpopulation, social inequality, low productivity and high military expenditures, to name a few. But it is also important to know that not every Third World country essentially possess these characteristics.

A debate has also been raging as to why Third World countries are 'Third'. Some see it as deeply rooted in their colonial legacy. Traditional liberalists believe that Third World underdevelopment is caused by weak factors of production. They suggest that foreign trade; aid; investment and free enterprise can overcome this. Dependency Theorists, or *dependentistas*, as they are known, lay the blame squarely on the capitalists. It is their argument that Third World countries are poor because of exploitation. Because of the 'pillage of the Third World,' the capitalist countries are economically well off. This 'pillage' led the Third World to depend on the capitalist world. This process goes on in a cyclical manner. Dependentistas argue that this cycle can be broken only by evicting multinational firms, abolishing capitalism and adopting policies that are more independent. They stress economic independence, equal distribution of wealth and participation in decision-making.¹⁰ On the other hand, these arguments are refuted as false claims, propaganda and unrealistic notions. Strongly refuting the Third Worldists' notion, Jean-François Revel argued that the Third World's worst enemy is Third Worldism itself, and suggests "democracy, free enterprise and freedom of information

¹⁰ For example, Ronald Chilcote and Joel C. Edelstein (Eds.) *Latin America: The Struggle With Dependency and Beyond* (New York: Wiley, 1974); Helio Jaguaribe, *Political Development: A General Theory and a Latin American Case Study* (New York: Harper and Row, 1973); André Gunder Frank, *Capitalism and Underdevelopment in Latin America: Historical Case Studies of Chile and Brazil* (New York: Monthly Review Press, 1979).

(including freedom of scientific research, with the resultant technological progress it makes possible)."¹¹

Whatever the case is, and however underdeveloped the Third World is, a new phase seems to be emerging. In recent years, the Third World is undergoing rapid changes. Even in places where development is still to take place, attempts were at least taken. Most Third World countries have now adopted neo-liberal reforms. Parallel to this is the revival of regionalism and the spate of regional integration arrangements in recent years. Changes can be seen in most parts of the world. In Latin America, there has been the transformation of governments from authoritarianism to a more or less a democratic form, coupled with market reforms. In Africa, economic liberalisation is largely advocated. However, Africa is struggling. Regional cooperation and integration have made rapid progress in Asia. The ASEAN Free Trade Area (AFTA) is moving on its way while free trade and investment is hotly pursued by APEC.

What can be discerned is that the Third World as a *third* world seems to be disappearing, though at a slow pace. However, setting aside any optimism, this development is not uniform. Many countries are still struggling to survive the onslaught of globalisation. They are still dependent on others for the most basic of amenities. There is still a long way to go.

¹¹ Jean François Revel, "Is 'Third Worldism' the Third World's Worst Enemy?" *Reader's Digest*, Vol. 130, January 1987, pp. 29-34; Also David Ray, "The Dependency Model of Latin American Development: Three Basic Fallacies," *Journal of Interamerican Studies and World Affairs*, Vol. 15, February 1983, pp. 4-20.

THIRD WORLD REGIONALISM

Regionalism in the Third World can be said to have emerged in phases after the Second World War. In the first phase, external powers took most of the initiatives. Regionalism, then, was used by these powers to further their own interests in the Third World regions. The regional organisations that arose out of these initiatives were the result of the Cold War. Thus, in their haste to create their own zones of control, the superpowers created explicit military groupings. The Rio Pact, the Central Treaty Organisation (CENTO), the Southeast Asian Treaty Organisation (SEATO), and other such organisations and arrangements were formed. But such arrangements could not bring countries towards closer economic and political cooperation. Instead, they only created further rifts. Even security could not be effectively maintained. Such arrangements were soon discredited.

It was during this time that some Third World countries began to come together and adopt a non-aligned policy. An Afro-Asian Conference was held in Bandung, Indonesia in 1995 with thirty-five Afro-Asian nations participating in it. It was here that nonalignment as a movement began. Jacqueline Braveboy-Wagner notes, "the importance of this conference lies in the fact that it marked the first attempt at a broad Third World solidarity in the postcolonial period."¹² The Non-aligned Movement (NAM), besides neutrality also supports decolonisation and the resolution of disputes, not only among its members, but also those that arise out of Cold War enmity. Thus, nonalignment became an alternative for many Third World countries that wanted to keep out of the Cold War politics. It also forged closer ties and articulated the feeling of unity

¹² Braveboy-Wagner, *Op. cit.* p. 70.

among the Third World countries. But in the final analysis, even the non-aligned countries could not keep their hands clean from the dirt of the Cold War. Its functioning continued to be dogged by influences from outside.

The second phase of Third World regionalism saw some important initiatives taken by the Third World. The Organisation of African Unity (OAU), Association of Southeast Asia (ASA), Latin American Free Trade Area (LAFTA), Caribbean Common Market (CACM), Central African Customs and Economic Union (UDEAC), Asia-Pacific Council (ASPAC) and others were formed with more important roles played by them. This period witnessed the real beginning of regionalism among Third World countries. It was also in this period that the Asian Development Bank (ADB) was set-up in the United Nations Economic Commission for Asia and the Far East (ECAFE). This was a significant phase in that for the first time, the Third World really involved itself in regionalist activities. Previously, their membership was largely confined to the United Nations. However, the objectives of the various regional organizations were only partially achieved. Mutual suspicion, half-hearted commitments, disputes and weak economies remained the biggest hurdles. Therefore, many of the previously mentioned regional arrangements could not stand the test of time. The establishment of the Association of Southeast Asian Nations (ASEAN) opened a new phase. Its aims, as noted before, included social, cultural and economic growth and cooperation. Its rise was preceded by positive changes in the regional and national circumstances in Southeast Asia – change of regime in Indonesia, expulsion of Singapore from the Malaysian Federation, Cultural Revolution in China, the Vietnam War, insurgency, end of British presence, and the view that Southeast Asia should bear more responsibility in security

matters.¹³ At the same time, the Andean Pact was also formed in Latin America with the objective of creating free internal trade, a customs union and a common market within a time frame. But then, much of the regionalist efforts in the Third World were hampered by the ongoing Cold War politics. Ideological conflicts, struggle for power, political instability, economic weakness and lack of interdependence were some of the problems. Therefore, all that the newly formed arrangements promised could not become realities. Regionalism practically collapsed in the 1970s and 1980s, although the ECOWAS and the SADC were established in 1975 and 1980 respectively.

New developments in Europe in the 1980s and the end of the Cold War ushered in a new phase of Third World regionalism. It also coincided with, and was to an extent caused by, the collapse of the Bretton Woods international system, diminishing US economic predominance and emergence of new economic giants, and the adoption of new economic reforms. That there is a renewed interest in regionalism can be seen from the formation of more regional groupings since the Cold War ended.

In March 1991, Brazil, Argentina, Paraguay and Uruguay established Mercosur, one of the advanced regional groupings in the Third World. This was preceded by improved relations and cooperation between Argentina and Brazil, the two biggest countries in Latin America, both in terms of economy and size. Chile became an associate member in 1996. Mercosur is at the moment negotiating for the formation of a Free Trade Area of the Americas (FTAA) with several other countries. Moreover, agreements were signed with other economic communities. The Association of Caribbean States (ACS) was also formed in 1995 between some Caribbean and non-Caribbean states. ASEAN is also currently involved in the formation of an ASEAN Free Trade Area

¹³ Chris Dixon, "Regional Integration in South East Asia," in Grugel and Hout, *Op. cit.* p. 117.

(AFTA) by 2008 at the latest. As a result, intra and inter-regional trade among and between Third World countries is on the rise. For example, the share of intra-regional trade in Latin America's trade rose from 15% in 1990 to 21% in 1995. Similarly for Asia, it rose from 41% in 1979 to 51% in 1995. Africa does not register that much growth, but it rose from 6% to 10% between 1979-1996.¹⁴ This new regionalism has also affected even those regions where economic regionalism has been denounced.¹⁵

Though Third World regionalism is now more economic in nature, it was highly political and strategic in the earlier phases. It was mainly because regionalism was under the veil of the Cold War. SEATO, CENTO and such other organizations exemplify this nature of Third World regionalism in the early years. Mutual suspicion, external influences, dependence on the richer and influential 'first' and 'second' worlds, and political instability and economic weakness became the cause and effect of the nature of Third World regionalism at that time. Regionalism in the early phases, as J. G. Ruggie pointed out, therefore appeared to resemble much more closely the kind of international organization which states join in order to "facilitate or enhance a particular national capacity – to enlarge the range of what is technically possible for each members, in the performance of a particular task."¹⁶ What was lacking was the spirit of cooperation and integration for the better.

¹⁴ Kym Anderson and Joseph François, "Commercial Links Between Western Europe and East Asia: Retrospect and Prospects," in Peter Drysdale and David Vines (Eds.), *Europe, East Asia and APEC: A Shared Global Agenda?* (Cambridge: Cambridge University Press, 1998) p. 34.

¹⁵ For example, the Nigerian head of state, Olusengun Obasanjo denounced the 'ridiculously large number of often economically unviable states in Africa,' and urged the African countries to look at Europe. Quoted in O. Aluko, "The Foreign Policies of the African States in the 1990s," *The Round Table*, 317, 1991, 37.

¹⁶ John G. Ruggie, "Collective Goods and Future International Collaboration," *American Political Science Review*, Vol. LXVI (3), September 1972, pp. 874-893, p. 888.

Another notable feature of Third World regionalism is that it lacked any strong formal political institutions. Even after some developments had been made in integrating markets, the institutions could not make similar progress. This has particularly been a feature of Asian regionalism. As Joseph Grieco points out, Asian regionalism “presents an almost perfect case of the absence of successful regional institutionalisation in economic affairs. That is, while some modest efforts have been made to create a stronger institutional manifestation of regional ties – in particular AFTA, EAEG/EAEC, and APEC – these efforts have either failed completely or seemed to face uncertain prospects at best.”¹⁷ Peter J. Katzenstein argued that while weaker powers advocate formal institutionalisation, stronger powers like China and Japan oppose such moves.¹⁸ Peter A. Petri attributes the lack of strong formal institutions in Asia to “the great diversity of the region’s countries and by the preferences of many of the region’s countries for informal, negotiated (as opposed to formal, legalistic) approaches to policy.”¹⁹ Adding more factors to the list, Katzenstein includes (1) the US promotion of the principles of bilateralism in Asia and multilateralism in Europe after the Second World War, (2) the refusal of Asian political actors to subscribe to the idea of creating a distinct community, and (3) the distinctive character of Asian states.²⁰

It is also discernible that the Third World’s approaches to, and control over, regionalism is greatly varied. The most obvious reasons for this are the locational and

¹⁷ Joseph M. Grieco, “Variation in Regional Economic Institutions in Western Europe, East Asia and the Americas: Magnitude and Sources,” Duke University, Political Science Department, 1994 (Unpublished Paper) p. 14-15, quoted in Peter J. Katzenstein, “Regionalism in Comparative Perspective,” *Cooperation and Conflict*, Vol. 31 (2), 1996, pp. 123-159, p. 140.

¹⁸ Katzenstein, *Ibid.* p. 142.

¹⁹ Peter A. Petri, “The East Asian Trading Bloc: An Analytical History,” in Jeffrey A. Frankel and Miles Kahler (Eds.), *Regionalism and Rivalry: Japan and the United States in Pacific Asia* (Chicago: University of Chicago Press, 1993) pp. 27-48, p. 43.

²⁰ Katzenstein, *Op. cit.*

levels-of-development factors, historical legacy, security perception, external influences, and approaches to developmental, integrational and other policies. During the Cold war, some Third World regions were somehow isolated from the rest of the world in comparison to others who were much more exposed to global trends. Southeast Asia, in particular became an important pawn in Cold War politics. Therefore, the region's approach towards regionalism, needless to say, is quite different from those of other regions. Latin America and Africa, in comparison to Southeast Asia, were isolated from the outside world, though obviously not totally without any external influences. Because of such differences, the Third World is often divided into the 'periphery' and 'semi-periphery' with both weak and strong points. Comparative studies show that while the strong are fairly in control of the process of regionalism, the weak are apprehensive that any regionalist ventures would only benefit the economically strong countries.²¹ Some prefer to categorise the Third World not in terms of 'peripheries' or 'semi-peripheries', but as 'fourth' and 'fifth' worlds, and not merely as 'third'.²²

Third World regionalism is also deeply affected, influenced and shaped by domestic and international factors. These factors, of course, affect others too, but their effects on the Third World are more pronounced. To take only one case, the state-society relation in the Third World depends heavily on the societal forces. Most Third World states are characterised by power struggle and competition for share in the state between different groups. Therefore, many Third World governments adopted the policy of patronage politics towards these groups.²³ This is one of the causes of the weakness of regionalism in these regions.

²¹ For example, Grugel and Hout, *Regionalism Across the North-South Divide: State Strategies and Globalisation*, (London: Routledge, 1999) and Andrew Gamble and Anthony Payne (Eds.), *Regionalism and World Order* (Houndmills: Macmillan, 1996).

²² Timothy M. Shaw, *Op. cit.* pp. 93-120.

²³ Paul Cammack et. al., *Third World Politics: A Comparative Introduction*, 2nd Ed. (Houndmills: Macmillan, 1993) Chap. 2.

PROBLEMS AND PROSPECTS

There are quite a few problems in the Third World that need to be solved before any real economic integration can be achieved. But it is important to note that these problems do not uniformly affect all Third World countries. In other words, not every Third World region faces the same set of problems. Generalisations nevertheless have to be made.

First, these countries produce the same primary goods, which limits the scope of any intra-regional commerce, cooperation and integration. This may be attributed to the weakness of the forces of production (land, labour and capital) and poor industrial and other infrastructure and technology. Some scholars might be tempted to point accusing fingers at this juncture. Anyway, many Third World countries are small in size and economy as well. Some countries are landlocked without any access to the sea for trade and transport. This hampers productivity. While labour is quite plentiful, there is the lack of skilled labour. Low levels of income and limited savings result in low capital for investment. All these factors combined have an adverse effect on the productive capacity of a Third World country. In addition, poor industrial infrastructure and technology limits productivity, regional trade and economic growth. Besides, these countries are isolated and lack even the most basic amenities. There is a lack of access to clean drinking water, sanitation, food, medicine, and a vast array of other basic amenities that the inhabitants of developed regions would take for granted. The result is that these countries become oriented towards the developed countries, and not towards one another. This accounts for the failure of many regional attempts in Third World regions. Many Third World countries are still dependent on the Great powers for their security and political stability. These countries aim at development with an emphasis on industrialisation.

Another problem facing Third World regionalism is the lack of shared social, cultural and political feelings. Such feelings are an utmost necessity for the success of any form of regional cooperation, trade or integration. Instead, they tend to involve themselves in petty quarrels, worthless accusations, and personality politics. Members'

perceptions of unequal distribution of benefits have also stood in the way of proper integration. CACM, UDEAC, EAC and other regional groupings have often faced difficulties as a result.²⁴ Social inequalities, high military expenditures and policy problems and differences may also be added to the list.

Germánico Salgado Peñaherrera proposed some additional reasons for the failure of regional integration arrangements and attempts: "(a) Incompatibility of political systems with integration in general or with the machinery selected for implementing it; (b) Problems of political relations between states, frequently with territorial implications (geopolitical problems); (c) Differences among member countries in the degree of industrial development they have achieved and their potential or capacity for such development, the main expression of which is the dissatisfaction of some of these countries with the distribution of benefits and the costs of integration; (d) Other differences in economic structure between the member countries which affect the machinery, and therefore the objectives of integration."²⁵ While the first two are political, the other two, he said, are more economic. He argues that in the Andean Group, the present form of fundamental incompatibility emerges while CARICOM and EAEC have functional incompatibility. Hostility between members also stands in the way of integration. LAFTA, UDEAC, CARICOM and others face difficulties because of members' dissatisfaction with the result trade flows. This is precisely caused by differences in the levels of industrial development. In such a situation, the more advanced countries have more advantages over the weaker and backward members. Lastly, Peñaherrera's argument points the differences in the scope of the activity of the state. Such differences, he said, would affect the scope and method of integration.

Latin American countries, as Osvaldo Sunkel states, have the "tradition of internal fragmentation and of ignoring and turning their backs on each other..."²⁶ Thus, these

²⁴ Braveboy-Wagner, *Op. cit.* p. 279-280.

²⁵ Germánico Salgado Peñaherrera, "Viable Integration and Economic Cooperation Problems in the Developing World," *Journal of Common Market Studies*, Vol. XIX (1), September 1980, pp. 65-76, p. 68.

²⁶ Osvaldo Sunkel, "Development and Regional Integration in Latin America: Another Chance for an Unfulfilled Promise?" in Bjorn Hettne et. al. (Eds.), *The New Regionalism and the Future of Security and Development*, p. 54.

states tend to favour links with more developed countries instead of forging links with each other.

With such numerous problems facing Third World regionalism, one is led to think that there is no hope for any Third Worldist regionalist ventures neither in the present world order nor in the near future. But experiences prove otherwise. What was and is experienced is the revival and comeback of regionalism among these countries. The phenomenon of new regionalism has affected almost every nook and corner of the Third World, as has been mentioned in the beginning of this chapter. With new economic reforms introduced in these regions, export substitutions and such other attempts to break free, big strides have been taken in recent years. Most Third World countries have opened up and have started the process of liberalisation. With the coming of the new regionalism, intra-regional trade has grown considerably. This shows that these countries are now reorienting themselves towards one another. At the moment, the Third world countries are now more unified in their stand. There is a relative general calm. Changes in the systems of governments, in particular in Latin America from authoritarianism to democracies have also largely contributed in bringing about more compatible political systems in the region.

CONCLUSION

So far, we have been quite optimistic about Third World regionalism. Setting aside the regionalism versus multilateralism debate and other effects of regionalism and globalisation, regionalism is conceived of as bringing about economic prosperity, peace and stability. With the end of the Cold War, and the transformation of the bipolar system into a multi-polar system, regionalism and regional arrangements are surely on the rise. What it will bring about is uncertain, but what is expected is prosperity

CHAPTER THREE

Latin America and Mercosur

The last two decades, for Latin America, has been a period of momentous changes. The oil price hike, the Panama Canal dispute, excessive dependence on American capital investment, half-hearted efforts and struggle for power led to the collapse of regionalism in the region in the 1970s. Besides, incompatibility of political systems, conflicts, and differences in levels of industrial development and differences in economic structures – some of the reasons mentioned by Germánico Salgado Peñaherrera,¹ for the failure of integration attempts, appear to be particularly true for Latin America. The debt crisis of the 1980s adversely affected the Latin American economics and revealed their inherent weaknesses. Yet, some of the Latin American countries adopted adjustment and liberalisation policies and began to transform themselves. New and pragmatic policies were adopted with emphasis on reducing government control and intervention and achieving macroeconomic stability. Therefore, the hyperinflation and economic crisis during the 1980s in a way, contributed to the transformation of the Latin America economics and with it, the prospect for successful regionalism.

Another important factor for the resurgence of Latin America regionalism was the process of democratisation. According to the ‘democratic peace theory,’ democracies, in comparison to any other form of government, are less likely to fight wars with each other.²

¹ Germánico Salgado Peñaherrera, “Viable Integration and the Economic Cooperation Problems of the Developing World,” *Journal of Common Market Studies*, Vol. XIX (1), September 1980, pp. 65-76.

² There is a plethora of literature on the subject. Some of them are: “Give Democratic Peace a Chance,” *International Security*, Vol. 19, Fall 1994, pp. 3-125; “Democracy, War and Peace,” *Journal of Peace Research*, Vol. 29, November 1992, pp. 369-434; “Democracy and Foreign Policy: Community and Constraint,” *Journal of Conflict Resolution*, Vol. 35, June 1991, pp. 181-381; Carol R. Ember, Melvin Ember and Bruce Russett, “Peace Between Participatory Politics: A Cross Cultural Study of the ‘Democracies Rarely Fight Each Other’ Hypothesis,” *World Politics*, Vol. 44, July 1992, pp. 539-599; Edward D. Mansfield and Jack Snyder, “Democratisation and War,” *Foreign Affairs*, Vol. 74, May/June 1995, pp. 79-97.

Therefore, the advent of democracy implies that the region is likely to undergo a period of relative peace. What it also implies is that there will be more cooperation and interaction between the various states of the region. Though it is not our purpose to prove the democratic peace proposition, it is undeniable that the transition from authoritarian rule led to increased cooperation and confidence building between these newly democratised states. This was particularly true of Brazil and Argentina. In 1986, the two signed an integration and cooperation treaty – the programa de Integración y Cooperación Económica Argentina - Brasil (PICAB), followed by the Treaty of Integration and Cooperation in 1988 and the Treaty of Integration, Cooperation and development in 1989.

In March 1991, through the Treaty of Asunción, Mercosur (Mercado Común del Sur), the Southern Cone common market was established between Argentina, Brazil, Paraguay and Uruguay. Chile and Bolivia became associate members in 1996. Chile, at present is pressing hard to become a full member. The coming of Mercosur changed the course of intra and inter-regional trade. But it has not always been smooth sailing; there have been numerous problems facing Mercosur – the devaluation of the Mexican peso in 1994, the Asian and Russian crisis, and that of Brazil in 1999 being cases in point. This chapter attempts to deal with the impact of Mercosur on Latin America - progress made, problems facing regional integration and prospect for the future. It concludes with a very short summary. Firstly, it deals with the social, political and economic conditions of Latin America in order to familiarise us with the region.

SOCIAL, POLITICAL AND ECONOMIC CONDITIONS

Despite the supposedly great economic leaps made recently, disparity in the distribution of income and standard of living continue to be the basic social problem facing Latin America. Wealth remains concentrated in a few hands while the poorest of the population earn enough to sustain them. With an increase in the overall population in the region, the poor encounter even more hardships. Even the United Nations Economic Commission for Latin America and the Caribbean (ECLAC) did not foresee any improvement in the distribution of income in the near future, the region being the firm establishment of an occupational profile that influences labour income. Studying the link between income distribution and overall occupational structure, it shows that while the majority of the wage earner in the poorest 40% is mostly composed of unskilled labourers (manual workers, security guards, waiters and domestic servants) the richest 10% is made up of professionals, technicians and managers. In addition, the ECLAC report stated that “in most recent cases of growth, the gap has widened between the wage levels for the most common occupations among the top 10% of income earners, which improved by 7% per year, and those of the bottom 40% of income earners, which rose by 3.5% per year.”³

While illiteracy as a whole is falling, there is a marked increase in urban unemployment. Argentina, during 1990 –1999 registered an increase of urban unemployment from 7.4% to 14.5%, Brazil from 4.3% to 7.6%, Chile from 9.2% to 10.8%

³ ECLAC, *Social Panorama of Latin America*, 1997 (Santiago, Chile: UN, 1998) p. 87.

and Colombia from 10.5% to 19.4% - all during the same period. Mexico, however, showed a slight fall from 2.7% in 1990 to 2.5% in 1999.⁴

With such a social picture, what is needed is an all-round development policy that would accrue to all sections of the society. As suggested, “[i]t is therefore essential to design integrated policies that aim not only to correct the whole range of short comings and needs affecting economically disadvantaged groups, but also to do away with the structural determinants [demographic education, employment and property] hindering the attainment of greater social equality.”⁵

Politically, Latin America has been plagued by instability, coups, authoritarian governments, disputes, wars, insurgency and protracted military rule, sometimes brought about by petty squabbles. What is presented here is a bleak political condition. Unlike most Third World Countries, Latin American countries experienced early independence from their Spanish and Portuguese colonisers. It was from the colonial rule that the landed class emerged. This class wielded power and authority after colonial rule. Struggle for power between elites and the failure of the political parties to govern, and their inability to cope with rising expectation in the popular social sectors, let the military in most Latin American countries to take over the reins of power in the 1960s and 1970s. Most of the Latin American countries came under protracted military rule. However, Gary W. Wynia wrote, “it was not long before bickering among the military service chiefs over (how to) handle

⁴ CEPAL/ECLAC, *Statistical Yearbook for Latin America and the Caribbean, 2000* (Santiago, Chile: UN, 2001) p. 39.

⁵ ECLAC, *Op. cit.* p. 41.

(power)...opposition began to tear the ruling junta apart.”⁶ It was then that the process of democratisation started.

Latin American economies too have always been unstable, and susceptible to crisis. During the colonial times, the economy was mostly agrarian. Independence brought about new trade relations, and the economy grew. But wealth, as noted earlier, came to be concentrated, the great depressions of the 1930s greatly affected these economies, and they took recourse to industrialisation policy, which sustain them for sometime. However, low domestic savings led the economies to stagnate after the boom years of the 1960s and 1970s. After the 1982 crisis, new policies were adopted with emphasis on liberalisation and reduction of government controls. The economies recovered, but slowly. According to the ECLAC, by 1987, the region’s investment co-efficient had slowly recovered and “[b]y 1994, this recovery had brought it to slightly under 22% of GDP, but this was still below the levels of the early 1980s.”⁷ Besides, there have been significant capital inflows to Latin America since the initiation of economic reforms. Net capital inflow to Latin America rose from US \$ 15 billion per annum during 1986 to 1990 to US \$ 40 billion per annum during 1991 to 1995. However, the reduction of controls on international capital movements and such high levels of capital inflows has been a strain on the weaker markets.⁸

In late 1994, Latin America faced another recession with the devaluation of the Mexican Peso, caused by the over valuation of the Peso, excessive dependence on capital flows, and

⁶ Gary W. Wymia, *The Politics of Latin American Development* (Cambridge: Cambridge University Press, 3rd Edition, 1990) p. 18.

⁷ ECLAC, *Latin America and the Caribbean: The Economic Experience of the Last Fifteen Years, 1980-1995* (Santiago: UN, 1996) p. 11.

⁸ Heinz Mewes, “Current Trends in Latin America’s Emerging Financial Markets,” in Federico Foders and Manfred Feldsieper (Eds.), *The Transformation of Latin America: Economic Development in the Early 1990s* (Cheltenham, U. K.: Edward Elger, 2000) p. 116.

erosion of confidence in the stock market “precipitated by political unrest and poor currency management by the Mexican government.”⁹ This crisis particularly affected Argentina and Uruguay. Meanwhile, Chile, Colombia, Peru and Ecuador registered a GDP growth of more than 5% in 1995 while that of others grew by 2–5 % the same year. Mexico, Argentina and Uruguay registered decline mostly due to their close economic ties with each other.¹⁰ However Mexico recovered, and this recovery was remarkable. Mexico’s output growth rose from 6.2% in 1995 to 7.4% in 1997, and this recovery has largely been attributed to:

1. The restructuring of the economy with its movement to the GATT and NAFTA,
2. Its ability to quickly re-enter security markets,
3. Continuance of investment by foreign companies and the return of foreign portfolio capital to Mexico’s equity market, and
4. The decisive move in stabilising the banking system through government intervention and removal of foreign investment barriers in the financial services sector.¹¹

Just as the crisis was ending, crisis in Asia in 1997 and in Russia in August 1998 started a new period of instability and decline. Growth fell from 5.3% in 1997 to less than 2% in 1998 – a contraction of about 1.3 %.¹² The Asian crisis affected Latin America through three channels: “Trade (a decline in the volume of exports to Asia, lower commodity prices, competition from cheap Asian exports, negative spill-over from intra-regional effects in Latin America itself); Finance (speculative attacks on exchange rates,

⁹ Ibid. p. 118.

¹⁰ ECLAC, *Preliminary Overview of the Economy of Latin America and the Caribbean, 1995* (Santiago: UN, 1995) p. 2.

¹¹ David D. Hale, Will Mexico’s Recovery From Crisis be a Model for East Asia?” in Ross H. Mcleod and Ross Garnaut (Eds.), *East Asia in Crisis: From Being a Miracle to Needing One?* (London: Routledge, 1998) p. 277.

¹² UNCTAD, *Trade and Development Report, 2000* (Delhi: Bookwell, Indian Edition, 2001) p. 13.

weakening stock markets, scarce and/or more expensive foreign capital.); and policy responses (tighter fiscal and monetary policies).¹³

Yet, another crisis shook Latin America in 1999 – the Brazilian *real* devaluation. For the first time in the 1990s, Latin America's GDP stagnated. Following the successful implementation of the *Real* Plan in 1994, inflation was brought down from 50% to 2.5% in 1998.¹⁴ While it was a positive development, it also created imbalances in Brazil's external account. This, and other problems, most notably the exchange rate problems and the impact of the Asian crisis, led to the devaluation of the Real in January 1999. Mercosur was deeply affected, with its very survival being questioned. But within a year, the Real clawed its way back again. Latin American trade deficits improved significantly in 1999. Deficits reduced from \$87.5 billion (4.5 % of GDP) in 1998 to \$ 56.5 billion (3.2%) in 1999.¹⁵

Even now, Latin America still faces daunting problems. Crisis in Argentina in 2002, elections in Venezuela plagued by insurgencies and scores of other problem faced Latin America. In spite of all hardships, there are now talks of Mercosur on its way to its second wave of integration. In order to overcome difficulties, Latin American countries need to come together; and Mercosur needs to be the driving force in bringing them together to a new level of cooperation and bring about prosperity and development.

The next section deals with Mercosur, its impact, numbers positions and its problems and prospects.

¹³ ECLAC, *Economic Survey of Latin America and the Caribbean, 1997-1998* (Santiago: UN, 1998) p. 13.

¹⁴ Victor Bulmer-Thomas, "The Brazilian Devaluation: National Responses and International Consequences," *International Affairs*, Vol. 75 (4), October 1999, pp. 729-741, p. 729.

¹⁵ UNCTAD, Op. cit. p. 16.

MERCOSUR (Mercado Común del Sur)

Beginning mostly with the policies of adjustment in the 1980s, Latin America has undergone momentous changes. Not only where there changes in the economic policies, the political systems were also changed. The formation of Mercosur, the southern cone common market added another element to the change. Its origin lies in the Integration Act (PICAB) signed between Argentina and Brazil in 1986. But it was the treaty of Asuncion that established Mercosur. With the coming of Mercosur, a new phase of regionalism began in Latin America. New and improved relations were created among the neighbouring countries. Trade among members increased. Mercosur became a customs union in 1995. Chile and Bolivia added to the membership of Mercosur in 1996 as associate members. Mercosur has reached framework agreements with the European Union and the Andean Community. It is also currently engaged in negotiations for a Free Trade Area of the Americas (FTAA), with other countries.

When Mercosur was established, it was envisaged that it would bring all its members to a new level of integration. It was thus formed with a Common Market Council, Common Market Group, Trade Commission and other organs that would facilitate the objectives of integration. The Common Market Council is the highest authority of the Mercosur. From its organisation, it can clearly be seen that it is a truly genuine economic integration arrangement. It became a customs union in 1995. That same year, Mercosur heads agreed on free trade as their most urgent goal.

As indicated before, Mercosur's market for goods produced in all its members has greatly expanded from a value of US \$4 billion in 1990 to \$14.5 billion in 1995 and over \$20 billion by 1997. The value of intra-Mercosur's merchandise export rose from US \$4127 million in 1990 to US \$20362 million in 1998. The value of Mercosur's export to other Latin American countries rose from US \$4193million to US \$9604 million and that of other regions from US \$38099 million to US \$51378 million during the same period.¹⁶

The financial shock of 1995 was quickly overcome. But sadly, the period from 1997 to 1999 witnessed drastic fall in Latin American GDP growth (Table 1) and intra-regional trade (Table 2). The value of intra-Mercosur merchandise export fell from US \$20362 million in 1998 to US \$15071 million in 1999.¹⁷ Intra-Mercosur exports fell from 49.7% in 1998 to 42.1% in 1999. The remarkable annual Gross Domestic Product (GDP) growth of Mercosur countries from -8.0% in 1990 to 4.6% in 1997 fell drastically to -15.5% in 1999.¹⁸

¹⁶ WTO, *International Trade Statistics, 2000* (Geneva: WTO, 2001) p. 52. Figures exclude Bolivia and Chile.

¹⁷ Ibid. Figures exclude Bolivia and Chile.

¹⁸ My calculations from CEPAL/ECLAC, *Statistical Yearbook for Latin America and the Caribbean, 2000*, Figures exclude Bolivia and Chile.

TABLE 1**GDP GROWTH OF MERCOSUR MEMBERS (1980-1999)****Average annual rates**

	1980	1990	1997	1999
ARGENTINA	-1.4	-2.0	8.0	-3.4
BRAZIL	1.3	-4.6	3.1	1.1
PARAGUAY	2.2	3.0	2.4	-0.1
URUGUAY	-3.5	0.4	5.0	-3.8
BOLIVIA	-1.9	4.4	4.9	0.8
CHILE	-0.2	3.3	6.8	-0.1

Source: CEPAL/ECLAC, Statistical Yearbook for Latin American and the Caribbean,

Various years

TABLE 2**MERCOSUR TOTAL INTRA-REGIONAL TRADE IN GOODS, 1995, 1997 AND 1999****Based on export FOB in million of dollars**

From	To	Argentina	Bolivia	Brazil	Chile	Paraguay	Uruguay	Mercosur
ARGENTINA								
1995		-	254.0	5484.1	1475.1	631.4	6629	6788.4
1997		-	8133.1	8133.1	1931.6	623.4	844.0	9600.5

1999	-	5689.6	5689.6	1869.0	563.1	818.5	7071.2
BOLIVIA							
1995	142.7	-	23.4	25.8	5.0	2.0	173.1
1997	183.0	-	37.4	59.3	1.6	2.8	224.8
1999	76.8	-	41.2	27.8	2.1	78.0	198.1
BRAZIL							
1995	4041.1	530.0	-	1210.5	1300.7	811.0	6152.8
1997	6767.2	719.1	-	1195.9	1406.5	870.0	8043.7
1999	5363.9	443.0	-	896.2	744.2	669.6	6777.7
CHILE							
1995	584.1	196.9	1063.9	-	75.9	56.3	1780.2
1997	777.9	228.4	974.4	-	63.8	63.0	1879.1
1999	726.3	190.3	701.4	-	47.5	56.9	1532.1
PARAGUAY							
1995	83.3	3.6	410.8	31.0	-	34.0	528.1
1997	103.4	4.9	457.6	34.3	-	23.8	584.8
1999	53.3	12.2	235.0	23.1	-	19.2	307.5
URUGUAY							
1995	267.1	2.1	700.1	39.9	1.2	-	968.4
1997	354.3	2.6	940.2	56.7	60.7	-	1355.2
1999	368.7	2.6	556.8	46.5	81.1	-	1006.6
MERCOSUR							

1995	4391.5	789.7	6595.0	1758.5	1933.3	1507.9	14427.7
1997	7224.9	1190.8	9530.9	3218.5	2090.6	1737.8	20584.2
1999	5785.9	779.0	6481.4	2844.8	1388.4	1507.3	15163.0

Source: CEPAL/ECLAC, *Statistical Yearbook for Latin American and the Caribbean*, 2000; My calculations

From the tables, we can see that Latin American countries were experiencing problems in the late 1990s. These problems can be attributed to the Asian and Russian financial crisis 1997 and 1998; adverse weather conditions; and the Brazilian real devaluation of 1999. The Asian and Russian crisis resulted in the contraction of growth of about 1.3% during 1997 and 1998. Secondly, El Niño, a weather phenomenon, adversely affected Latin American countries in 1998. Bringing with it, drought and floods, it was estimated to have cost \$ 15 billion in damage and production losses.¹⁹ The El Niño of 1982–1983 had inflicted an estimated US \$ 13 billion in damage and claimed some 2000 lives. Thirdly, the Brazilian crisis of 1999 also adversely affected the Latin American economics. It particularly affected other Mercosur members who are forced to find other markets for their exports. This crisis has also brought about a big political crisis within Mercosur. Its very existence came to be questioned, and threatened. The Brazilian government, in early 2000, had even tabled the option of abandoning Mercosur, while in Argentina; there was a call for the suspension of the Mercosur.²⁰

¹⁹ UN, *World Economic and Social Survey, 1999* (New York: UN, 1999) p. 94.

²⁰ Nicola Philips, "Regionalist Governance in the New Political Economy of Development: 'Relaunching' the Mercosur," *Third World Quarterly*, Vol. 22 (4), pp. 565-583, p. 569.

However, Brazil and Argentina's dispute over trade issues following the devaluation ebbed slowly. In 2000, Argentinean and Brazilian officials met to discuss development plans. An 'Adelante Mercosur' (Mercosur Forwards) program was proposed. The same year, a regional physical integration was also suggested.²¹ Brazil has also accepted the need for a fiscal responsibility pact.²² It was during this time that an important step was taken from a 'structural' to a 'monetarist' view of regionalism. Three important steps were taken towards laying the foundation of a future common currency in December 1999 at Montevideo: "the harmonization of national statistics (starting in September 2001); the establishment of common standards for 'fiscal responsibility' (to be announced in March 2001); and the obligation to report on efforts at achieving economic stability at future summits."²³ Therefore, at the XVI Summit of Mercosur Heads of States in Asuncion in June 2000, Mercosur was 'relaunched', and steps were taken for convergence including "market access; the incorporation of Mercosur norms into the legal structures of member countries; the strengthening of the Administrative Secretarial and other institutions; the perfecting of the Brazilian Protocol system of dispute resolution; the common external tariff; competition policy; trade relation with extra regional parties; macroeconomics coordination; incentives to investment, production and exports; and external relations."²⁴

It is our understanding that Mercosur was formed after improved relation and cooperation between Brazil and Argentina in the late 80s. Besides this, it was clear that the Enterprise

²¹ Ibid. p. 572.

²² Victor Bulmer-Thomas, *Op. cit.*, p. 738.

²³ Nicola Philips, *Op. cit.* p. 573.

²⁴ Ibid. p. 573-574.

for the Americas Initiative (EAI) announced by US President Bush and endorsed by Clinton would not really benefit the Southern Cone. This brought about a revival of sub-regionalism in the Southern Cone. Mercosur was the result. The policies of both Brazil and Argentina, the two biggest players, in size and economy determine the success and failure of Mercosur. For Brazil, the initial policy for creating Mercosur was mostly to protect its industries. Brazil need not restructure its industries to compete within Mercosur. As a result, other members like Argentina had to adopt a safe guard formula. For Brazil, Mercosur provides a regional market making up for its unsuccessful insertion into the global economy, and allows, for both Brazil and Argentina to increase exports and decrease dependency on the US market.²⁵ It thus provides a platform to Brazil for exercising its long held belief of its leadership in LAC. But at the same time, Brazil had been too protective and has not expressed enough enthusiasm.²⁶ For others, their participation is motivated by economic necessity rather than for any other reasons. Therefore, while Brazil embarks on a protectionism policy, smaller countries like Paraguay and Uruguay are demanding special treatment. Such divergences and dissatisfactions over protectionism could denial the process of further integration. Mercosur, thus, represents a very imperfect customs union in late 1990s.²⁷ Therefore, the 'relaunching' of Mercosur could not have come at a more opportune time.

Even then, as our study has shown, Latin American economics have the uncanny knack of collapsing at most important junctures. For example, the crisis of 1994-1995 came

²⁵ Jean Grugel and Marcelo de Almeida Medeiros, "Brazil and Mercosur," in Jean Grugel and Wil Hout (Eds.), *Regionalism Across the North-South Divide: State Strategies and Globalisation* (London: Routledge, 1999) p. 57.

²⁶ Jean Grugel, "Latin America and the Remaking of the Americas," in Andrew Gamble and Anthony Payne (Eds.), *Regionalism and World Order* (Houndmills: Macmillan, 1996) p. 152.

²⁷ Nicola Philips, *Op. cit.* p. 567.

at a time when Mercosur was transformed into a customs union, and baring the crisis of 1997, 1998 and 1999, the current crisis have happened when Mercosur is supposed to lead the way after being 'relaunched' and recommitted. Although there have been changes in the attitudes of members, financial notability is the biggest problem facing Latin American regionalism in recent years. Starting with the Brazilian real devaluation, there has been a string of economic crisis plaguing the Latin American economics. Even at present Argentina and Brazil are facing a big crisis. Argentina, in particular, has to face rising unemployment and increasing popular dissatisfaction with the government. It will therefore be years before Mercosur bears any real fruit, and that too, only Mercosur is given careful nurturing.

CONCLUSION

Mercosur was created with the vision of bringing Latin American countries closer together towards new level of cooperation and integration. This hope was realised for a period. Soon, problems arose burdening Mercosur every step of the way. Although several positive developments took place, they could not last. One crisis after another jolted Latin America through the 1990s and way into the 21st Century. The 'relaunching' of Mercosur catapulted hopes sky-high. However, within a year or so, hopes were again dashed with same old problems resurfacing again. Thus, the future Mercosur is uncertain and rather bleak. It has a long way to go before it would be in a position to emulate the successes of European Union. It would be too harsh to label it as a passing cloud but it may end up on the same path as the doomed Latin American Free Trade Area (LAFTA), unless it is given a complete overhaul. Unless concrete steps are taken that would bring about real financial stability, and unless the

member change their attitudes and rather narrow aims and take on a genuine commitment to regional integration, it would seem that Mercosur will continue to gasp until it dies. Moreover, the aspirations of the Mercosur heads for physical integration is still a little bit far fetched. For a responsible and important regional organisation it need to be more mature in its outlook and perception of regionalism, and not merely talk of organising a football team of Latin America that could beat the Europeans!²⁸ It should try and tackle all the problems and become a regional organisation that every member can benefit from. Besides, its members need to change their attitude towards each other. Instead of turning their backs on each other, they must help each other. Unless these happen, regional economic integration will not be achieved.

²⁸ Mentioned in Nicola Philips, *Op. cit.*

CHAPTER FOUR

Southeast Asia and ASEAN

Southeast Asia, in recent years has increasingly been accepted by scholars, policy makers, and public opinion as a major region. This was mostly facilitated by the region's uniqueness and distinctiveness from other regions of Asia – in culture, language, and even geographically and economically. The term 'Southeast Asia' is generally used to mean the region east of India, south of China, and north of Australia – a region comprising of Myanmar, Laos, Thailand, Cambodia, Vietnam, Malaysia, Brunei, the Philippines, Indonesia and Singapore. Several political and economic agreements for mutual cooperation have been made in the region. The Association of Southeast Asian Nations (ASEAN) provides the vehicle for these agreements. ASEAN is generally known as the most successful regional organisations. Since its formation, it has undergone several changes. Likewise, Southeast Asia has also changed. When ASEAN was formed in 1967, its objectives, as stated in the Bangkok Declaration, simply read: "to accelerate economic growth, social progress and cultural development in the region; to promote regional peace and stability; and to promote active collaboration in economic, social, cultural, technical, scientific and administrative fields." It was during its formation that the Cold War manifested itself in the form of the Vietnam War. In the beginning, ASEAN was simply known as a pro-American bloc. Political or economic integration was never its intention. But in time, more economic policies, rather than political, were adopted. It was thus transformed from a rather weak and unstructured association that was set-up to resolve interstate conflicts to one that promotes free trade economic regionalism and integration. This transformation is highlighted in this chapter through a study of its structure and activities along with the changing situations in Southeast Asia.

SOUTHEAST ASIA: THEN AND NOW

From the earliest times, Southeast Asia has held an important position in world trade. It linked important trading centres while also producing spices, pepper, ginger, silk and many other products. The region soon caught the eye of colonialists. By the 16th century, the Portuguese and Spanish had made their presence felt in the region. But there was no way that these initial explorers could control the Asian economy or confront any major states of Asia.¹ Next came the Dutch, then the British. They came initially to trade. But by the 19th century, Southeast Asia had come under the control of the Europeans. The French and the Americans came later. Thus, the politics and economies of Southeast Asia came to be shaped by these powers.

By the beginning of the Second World War, Southeast Asia was divided into British Malaya, British Burma, Thailand, French Indo-China, Netherlands East Indies, and the Philippines. The end of the Second World War heralded a new beginning for better or for worse, for these Southeast Asian nations. Burma (now Myanmar) gained independence in 1948; the Netherlands East Indies became independent in December 1949 and came to be known as Indonesia; Malaysia, comprising of the not-yet-unified Malay states gained independence in 1957; and the Philippines in 1946. Indo-China had a bitter experience of decolonisation. Attempted reoccupation of Indo-China by the French, rise of the Vietminh and American involvement resulted in a long and bloody civil war. Many lives were lost, not to mention the loss of property, infrastructure and other developmental opportunities. It was at this juncture that ASEAN was established. Following is a short country wise survey of the original members of ASEAN.

Unlike its neighbours, Thailand has never been colonised. Indeed, it was the only country in the region not to have been occupied by Western powers. Since the Second World War ended, Thailand has undergone several coups and counter coups, sometimes interrupted by short-lived parliamentary governments. The king of Thailand plays an important role in all these developments. After a military coup in 1991, the king, along with demonstrators in Bangkok forced the military away from power. A parliamentary form of government was installed. The throne is thus referred to as “the most important power centre,”² that has regained much of its former powers. From the War till the 1980s, Thailand had a very low level of foreign investment. Due to crises in the late 1970s and early 1980s, the Thai economy was on the verge of collapse. Several reforms were initiated under the International Monetary Fund (IMF) and World Bank, through which the Thai economy slowly recovered. By 1997, Thailand’s Gross National Product (GNP) was US \$ 165, 759 million with an annual growth of 5.9% during 1990-1997.³ But the Asian Crisis had an adverse effect on the Thai economy. Steps were taken for speedy recovery, and by 1999; its GDP had expanded by 6.5%.³

While in Thailand, governments changed in quick succession, in Indonesia, Suharto stayed in power for a long time. After the Second World War in 1945, a nationalistic group under Sukarno declared independence. This declaration became legal in 1949. By 1966, power had been transferred to General Suharto, Chief of Staff of the Indonesian Army. He continued in power till 1998. General elections were held in 1999

¹ Chris Dixon, *Southeast Asia in the World Economy* (Cambridge: Cambridge University Press, 1991) p. 6.

² Likhit Dhiravegin, *Demi Democracy: The Evolution of the Thai Political System* (Singapore: Times Academic Press, 1992) cited in Michael R. J. Vatikiotis, *Political Change in Southeast Asia: Trimming the Banyan Tree* (London: Routledge, 1996) p. 54.

³ *The Europa World Yearbook, 2000, Vol. II* (London: Europa Publications, 2000) p. 3544.

in which A. Wahid was elected president. Megawati Sukarnoputri, the daughter of Sukarno replaced A. Wahid recently. Several problems confront Indonesian politics. Secessionist politics in Irian Jaya and Aceh are one type of problem. It also face problems in deficits and uneven development.

In 1999, events in East Timor shook the World. Widespread violence perpetrated by Indonesian militias against the civilian population brought in the Un Peacekeepers. Earlier, East Timorese had held a plebiscite where 78.5% voted for independence. On 20th May 2002, East Timor became the youngest country in the world when it was granted independence by the United Nations (UN).

As an agrarian economy, the Indonesian economy was relatively weak and vulnerable. It was one of the worst affected by the Asian Economic Crisis of late 1990s. Its GNP fell by 20% in just eighteen months,⁴ but has since recovered slowly.

Like Suharto in Indonesia, Mahathir Mohammad has been in power for most of Malaysia's recent history. The Federation of Malaya became independent in 1957. In 1963, Singapore, Sabah and Serawak acceded to the Federation, and from that year, the name Malaysia came to be adopted. Singapore, however, seceded from the Federation in 1965. Domestically, ethnic violence between Chinese and Malays often disrupted normal life. This problem still persists and remains unresolved. Malaysia's GNP in 1997 was US \$ 98.195 million; it grew at a rate of 5.8% annually during 1990-1997. From being a predominantly agricultural economy, industrial progress has been achieved. Its economy, from 1970-1990 has been growing at an average of 6.7% per year,⁵ but the Asian Crisis disrupted this excellent run.

⁴ *Whitaker's Almanack 2001* (London: The Stationery Office, 2000) p. 906.

⁵ *Europa Yearbook, 2000*, p. 2387.

The Philippines had been under the Spanish rule, and later, under the Americans. It became independent in 1946. Till 1965, several presidents came and went, but from 1965-1986, Ferdinand Marcos stayed in power as president. Corazon Aquino replaced him in 1986. In 1992, Fidel Ramos was elected and in 1998, Joseph Estrada became the president. Like Indonesia, the Philippines had to deal with insurgents. Although an agreement had been signed with the Moro National Liberation Front (MNLF) in 1996, other secessionist movements remain. The Philippines, compared to its neighbours is economically weak. It grew at a much slower rate than its neighbours during 1990-1997 at an average of 1.6% annually.⁶

Singapore, after it attained self-government in 1959, joined the Federation of Malaysia in 1963 and left it in 1965. Since 1942, The People's Action Party (PAP) had been the major player in Singapore's politics. Economically, Singapore is ahead of all its immediate neighbours, and has become an important global financial services centre. Its GNP in 1997 totalled US \$ 101, 834 million.⁷ Unlike its neighbours, Singapore was not greatly affected by the Asian Crisis. This was mostly because of its huge currency reserves.

⁶ Ibid. p. 2939.

⁷ Ibid. p. 3216.

ASEAN: THE BEGINNING

The end of the Second World War and the emergence of the Cold War brought immediate problems for the newly independent countries of Southeast Asia. In a bid to rally support for its global movement against the spread of communism, the United States, along with Thailand and the Philippines formed the Southeast Asian Treaty Organisation (SEATO) in 1954. For lack of support, SEATO could not last for long. This experience, however, led to the idea that regional organisation could better resolve regional conflicts and at the same time promote cooperation members. The Association of Southeast Asia (ASA) was born out of this realisation in 1961. The ASA was formed with Malaysia taking the initiative. Other members included the Philippines and Thailand. The formation of Malaysia and the territorial disputes it brought along rendered ASA quite an ineffective organisation. The Philippines and Malaysia were in dispute over Sabah, an area both claimed to be theirs. To ease the tension, Malaysia, the Philippines and Indonesia set up a new organisation – Maphilindo. However, the domestic situation in these countries and changes in policies eased the tension. Therefore Maphilindo was no longer needed.

New attempts were made to revive ASA. In the process, the Association of Southeast Asian Nations (ASEAN) was born in August 1967 at Bangkok. Formed mainly to diffuse regional conflicts and promote better cooperation between members, ASEAN soon became the most important organisation in this region. Indonesia, Thailand, Malaysia, Singapore and the Philippines constituted the five original members that signed

the Bangkok Declaration of 1967. ASEAN's share in Third World foreign direct investment (FDI) was 10.2% in 1973, which rose to 16.9% in 1986.⁸ In matters of trade, its share of Third world foreign trade rose from 4.6% in 1978 to 6.4% in 1986.⁹ Its membership has also expanded steadily. Brunei became a full member in 1984; Vietnam in 1995; Laos and Myanmar in 1997 and Cambodia in 1999. Today, it has truly become an association of Southeast Asian nations.

ORGANISATION AND ACTIVITIES

The objectives of ASEAN, stated in the Bangkok Declaration were sought to be achieved with rather unstructured machinery,¹⁰ which called for an annual meeting of foreign ministers, a standing committee, ad hoc committees and national secretariats. But in time it became better organised with Summit Meetings, Ministerial Meetings, a Standing Committee, a permanent Secretariat and a number of committees and Senior Official's Meetings.

The highest authority of ASEAN is the Summit Meetings between heads of government. Since 1992, Summit Meetings are held every three years. Next to Summit Meetings are ASEAN Ministerial Meetings (AMM) held every year in each member country by rotation. The AMM coordinates the activities of ASEAN and provides guidelines. The Standing Committee of ASEAN meets every two months and consists of

⁸ Dixon, *Op. cit.* p. 12.

⁹ Ibid. p. 18.

¹⁰ Pushpa Thambipillai, "Continuity and Change in ASEAN: The Politics of Regional Cooperation in Southeast Asia," in Andrew Axline (Ed.), *The Political economy of Regional Cooperation: Comparative Case Studies* (London: Pinter, 1994) p. 108.

the foreign ministers of the host country and the ambassadors of other members. The central coordinating body, the ASEAN Secretariat, was established in 1976 at Jakarta, Indonesia. It has one Secretary General assisted by two Deputy Secretaries General. The Secretary General holds office for a term of five years. There are committees on culture and information, science and technology and social development. Senior Official's Meetings are also held from time to time.

The activities of ASEAN can be divided into the economic and the political. During its early years, an ASEAN Industrial Project (AIP) was set up with partial success. As a step towards industrial integration, an agreement on an ASEAN Industrial Complementation (AIC) was signed in 1981. Another agreement, ASEAN Industrial Joint Ventures (AIJV), was signed in 1983 to accelerate industrial cooperation among member countries. In 1996, the ASEAN Industrial Corporation (AICO) was instituted to encourage joint manufactures. The same year, a permanent ASEAN-CCI (Chambers of Commerce and Industries) Secretariat was set up at the ASEAN Secretariat.

As for trade and economic integration, ASEAN members had concluded an accord for the establishment of an ASEAN Preferential Trade Arrangements as early as 1977. However, this had little impact on intra-regional trade. This was because of the lack of complementarities between them, lack of interest in free trade and opposition to trade liberalisation.¹¹ A new step was taken in this direction in January 1992 when the ASEAN heads of government meeting in Singapore signed an agreement to create an ASEAN Free Trade Area (AFTA) by 2008. This dateline was subsequently reduced to 2003 in 1995, and then to 2002 in 1998.

¹¹ Chris Dixon, "Regional Integration in Southeast Asia," in Jean Grugel and Wil Hout (Eds.), *Regionalism Across the North-South Divide: State Strategies and Globalisation* (London: Routledge, 1999) pp. 121-123.

Foreign Direct Investment (FDI) to ASEAN has steadily increased from 11.7 in 1992 to 28.8 in 1996. It dropped to 26.9 in 1997, and then to 19.0 in 1998, and further to 15.6 in 1999.¹² This drastic change in the financial situation took everyone by surprise, because most of the Southeast Asian economies had registered annual growths of about 8% in the years preceding 1997. The Crisis first manifested in mid 1997 with the collapse of the Thai baht. Heavy short-term borrowing, overvaluation of the baht and poor financial regulation may be cited as the cause of the collapse. This crisis soon spread to other Southeast Asian countries reflecting their respective weaknesses. These countries had large current account deficits in the years prior to the crisis. Thailand had a deficit of 8% of its GDP in 1995-1996; Malaysia, 10% in 1995 and 5% in 1996; Indonesia, 3.5% in 1995-1996; the Philippines, 5% in 1996 and Vietnam, 16% in 1996.¹³ In Indonesia, this crisis led to the downfall of Suharto but the appointment of A. Wahid in 1999 did not help the situation either. His replacement in 2001 by Megawati Sukarnoputri helped a bit in restoring other's confidence in the Indonesian economy once again. Meanwhile, the state of ASEAN was disappointing, although several remedial steps were undertaken.¹⁴ Late in 1998, in a meeting of the heads of government, a Statement on Bold Measures was made that laid down ASEAN's strategies to deal with the crisis. Southeast Asian countries have since been on the way to recovery although the effects, as well as the traces of the crisis remain.

¹² Leszek Buszynski, "ASEAN and the Future of Southeast Asian Regionalism," *The Indonesian Quarterly*, Vol. XXIX, No. 3, 2001, pp. 277-285, p. 279.

¹³ Ross Garnaut, "The East Asian Crisis," in Ross H. McLeod and Ross Garnaut (Eds.), *East Asia in Crisis: From Being a Miracle to Needing One?* (London: Routledge, reprint, 2000) p. 10.

¹⁴ Hadi Soesastro, "ASEAN During the Crisis," in H. W. Arndt and Hal Hill (Eds.), *Southeast Asia's Economic Crisis: Origins, Lessons and the Way Forward* (Singapore: Institute of Southeast Asian Studies, 1999) pp. 158-169.

A new agreement was made in a meeting of ASEAN leaders, China, Japan and South Korea in November 1999. Calling themselves ASEAN+3, they issued a Joint Statement on East Asian Cooperation for regional unity and to establish a common market and a currency.

During 5-6 November 2001, Summit Meetings of ASEAN was held in Bandar Seri Begawan, the capital of Brunei. In this Summit, a proposal to establish an ASEAN-China Free Trade Area within 10 years was endorsed. This would be an important step for ASEAN, keeping in view the growing importance of China in world [politics and economy, and further, China's recent entry into the World Trade Organisation (WTO)]. According to a report, ASEAN-China trade totalled US \$ 39.5 billion, growing by 20.4% annually. With the size of the population in both China and ASEAN countries, GDP and trade among them, the proposed ASEAN-China Free Trade Area will become the biggest FTA in the world.¹⁵ Although it was political actors that brought ASEAN members together in the first place, there has not been much progress in this field when one compares to the progress made in the economic field. ASEAN's suspicions against the Soviet Union during and after the Vietnam War had many to label it as a pro-American organisation. This war ended in 1975, but in 1978, Vietnam invaded Cambodia and set up a pro-Vietnam government there. ASEAN took several initiatives towards the restoration of normalcy in the region.

In 1971, a Zone of Peace, Freedom, and Neutrality (ZOPFAN) Declaration was signed by the foreign ministers of ASEAN. Though ZOPFAN was not very effective, it

¹⁵ "Forging Closer: ASEAN-China Economic Relations in the Twenty First Century," a report submitted by the ASEAN-China Expert Group on Economic Cooperation, October 2001, 4, cited in Landry Haryo Subyanto, "ASEAN After Brunei Summit: Reinventing Regional Commitments?" *The Indonesian Quarterly*, Vol. XXIX, No. 4, 2001, pp. 324-333.

reflected the desire of member countries for peace. More recently in December 1995, a Southeast Asian Nuclear Weapons Free Zone (SEANWFZ) treaty was signed by ASEAN heads of government in Bangkok. This treaty prohibits the manufacture and storage of nuclear weapons within the region.

In order that better cooperation in security matters be achieved within the region, the 1993 meeting of ASEAN foreign ministers sanctioned the establishment of the ASEAN Regional Forum (ARF). The ARF was also designed to include China in the regional dialogues. The first formal meeting of the ARF was held in 1994.

In response to the September 11, 2001 attacks on the World Trade Centre (WTC) and the Pentagon, ASEAN leaders on November 2001 issued a Declaration of Joint Action to Counter Terrorism. Through it, ASEAN leaders reiterate their resolve to “countering, preventing and suppressing all terrorist acts in accordance with the Charter of the United Nations, especially taking into account all relevant resolutions.”¹⁶ This was especially significant in that ASEAN countries had always had the problem of terrorism along with insurgency and secessionist movements. This is seen as the turning point in the policy outlook of ASEAN in the new world order. Since September 11, world politics seemed to be changing. In this situation, ASEAN leaders must be up to the challenge to face what may come along.

ASEAN also reaches out to other regions as well. The first Asia-Europe Meeting (ASEM) was held in Bangkok in 1996. It was agreed that there should be more cooperation between ASEAN and the EU. A number of other meetings were also held between the EU and ASEAN. Steps were taken to further regional integration.

¹⁶ Press statement by the Chairman of Brunei Summits on 5 November 2001, from http://www.aseansec.org/menu_7thsummit.htm (accessed on 9 June 2002, 5:00 p.m.)

CONCLUSION

ASEAN, arguably the most successful regional organisation in Asia, and perhaps of the world (with the exception of the EU), has come a long way. From being labelled a pro-capitalist organisation, it has become an organisation that spans over all Southeast Asia – including the erstwhile communist countries of Vietnam, Laos and Cambodia. From having a relatively weak formal organisation, ASEAN has, overtime, developed a Permanent Secretariat. From an organisation that does not have any political or economic integrative intention, ASEAN has been transformed into one that encourages free trade and economic integration. The proposed AFTA is on its way. China-ASEAN Free Trade Area is guaranteed to change the course of world trade. The prospects for ASEAN are certainly looking good. But in spite of all these, there are still fears that there could be a repeat of the 1997 crisis. It is therefore imperative for ASEAN members to keep their own houses in order. This is essential if their collective dreams of future integration and a powerful Southeast Asia are to be fulfilled.

CHAPTER FIVE

Mercosur and ASEAN: **A Comparative Study**

So far, the growth of regionalism among the Third World countries, its nature, functioning and problems has been studied. Taking the two case studies – ASEAN and Mercosur – this concluding chapter attempts to generalize and make a comparative assessment. These two studies had revealed the functioning, nature, problems and likely prospects for Third world regionalism. However there are differences even between them. This is because of the differences in the levels of development and commitment, members' perception of regionalism, the circumstances surrounding their formation, the forms of government and the objectives for which they were established. Considering these, an attempt is made to compare Mercosur and ASEAN on their structure, functioning, their external relations and influences, policy position of members and on the problems faced by each region. It concludes with a summary of the points made.

Structure and Activities

At the very outset, it is important to note the differences in the intentions behind the formation of ASEAN and Mercosur. While Mercosur was established specifically to achieve economic integration, ASEAN was formed to accelerate economic development and to ensure the stability of the region, and never integration as such. ASEAN was established in 1967 to promote better cooperation between Southeast Asian states and to ensure peace, security and stability in the region. Through its long history, it has evolved into what it is now today. On the other hand, Mercosur, formed in 1991, after the Cold War, was aimed specifically to achieve economic integration of its members by means of free trade and the establishment of a common external tariff. This is a clear reflection of their structure. While

ASEAN has Summit Meetings of heads of government, Ministerial Meetings, and committees to discuss to take decisions on political and economic matters, Mercosur has its Common Market Council, Common Market Group, Trade Commission and other bodies to facilitate the integration process.

The activities of Mercosur and ASEAN differ too. ASEAN has been there during the Vietnam War, Cambodian Crisis and had played its part as a regional organization to ensure peace and stability and to resolve the conflicts. But of late, ASEAN has begun to take up more economic issues. In 1999, ASEAN+3¹ issued a Joint Statement on East Asian Cooperation hinting on the possible establishment of an East Asian Common Market and currency. Besides this, an agreement to create an ASEAN Free Trade Area (AFTA) was made in 1992. An ASEAN-China Free Trade Area was also endorsed very recently. But while undertaking more economic issues, it cannot abandon its obligations of maintaining security and stability in region either. In 1993, it set up the ASEAN Regional Forum (ARF) and in 1995; it established the Southeast Asian Nuclear Weapons Free Zone (SEANWFZ). This demonstrated clearly the concerns that ASEAN countries have regarding the proliferation of nuclear weapons and other security issues. As for Mercosur, it became a customs union in 1995. That same year, the heads of government agreed on free trade as their most urgent goal. By 1996, steps were taken to harmonise legislations too. Members made it clear that membership to Mercosur must entail a democratic form of government. Mercosur also took actions against drug trafficking, money laundering and other such other illegal activities.

¹ ASEAN+3 include ASEAN members, Japan, China and South Korea.

External Relations and Influences

In December 1995, an agreement was signed between the European Union and Mercosur for cooperation in commerce, trade industrial, scientific, institutional and cultural fields. It also entered into negotiations with the Andean Community in 1998. Moreover, in 1998, it entered into negotiations with more than thirty countries for the establishment of a Free Trade Area of the Americas (FTAA). These negotiations are still in progress. In June 1998, a Trade and Investment Cooperation Agreement was signed with Canada.

Likewise, ASEAN also negotiated with the EU, China, Japan, and others. Its relations with the EU date back to the early 1970s when a Special Coordinating Committee of ASEAN Nations (SCAN) negotiated with the EEC and GATT. It also had talks with Australia and Japan during the same period. Several ASEAN Europe Meetings had been held since 1996. In order to include China (seen by many as a threat rather than as a partner) in regional dialogue, the ASEAN Regional Forum was set up. New relationships were set up with the proposed China-ASEAN Free Trade Area.

Although the circumstances surrounding the formations of ASEAN and Mercosur may differ, their activities and relations have definitely become increasingly alike. It has been learnt that both international organizations, international state of affairs and international actors influence the two a lot. Mercosur for example had been clearly shaped by the international situation. The role played by the Economic Commission for Latin America and the Caribbean (ECLAC) was also insurmountable. The influences of the UN and the US on both are also very significant. Although they tend to downplay this, it is a fact that many moves made by these two are US-influenced. There are, of course, other influences – policies

of members and of other regional organizations, as well as several domestic factors. All these, together had shaped and reshaped the structures, nature and working of Mercosur and ASEAN.

Policy Positions of Members

There are always points of convergence and divergence between policies of governments and that of regional organizations. But following Barbara Haskel, policies may be divided as expansive, distributive and dependency reducing.² The first refer to those policies that are designed to create regional benefits; the second implies those that would assure an equitable share of regional benefits between members; and the third refers to those that would empower the region or reduce external influences in the region. These result from differences in size, type and levels of developments and commitments of members. Therefore, stronger members like Brazil or Singapore tend to adopt a more 'expansive' policy while others, like Paraguay, Uruguay or the Philippines or Vietnam would prefer those that guarantee them a share from any regional benefits and those that lessen their dependence on others.

Within Mercosur, Brazil is more independent and more economically sound than others. Therefore, it advocated a loose structure while others insist on an institution that would give special treatment corresponding to relative levels of development.³ When the Brazilian *Real* was devalued, the fall in Argentine exports was greater than that of Brazil's. Therefore, in order to protect its own industries, Argentina adopted a policy that imposes

² Barbara Haskel, "Disparities, Strategies and Opportunity Costs: The Example of Scandinavian Economic Market Negotiations," *International Studies Quarterly*, Vol. 18, March 1974, pp. 3-30.

³ Nicola Philips, "Regionalist Governance in the New Political Economy of Development: 'Relaunching' the Mercosur," *Third World Quarterly*, Vol. 22, No. 4, November 2001, pp. 565-583.

tariff on imports from neighbouring countries, particularly Brazil. Although this was withdrawn a few days later, it revealed the internal divergence within the Mercosur. Even an extraordinary meeting of the Common Market Council achieved little progress. New restrictions were again imposed by Argentina because of which intra-Mercosur trade fell. In the same way, members' policies differ in ASEAN. Thailand, during the 1980s was unwilling to reduce tariffs and subsidies – the reason being to protect its import substitution sectors. Even after the 1990s, this position can be seen in Indonesia, Malaysia. For Malaysia, protecting its agricultural sector was one of its main priorities. Politically, there are differences on the issue of the Spratly Islands between China, Vietnam, Taiwan, Brunei, Malaysia and the Philippines. On a different issue, Myanmar and Vietnam are opposed to any kind of intervention in their affairs. In the same vein, all members do not agree on 'democratic principles.' This was made known when some members expressed their reservations on the admission of Myanmar and Cambodia into ASEAN. These clearly demonstrated the difficulty of removing politics from Third World politics and regionalism and that functionalism could not be applied to these areas.

There are fields of convergence too. It was convergence that brought together members that led to the formation of ASEAN and Mercosur in the first place. By 2002, Brazil and Argentina had agreed to refrain from adopting destructive policies against each other. With Mercosur being relaunched, even physical integration has been suggested.⁴ Similarly, ASEAN had overcome its crisis. New policies are being formulated. AFTA, ASEAN-China FTA and others could dominate world trade in the near future.

⁴ Ibid.

Economic Crises

An unsettling problem that afflicted Third World regionalism and economies time and again is economic crises. Inefficient industrialisation, dependence on external financing, vulnerability, insufficient funds and excessive borrowings are some of the reasons why crises kept affecting the Third World.

In the Latin American case, the process of regionalism was disrupted when growing indebtedness led to recession in the late 1970s and 1980s. Policies were changed and Mercosur was established. Nevertheless, the Mexican peso devaluation led to yet another recession and crisis in the 1990s. The effects of the Asian Crisis after the baht devaluation triggered widespread economic slowdown. It took a while for both ASEAN and Mercosur to recover. Yet again, in 1999, the Brazilian real suffered devaluation. With numerous problems and divergences arising out of it, there were even calls for the suspension of Mercosur. ASEAN did not present a prettier picture. The 'domino effect' of the crisis had a devastating consequence on the economies of ASEAN countries. However, while some are reeling under the crisis, others seemed to be less affected by it.

Thus, it is being argued that Third World countries are prone to crises. As long as the primary factors causing these remains, the Third World cannot to be secure. Even at present, Argentina is undergoing a bad crisis. It shows that Mercosur is still in its infancy, and that it is still struggling to recover in spite of all the rhetoric that was given.

Underdevelopment and Regional Disparities

Underdevelopment figured most prominently. It remains a big problem for Mercosur and ASEAN countries although some of them have attained a higher level of development than others. As understood, these countries tend to produce the same primary goods that limits the scope for any intra-regional trade, and consequently, regional integration.

Regional disparities also remained a big setback in the way of proper integration. It limits commitments of the weak to regional projects while the stronger economies tend to be more enthusiastic. These problems of underdevelopment and regional disparities remain the major hurdle in the way of Third World regionalism.

While some problems are being mentioned, others are equally important too. These include domestic instability, insurgency and weakness of institutions to tackle these problems. In the first place, these countries are plagued by political instability along with insurgencies. Insurgency tends to threaten the stability of the regional organization sometimes, and derail the process of regional integration.

Secondly, there is a lack of proper institutions that could tackle problems effectively. It appears that members have only lukewarm commitments towards the organization when crises struck. This is well demonstrated during the Asian Crisis and during the Brazilian real devaluation. Therefore, what is needed is to reform the institutions and governance, so that in the future both Mercosur and ASEAN can play effective and positive roles in reducing frictions between members and to make smooth the process of regional integration.

Conclusion

From the study of the working of both ASEAN and Mercosur, ASEAN seemed to be more effective and successful in solving problems than Mercosur. Although Mercosur has barely crossed its eleventh year of existence, infighting within it and incapacity to deal with crises already made it a rather imperfect regional integration arrangement. This is not to say that ASEAN is a perfect example. In 1997, when all seemed right, the Asian Crisis struck. There is no assurance that such a crisis will not happen again. Both need to be always on the lookout. Moreover, as experience has proved, regional organizations are not too successful in Latin America. Mercosur, it is hoped will change all that.

Thus, in comparing Mercosur and ASEAN, it is seen that the two had several features that are similar and those that are very different. It just shows that for a plausible study of regionalism among the Third World, a single country, region or regional organization cannot be taken for each have their own history, nature, characteristics, structure, policies and commitments, problems and objectives.

CHAPTER SIX

Conclusion

The previous five chapters have amply shown that regionalism is certainly on the rise among the Third World countries since the end of the Second World War. This trend of regionalism in the Third World has been even more pronounced after the end of the Cold War. It has been learnt that this rise in regional integration arrangements was the Third World's defensive response to the marginalisation of the south, its political and economic reconfiguration, their reaction to a new globalised economy, and the changed attitudes. In this concluding chapter, we shall review, in short, the main points that were brought up through the previous chapters.

Mostly drawing their inspiration from the successes of European regionalism, many Third World countries had formed regional organisations that attempt to bring member countries towards closer economic integration and interdependence. Thus this was seen in the first chapter when the growth of regionalism and that of regional organisations in all parts of the world were studied. Whether it was in Asia, Africa, Latin America or Europe, many regionalist projects have been taken up. As we have seen in the First Chapter, trade has been on the rise in all parts of the globe. It is rather surprising to note that the period preceding the Second World War was marked by the formation of nation states while the period after the Second World War marked the formation of regional organisations and regional integration with nation states as members. This process does not seem to be slowing down. It only become more pronounced after the Cold War ended. With the formation of more regional arrangements, international trade and relations is bound to change. As mentioned, AFTA, Mercosur, EU, ASEAN-China Free Trade Area will become the dominant force in world politics. This coincided with

what is known as the 'diminished giant syndrome'.¹ This is particularly evident in the Americas where the US has transformed its strategy towards its neighbours. The transformed US strategy towards was shown by the announcement of the Enterprise for Americas Initiative (EAI). Unsurprisingly, the share of Latin America in total US exports between 1980-1987 had also rose from 32.2% to 38.2%. It also coincided with the collapse of the Bretton Woods international system; emergence of new economic giants; and the adoption of new economic reforms.

It is learnt that there is no settled conception of what regionalism or integration is. They are closely linked to each individual, and differ from person to person. Theoretically, many of the theories propounded by theorists and scholars of international politics, if applied to Third World-specific situations, prove to be impracticable. This is because of the differences between the 'first' and the 'third' world. The theories were propounded keeping the European experience in mind. Therefore, many of these theories cannot be applied in the Third World.

Secondly, in the Second Chapter, the 'Third World' was identified. Being closely related to the Cold War, questions have been raised about the validity of the use of the term 'Third World', since the Cold War has ended. It is understood that the Third World as a *third* world seems to be disappearing, but it is argued that the Third World has a long way to go before it could shed its name. There are also many differences in the Third World approaches and control over the process of regionalism.

¹ Jagdish Bhagwati, *Multilateralism at Risk*, The Harry Johnson Memorial Lecture, London, July 1990, quoted in Christopher M. Dent, *The European Economy: The Global Context* (London; Routledge, 1997) p. 49; see also Jagdish Bhagwati, "Departures From Multilateralism: Regionalism and Aggressive Unilateralism," *The Economic Journal*, Vol. 100, December 1990, pp. 1304-1317.

For Latin America, the last two decades has been a period of changes. Changes from authoritarianism to democracies, changes in the countries approaches towards the US and regionalism, and liberalisation policies with emphasis on free trade were some of the reasons behind the resurgence of regionalism in recent history. It was learnt that regionalism had collapsed in the Americas during the 1970s. But with Mercosur being 'relaunched' and new policies developed, and with negotiations going on for the establishment of the Free Trade Area of the Americas (FTAA), regionalism in Latin America is bound to gain new momentum.

The resurgence of Southeast Asia in recent international relations and politics is highlighted in the fourth chapter. ASEAN, AFTA and ASEAN-China Free Trade Area will herald a new form relations and trade, not only between members, but also between non-members. Nevertheless, the Asian Crisis of 1997 still cripples many Southeast Asian countries. It will take some time for these countries to regain new strength for a resurgent Southeast Asia.

A comparative study of Mercosur and ASEAN on their structure, functioning, their external relations and influences, policy position of members and on the problems faced by each region reveals a lot about the problems and prospects of regionalism among the Third World countries. Several points of convergence and divergence can be noted. This is seen on the levels-of-development, commitment, policy positions, external relations and influences.

Thus, from the case studies and comparative studies of Mercosur and ASEAN, one can come to see several problems that are associated with Third World regionalism. These major problems common to each region would include:

1. Economic crises brought about by vulnerability, huge borrowings, inefficient industrialisation, dependence on external financing and insufficient funds;
2. Underdevelopment and regional disparities that tend to undermine regionalist activities and integration;
3. Weak formal institutions in Third World countries that cannot properly deal with economic crises and other political crises;
4. Lack of commitment on the part of member countries;
5. Too much dependence on external aid and
6. Incompatibility of political systems, particularly in Southeast Asia.

In addition, Germánico Salgado Peñaherrera had identified the problems for Third World regionalism - “(a) Incompatibility of political systems with integration in general or with the machinery selected for implementing it; (b) Problems of political relations between states, frequently with territorial implications (geopolitical problems); (c) Differences among member countries in the degree of industrial development they have achieved and their potential or capacity for such development, the main expression of which is the dissatisfaction of some of these countries with the distribution of benefits and the costs of integration; (d) Other differences in economic structure between the member countries which affect the machinery, and therefore the objectives of integration.”² It should be understood that all these problems are interlinked. These problems need to be overcome with the development of new regional policies and activities and commitments. With few exceptions, these problems are common for many

² Germánico Salgado Peñaherrera, “Viable Integration and Economic Cooperation Problems in the Developing World,” *Journal of Common Market Studies*, Vol. XIX (1), September 1980, pp. 65-76, p. 68

Third World countries, not only in Latin America and Southeast Asia, but also in Africa and also in other regions. Even as some Third World countries are loosening up, adopting new regionalist policies, and committing themselves to the creation of new unions, many are still weighed down with the problems mentioned. So long as these countries remain underdeveloped, the Third World will remain 'third', or even 'fourth' or 'fifth'. While some may be in control of the process of regionalism, the weaker ones are instead controlled by it, resulting in the loss of sovereignty. Thus, even if great advances may have been made through Mercosur, ASEAN or other groupings, the basic problems – problems of poor industrial, infrastructure and technology; weak forces of production (land, labour and capital); lack of skilled labour; and the problem of internal instability and insurgencies - confronting Third World countries remain. Unless these problems are overcome, real development for the Third World in general would be hard to achieve. In such a condition, it would not be right to expect too much.

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