

ALEJANDRO FOXLEY

REGIONAL TRADE BLOCS

THE WAY TO THE FUTURE?



CARNEGIE ENDOWMENT

FOR INTERNATIONAL PEACE

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SUMMARY

While middle-income countries have pursued regional trade agreements since the 1960s, these ties are becoming more important as the global economic crisis curtails demand from the United States and other major markets. With the Doha Round of multilateral trade talks stalled, regional trade agreements (RTAs) offer an alternative approach to increase trade, spur stronger economic growth, and lower unemployment rates in participating countries.

Three regions—Eastern Europe, Latin America, and East Asia—have had vastly different experiences with regional trade and enjoyed varied levels of success. With the financial turmoil, each now has opportunities to increase trade with neighbors and work toward a broader free trade system.

The future economic growth of Eastern European countries will depend largely on the European Union (EU), which received 80 percent of Eastern Europe's exported goods in 2008. To foster trade, the EU must implement policies that will gradually reduce fiscal deficits and help regain lost competitiveness. With solutions in place, regional trade can be a powerful engine for growth in the region.

Latin American countries have a long but not very successful history of trying to integrate their economies and societies. Still, countries in the region are now in a relatively strong fiscal position following the financial crisis and have the opportunity to build on smaller trade agreements

by ending burdensome administrative restrictions and tariffs and by coordinating investments in areas such as transportation, energy, and telecommunications.

East Asia's outlook for regional trade is positive, given that its countries are quickly recovering from the economic crisis and enjoy a successful trading history. But with so many trade agreements signed both within the region and beyond, understanding the relevant rules for business and resolving disputes is difficult. All countries rightly regard regional trade as important for future economic growth, and Southeast Asia should significantly expand its trading bloc to include China, Japan, and South Korea—and possibly incorporate Australia, India, and New Zealand.

These three regions provide valuable lessons to help all middle-income countries sustain growth in the postcrisis period:

- Regional trade agreements reach their full potential when the political and ideological differences among participating countries are minimal.
- Trade deals work best when member states coordinate monetary and fiscal policies. In fact, uncoordinated fiscal policies in the European Union framework are responsible for current financial turmoil in the region, with a negative impact on trade.
- Bottom-up approaches, in which companies develop supply chains across borders, are more effective in facilitating regional integration than are top-down approaches imposed by governments.
- Agreements on trade and investment norms—including reducing transportation costs through coordinated efforts to improve the quality of infrastructure—can significantly boost intra-regional trade.

- Countries must achieve better balance between fiscal stimulus and financial solvency to reinvigorate regional trade agreements. The former increases public debt to levels that might threaten financial stability. Countries also must address concerns over consistency in exchange rates policies. The coexistence of fixed exchange rates with free floating rates, as in the euro zone, creates imbalances in trade.
- Ambitious goals for trade deals are easier to achieve when negotiations proceed among countries that embrace the benefits of globalization, meaning those that have been willing to unilaterally open to trade, or have actively supported multilateral trade liberalization.

Pursuing stronger regional trade agreements can help form the building blocks for global free trade deals. Increasing trade will not only help middle-income economies develop but also drive growth around the world as the financial crisis recedes.

INTRODUCTION

Since the 1960s, regional economic integration has been a goal pursued by most middle-income countries. For some, it was a means to take advantage of geographical proximity to enlarged markets. Regional integration would allow economies to gain in terms of scale of production and in moving up the value chain, through import substitution industrialization and without opening up immediately to competition with the most advanced exporters in the world. That was the path chosen by Latin American economies in the 1960s and 1970s. Later, in the 1980s, most Latin American economies, in the face of a very severe financial crisis, were induced through International Monetary Fund (IMF) adjustment programs to unilaterally open their economies to world trade; as a consequence, the process of regional integration received less attention.

East Asian economies, meanwhile, have pursued an export-driven development strategy at a national level since the 1960s. With the support of their governments, a selected group of private and public companies oriented their output toward external markets, seeking to create international production and distribution networks. Cooperation among firms in a regional context emerged as a natural process. The “de facto integration”¹ at the firm level created shared interests for influencing governments to move toward more formal associations, such as the Association of Southeast Asian Nations (ASEAN). The opening up of the East Asian economies was further

advanced by the severe financial shock of the late 1990s and the consequent reforms induced by the IMF and the World Bank.

For Eastern European middle-income economies, dramatic political changes such as the collapse of the Soviet Union forced deep changes in the way they perceived their integration into the world economy. After 1989, Eastern European countries rejected any association with the former Soviet Union and sought to create an association among themselves, as a step toward full accession to the (Western) European Union. The EU would, in turn, set the criteria these countries would need to meet to be accepted as full members.

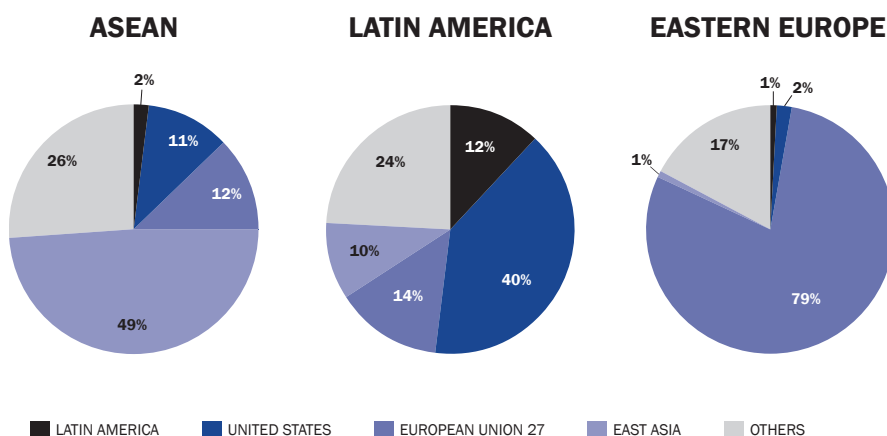
Thus, it is quite clear that while the three regions considered in this study all converged toward opening up to trade and toward RTAs, they followed very different paths in getting there. Two underlying common factors pushed in that direction: a decline in transport and communication costs, and increased awareness of, and desire for, world-class consumer goods. The opportunity to become a part of global production chains also was appealing. All these factors made isolationism less viable.

Why worry about the fate of regional trade agreements now, when the main problems and challenges seem to lie elsewhere? Before the current crisis, the implied strategy of middle-income countries was that exports to developed economies' markets would be the main engine of growth. The assumptions were that the developed economies would continue exhibiting robust growth and that multilateral trade negotiation would make their markets more accessible. This presupposed a successful completion of the Doha Round. None of those assumptions seems realistic anymore.

With multilateral negotiations dead, as in the Doha Round, the rationale for a greater role for regional integration—as a stepping-stone toward global free trade—seems to be gaining ground in most middle-income countries. If multilateralism is not achievable, then minilateralism, based mostly on geography, might well provide an acceptable alternative.

Results so far for RTAs are shown in figure 1. Trade from Eastern European countries to the European Union 27 has reached 79 percent of their total exports. But for Latin America—whose efforts at regional integration started 50 years ago, at the same time as in Europe—intra-regional trade in 2008 represented only 12 percent of the total. Differences in political and development strategies in Latin America have introduced multiple constraints to a free trade area there.

FIGURE 1
Destination of exports from principal regional integration groups, 2008 (% of total exports)



Source: Author's calculations based on World Integrated Trade Solution (WITS).

Notes:

East Asia refers to the member countries of ASEAN plus China, South Korea, and Japan. ASEAN comprises Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, the Philippines, Singapore, Thailand, and Vietnam.

Latin America refers to the member countries of MERCOSUR (Argentina, Brazil, Paraguay, and Uruguay); MCCA (Costa Rica, El Salvador, Guatemala, Honduras, and Nicaragua); CAN (Bolivia, Colombia, Ecuador, and Peru); plus Mexico, Chile, and Venezuela.

European Union 27 comprises Austria, Belgium, Bulgaria, Cyprus, the Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, the Netherlands, Poland, Portugal, Romania, Slovakia, Slovenia, Spain, Sweden, and the United Kingdom.

Eastern Europe refers to the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Slovakia, and Slovenia, which all entered the EU in 2004 (two other Eastern European countries, Bulgaria and Romania, are excluded because they entered in 2007).

Among ASEAN members, intra-regional trade represented only 25 percent of total trade in 2008. When the ASEAN+3² markets are taken into account, total ASEAN exports to this expanded regional market nearly double, to 49 percent. That is a better outcome than in Latin America, but it is still a long way from the almost 80 percent in Eastern Europe. Political and ideological changes, including leadership disputes between China and Japan, have also constrained progress in East Asian integration.

Can RTAs become an engine of growth for middle-income countries in the postcrisis period and at the same time serve as building blocks toward global free trade? What follows is an evaluation of the most significant regional trade pacts in the Eastern Europe, Latin America, and East Asia regions that will assess the potential of regional integration as a relevant instrument for achieving higher growth rates and lower unemployment in the postcrisis period.

REGIONAL INTEGRATION IN EASTERN EUROPE

Attempts at economic integration in Eastern Europe have a long history, with virtually all options tried in the postwar period. The first phase covers the 1950s through the 1980s, when the Eastern European economies were fully integrated into the Soviet bloc through COMECON, the Council for Mutual Economic Assistance. Central planning prevailed. Eastern European economies were directed to export raw materials and some “mature” manufactured goods (meaning industrial products made with old technologies) to the Soviet bloc. They, in turn, imported capital equipment and more sophisticated manufactured goods from the Soviet Union.³ At the time, more than 50 percent of total trade of Eastern European economies took place within the COMECON bloc.⁴ That scheme worked for a while, but it entered a critical phase in the 1980s, when growth rates went down sharply. Essential consumer goods became scarce, and public services severely deteriorated.

The collapse of the Soviet Union, plus the accumulated political discontent, provided the space necessary for major political and economic change. Democracy and free markets became the shared goals of Eastern European societies. The new leaders felt empowered to make drastic,

expeditious change. New institutions had to be designed, and the Western European model provided the standards against which to measure progress. The expected benefits were political stability in an open political system, better institutions, and access—both to large and fully developed markets and to “structural” and “cohesion” funds provided by the richer nations in the EU. The underlying goal was convergence to EU living standards and geopolitical identification with the West. In this sense, regionalism in Eastern Europe was motivated—like the EU—by much deeper historical forces than was regionalism in East Asia or Latin America.

The actual process of economic integration into the EU started in June 1988, with the signing of a joint statement between the EU and the COMECON countries. In 1991, the so-called second-generation agreements were signed. These agreements set dates for elimination of intra-regional tariffs over a five-year period for the EU economies and over ten years for Eastern European economies (textiles and agricultural products were exempted from these deadlines).⁵

At the time, the interlocutor of the EU was the Central European Free Trade Agreement, signed by the former socialist Eastern European countries in 1992. Membership in CEFTA constituted a prerequisite for accession to the EU.⁶ In 1993, the European Council defined the requisites for full accession of Eastern European countries to the EU that was supposed to be achieved by 2004; the integration process implied liberalizing trade and undertaking reforms so that institutions conformed to the European model.⁷

Because the goal was to fully incorporate into the EU eight countries⁸ with different social and economic conditions, they were given access to the structural and social cohesion funds that previously had been available only to the less developed economies of the EU (Portugal, Ireland, and Spain, among others).

The EU’s enlargement process was not always smooth. In several Eastern European countries—Hungary and Poland in particular—the social and

political consequences of so drastic a change in the economy and in political institutions induced a nationalist backlash. However, the powerful magnet of entering “the club” of developed, modern, open societies represented by the EU prevailed. Full integration into the European Union proceeded as planned, with generally positive results for the new member countries.

In fact, until the current global financial crisis, most economic indicators showed a positive trend. In the decade before EU accession, Eastern European economies grew less than 3 percent annually; in 2004–2007, growth rates approached 6 percent a year, and exports increased at double that rate (see table 1 in the appendix). The share of merchandise exports increased from 27 percent of GDP in 1993 to 55 percent in 2008 (see table 2). Trade between Eastern Europe and the EU15, meanwhile, increased, reaching 68 percent of total exports in 2002 and close to 80 percent in 2008 (see table 3 and figure 1).⁹

LATIN AMERICAN REGIONAL INTEGRATION

An external observer of current Latin American integration efforts might be somewhat confused by the large number of different institutions and structures. Today, several integration efforts coexist. Among them: ALADI (Latin American Integration Association), MERCOSUR (Southern Common Market), CAN (Andean Community), UNASUR (Union of South American Nations), ALBA (Bolivarian Alternative for the Americas), MCCA (Central American Common Market), CARICOM (Caribbean Community), Grupo de Rio, and, most recently, CALC (Latin American and Caribbean Community). Each of these schemes claims to be a critical building block toward full integration in Latin America.

Most of these groupings have well established structures and bureaucracies. Some have regional parliaments and courts. They run multiple meetings every year, including summits of heads of state, foreign ministers, and other dignitaries. They write reports and visit each other. Under an amiable surface, however, are underlying conflicting views as to how the integration process should proceed. These views range from radical versions of those who would like a political grouping of countries “from the South

to confront the North,” to others proposing a loose association of “open regionalism” with free trade as a main objective.

What is striking about this description is not only that it corresponds to events and dynamics witnessed by an active participant in those meetings and negotiations—the author of this paper—but also that even after many decades, nothing seems to be settled in terms of permanent structures and rules to govern economic and, hopefully, political integration in the Latin America region. This is particularly remarkable because, as Barbara Stallings has reminded us in a recent outstanding contribution on the topic, Latin America is the region with the longest history of attempts to integrate its economies and societies.¹⁰ It was none other than “Founding Father” Simon Bolivar who in 1826 proposed to constitute the “Pan American Union” with the objective of moving rapidly to a politically unified Latin America.¹¹ A renewed concerted effort has been under way since the 1950s and 1960s. But over 50 years later, the results are meager.

One indicator of this is the low share of trade among Latin American countries, compared with the total goods and services traded by these economies worldwide (as shown in figure 1 and in table 4 in the appendix). Intra-regional trade in Latin America represented around 12 percent of the countries’ total trade in 2008, compared with the 68 percent that European Union members trade among themselves.¹² This stark difference in intra-regional trade is particularly galling in light of the fact that economic integration efforts in Europe and Latin America started almost simultaneously in the 1950 and 1960s.

A brief review of contemporary integration efforts in Latin America starts in 1960 with the creation of the Latin American Free Trade Association. The goal of LAFTA was to agree on a common external tariff that would allow economies to trade, particularly in manufactured goods, without having to compete with more advanced economies. Tariffs among LAFTA economies would be eliminated at the end of a transition period of

twelve years.¹³ After initial progress, with a significant increase of total trade, protectionist pressures led to stagnation in the intra-trade dynamics.

After two decades, in 1980, LAFTA was replaced by the Latin American Integration Association. Countries at that time agreed on more flexible rules for members, including the possibility that bilateral trade agreements could be pursued, within the general ALADI framework.¹⁴

Meanwhile, several subregional groupings started to emerge. The Andean Pact in the 1960s, later known as the Andean Community (CAN), set forth an ambitious plan that included a customs union and a common industrial policy.¹⁵ CAN also established rules and limits to foreign direct investment in the Andean region, the notion being that investment by companies from the region should be favored over that of foreign companies. It was soon obvious, however, that the maximalist objectives agreed upon by CAN members would not be met. In fact, by 2008, intra-CAN trade represented only 7 percent of total exports (see table 5 in the appendix).

Central American nations were more successful after the Central American Common Market was created in the 1960s. Trade liberalization proceeded gradually, with positive results. By 2008, 24 percent of their total trade was among Central American economies (table 5).

But the trade strategy of most Latin American economies changed after the debt crisis in the 1980s. Economic reforms pushed by the IMF put a high priority on unilateral trade liberalization. As a result, average tariffs have fallen significantly, as shown in table 6 in the appendix.

At the same time, the paralysis in multilateral trade negotiations in the 1990s created a scenario favoring bilateral free trade agreements, within and beyond the Latin American region. This culminated in a most ambitious proposal, the Free Trade Area of the Americas (FTAA), which was to include all of Latin America, the Caribbean, the United States, and Canada. But after several rounds of discussions and negotiations starting in 1994, it became clear that the initiative would not prosper, as in fact happened.

Brazil and the MERCOSUR countries considered the FTAA an attempt at U.S. hegemony in trade relations in the hemisphere.¹⁶ True or not, that perception was enough to doom the initiative.

One of the unintended consequences of the FTAA initiative before it faded away was to increase the effort by Brazil and Argentina to strengthen MERCOSUR as an alternative to the FTAA. Brazil and Argentina, as of 1990, had agreed to develop common political and economic objectives, with MERCOSUR as the instrument. The treaty that created MERCOSUR was signed in 1991, and Paraguay and Uruguay soon joined. Trade increased rapidly among member countries, reaching 21 percent of their total trade in 1995 (with a peak in 1998), but by 2008 it had declined sharply to 15 percent (see table 4).

One of the reasons for this decline is that when faced with external shocks, like repeated financial crises, the main partners in MERCOSUR have resorted to diverse forms of protectionism, including nontariff restrictions to trade.¹⁷ MERCOSUR's effectiveness as an integration tool has also been limited by a tendency to avoid incorporating into national legislation any MERCOSUR agreements that are not politically palatable at the national level. Of 840 norms approved by MERCOSUR, only 180 had been incorporated by all member countries into their domestic legislation and norms as of 2000.¹⁸ Lack of coordination in macroeconomic policies has also been a factor.

In part because of these very limited advances toward region-wide integration, new structures have been proposed and are being implemented. In the meantime, Venezuela, under the Chávez leadership, decided to join Bolivia, Cuba, Ecuador, Nicaragua, and others in the Bolivarian Alternative for the Americas. ALBA was offered as an alternative to previous alliances that were assumed to be contaminated by “neoliberalism” and the supposed hegemony of the United States in the region.

Another attempt to hasten the process of regional integration, this

time under the leadership of Brazil, led to the formation of the Union of South American Nations (UNASUR) and later to the Latin American and Caribbean Community of Nations (CALC). It is too early to evaluate their potential, but these schemes are certainly adding new structures to an already fragile building.¹⁹

To complete the picture, some reference must be made to Mexico and Chile. In the 1990s, both chose to fully embrace the concept of open regionalism. That translated into FTAs, negotiated both within and beyond the region, including with the European Union, the United States, and Japan. It led Mexico to negotiate its incorporation into NAFTA, the North American Free Trade Agreement, a decision that has decisively shaped the structure of its external trade. In 2008, 80 percent of Mexico's exports were destined for the U.S. market (see table 5 in the appendix). Mexico has, as a consequence, tied its economic fortunes to the well- or ill-being of the U.S. economy.

EAST ASIA: EXPORT STRATEGY AND REGIONAL INTEGRATION

As is well known, the Asia export model, as shaped in the 1960s, had a high degree of heterodoxy in the very active role that the state played in “picking the winners” in terms of which sectors and lines of production to promote. Subsidies, tax incentives, access to credit at below-market rates—all were provided by state banks or other financial institutions.

Using this approach to industrial development, Japan was successful in making the transition up the value chain from producing cheap, labor-intensive exports toward capital-intensive intermediate goods, and later to high-tech manufacturing. Postwar Japan demonstrated a high capacity to adapt advanced technologies originating in the United States and Western Europe. At the same time that Japan’s economy was losing its initial comparative advantage as a low-cost producer in labor-intensive products, its companies had the foresight and capacity to invest in other Asian countries with lower labor costs. These neighboring economies became part of a supply chain for Japanese producers, exporting final products to the United States and Europe.²⁰

South Korea, Taiwan, Singapore, and Hong Kong constituted the first wave of subcontractors to Japan's producers. All were blessed with a high-quality labor force and a government actively promoting industrialization. At the same time, governments set conditions for producers requiring that their export and import prices be aligned with international prices.²¹ Other countries—Indonesia, Malaysia, the Philippines, Thailand, China, and more recently Vietnam, Laos, and Cambodia—later joined in this mode of production.

These production and distribution networks have been constantly evolving since the 1960s, because of shifting comparative advantages (higher skills in the labor force; more capacity to adapt advanced technologies; more investment in infrastructure; entry of cheap, unskilled Chinese labor into global markets). As the export-oriented development progressed, it became obvious that geography had to constitute an additional source of comparative advantage. The East Asian economies were geographically close to each other, had lower transport costs among themselves, and could additionally improve their competitiveness by reducing tariffs. The seeds for a free trade area in East Asia had been planted.²²

Actually, efforts at regional integration in Southeast Asian nations had started as early as 1967, when Singapore, Thailand, Malaysia, Indonesia, and the Philippines agreed to form ASEAN. The principal concern at the time was not so much trade as potential threats to peace and security in the region. It was thought that in a Cold War context, communism in neighboring countries could destabilize fragile political regimes that had not yet consolidated in a post-colonial phase.

Except for frequent high-level meetings, nothing much happened until 1976. With the establishment of the ASEAN Secretariat, though, East Asian nations felt that they had to move toward a more formal integration of their economies that went beyond the *de facto* process led by multinational companies.²³

In 1991, a formal ASEAN Free Trade Association (AFTA) was proposed, and in 1994 a calendar of intra-region tariff reductions was put in place, with the goal of reaching tariffs no higher than 5 percent within fifteen years (the prevailing effective rate in ASEAN at the time was 9.5 percent). In 1996, an Asian Industrial Corporation was created to explicitly promote transnational production networks in the region.²⁴

The paradox is that trade liberalization, although agreed in principle by all member countries, was implemented only with great hesitancy. This situation changed after the Asian financial crisis in the 1990s. Only then did AFTA members agree on the need to accelerate the liberalization process eliminating all tariffs by 2010 (and in 2015 for the newcomers—Vietnam, Laos, Cambodia, and Myanmar, which joined ASEAN in the 1980s and 1990s).

It was only in 2003 that a proposal emerged for member countries to constitute the “ASEAN Community,” sharing economic, political, and security goals. In the economic field, a specific additional goal was proposed: to explicitly select sectors whose further integration was desirable. These would be actively promoted by ASEAN governments. Some of the sectors chosen were electronics, information technologies, health services, lumber, fisheries, and tourism.²⁵

What is most striking about this new development is that it seems to complete an evolutionary cycle in development strategies in the region. The first phase was highly influenced by the Japanese dirigiste model. It was followed by liberal open market policies, and by a new version of industrial policies in which the private and public sectors seemed to agree on which sectors to push to gain in international competitiveness.

Yet after the Asian financial crisis, ASEAN opened up a significant number of bilateral negotiations for preferential trade agreements. By 2010, Asian economies as a whole had signed 55 free trade agreements and were negotiating 82 additional bilateral agreements, 80 percent of which are with countries outside the region.²⁶

The fact that most Asian economies were much more open after the crisis of 1997–1998, plus the stagnation of multilateral trade liberalization, combined to push in the direction of a rather frantic movement toward FTAs. What was also clear to ASEAN countries at this stage was that with populations approaching 600 million and a rapidly expanding middle class, their internal markets had become very attractive for the two economic powerhouses in Asia: Japan and China. The crisis also induced cooperation in the financial field. In 2000, the Chiang Mai Initiative was created to allow for bilateral currency exchange rate swaps among ASEAN and South Korea and Japan. That was followed by the Asian Bonds Market Initiative (ABMI), aimed at channeling domestic savings toward regional investments.

As a consequence, several new regional initiatives surged in quick succession: ASEAN+3, adding South Korea, Japan, and China to the original members; and ASEAN+6, which additionally incorporated India, Australia, and New Zealand. More recently two ambitious new proposals by Japan and Australia to form the East Asia Community of Nations, or what former prime minister Kevin Rudd of Australia called the Asia-Pacific Community, would go beyond trade integration to include coordination in such issues as peace and security.

The results of economic integration in East Asia, as a consequence of these free trade strategies, are rather impressive. Exports reached 66 percent of GDP for ASEAN economies by 2007, compared with only 46 percent in 1984 (see table 7 in the appendix).

It is interesting to note that intra-regional trade in ASEAN represented only 25 percent of total trade in 2008. But when the ASEAN+3 markets are included, 49 percent of total ASEAN exports go to this expanded regional market. In the case of ASEAN+6, their market absorbs 56 percent of total ASEAN exports (see table 8).

The process toward expanded East Asia integration (ASEAN+3 and ASEAN+6), then, has been notably successful. Whether this shows a pattern

to be pursued by other middle-income countries will be discussed in the next section of this report.

Additionally, ASEAN exports moved from a predominance of natural resources and low-technology manufacturing toward higher technology products (as indicated in table 9). The relative importance of manufactured goods exports to ASEAN economies increased from 45 percent of total exports in 1992 to 73 percent in 2007. When disaggregating for the type of manufactured goods exports, what emerges is an increasingly similar pattern between what ASEAN countries export and products exported by Japan or China.

LESSONS FROM EXPERIENCE

Given the current postcrisis scenario of slow growth and high unemployment in developed countries' economies, and the failure to advance in multilateral trade liberalization (Doha Round), will regional integration schemes provide a second-best alternative to sustain growth dynamics in middle-income countries? The previous section's examination of regional integration experiences in Eastern Europe, Latin America, and East Asia allows us to extract some lessons.

Of the three cases studied, Eastern Europe provides the most successful instance of overarching (political, economic, institutional) regional integration. But this endeavor has not occurred without cost or risk.

The success in the process of Eastern European economies' accession to the EU represents the best case for regional integration that goes beyond trade to include regional institutions with supranational power such as the European Council, the European Commission, and shared macroeconomic goals and policies.

Does that mean that the EU market will represent for Eastern European economies a continued source of growth dynamics for their exports? Caution must be exercised here, for two reasons. The first is that EU countries have not yet emerged from the global recession. In fact, projections for 2010 and 2011²⁷ anticipate a severe slowdown in European economies' growth rates, and, thus, in their capacity to import from their trading partners, including the middle-income economies of Eastern Europe. Growth perspectives for the EU might be made worse by the need to rein in large fiscal deficits and a fast-growing public debt. At the same time, a contractionary fiscal policy might trigger a double dip recession that every developed economy has been trying to avoid. Under that scenario, the EU market would not be a significant source of growth for Eastern European exports. The second factor limiting a positive impact of full accession to the EU by Eastern European economies relates to the fact that the current global financial crisis has exposed some fragilities in the rules and institutions governing the European Union. One vulnerability is inadequate financial regulation. The other is the euro as a common currency.²⁸

What seems clear now is that accession of Eastern European economies to the EU probably went too far in the area of financial liberalization. The Asian and Latin American experience in the 1980s and 1990s demonstrated that sudden and unrestrictive capital inflows to middle-income countries are a destabilizing force. In both regions, these capital inflows precipitated a financial crisis, negative growth rates, and high unemployment. An almost identical process was observed in Eastern European economies in 2008 and 2009, a result of overexposure to unregulated capital inflows from the Western European countries. A similar phenomenon is currently affecting Southern European economies.

As for the euro, perhaps the EU moved too fast. It was thought at the time (1992) that a single currency would accelerate European integration. After current events in Southern European economies, however, respected

economists are calling the Maastricht Treaty, which agreed on the euro as the single currency for Europe, “a bridge too far.”²⁹ That is, once economies have entered the euro zone, governments have given away a key policy tool—the exchange rate—that would allow for expeditious adjustment to external or domestic financial shocks, and would help to regain competitiveness in world markets.

The negative impact of a fixed exchange rate has been made worse by the noncompliance of other Maastricht commitments, such as maintaining a budget deficit below 3 percent of GDP and public debt below 60 percent of GDP. These targets were not enforced in the case of Greece, Portugal, and other EU members. And excessive fiscal deficits above the Maastricht target have led to galloping public debt.

How will this affect the Eastern European effort at regional economic integration in Europe? Although only two Eastern European countries (Slovakia and Slovenia) are in the euro zone, several others are on the waiting list to join. And still other economies (the Baltic States and Bulgaria) have already tied their currencies to the euro. Given current risks and recent experience, it would seem reasonable for countries not already in the euro zone not to rush into incorporating the euro as their domestic currency. This is an area—for the time being, at least—where less integration seems better than more.

Another challenge for Eastern Europe economies is to face the fact that they are now much more dependent on trade with the EU than before. With the EU economies slowing, more regional integration with the EU may not be advisable for Eastern Europe economies. Instead, greater diversification of export destination—to China and elsewhere in Asia—may be an important source of additional growth for these economies.

Summing up, the positive balance that accession to the EU represented for the Eastern European countries does not mean that economic and political integration are risk-free. The most vulnerable policy areas, where the

potential risks are higher, are excessive financial opening, uncontrolled fiscal deficits, and rigid exchange rate policy.

The economies of Eastern Europe and other middle-income countries would do well to learn the lesson of putting in place the policy changes necessary to reduce these kinds of risks. If they do not, the obvious benefits of access to enlarged markets might be offset by excessive borrowing by governments, banks, and individuals and by the additional rigidities associated with a single currency area. The end result would be stagnant economies and slow growth in intra-regional trade. Under these conditions, and at least until these issues are dealt with, regional integration will not represent a significant driving force for the economies of Eastern Europe.

What will be the role of regional trade agreements in Latin America after the crisis?

Latin American countries are emerging from the global financial crisis rather unscarred. Lessons from past crises in the region were helpful in designing adequate, countercyclical macroeconomic policies, with reasonable public debt as a share of GDP (it remains a manageable 37 percent of GDP as an average in 2008) and with flexible exchange rates. However, reflecting competitive weaknesses, Latin American countries did not do as well in navigating the crisis as did middle-income countries in Asia, the Middle East, and even Africa, although they did do better than Eastern European countries.³⁰

Solid macroeconomics should allow Latin American economies to grow at rates close to 5 percent annually and to significantly expand exports to the rest of the world. But their traditional markets, the European Union and the United States, are expected to experience only modest expansion in the near future.

Could a Latin American regional trade agreement fill the gap and provide the expanded market for exports that is needed for greater growth? Quite possibly. Intra-regional trade now is modest, representing only 12 percent of total exports. In theory, then, expanding trade among Latin American countries could be an obvious way to compensate for lower growth elsewhere. However, a serious obstacle is that there is no such thing as an effective, single, regional trade agreement in Latin America, but instead, as discussed earlier, several schemes are superimposed over each other. Rules for trade in each subgrouping of countries are different, and compliance with the norms and rules agreed upon by member countries tends to be low.

Expanding free trade is not easy when two “noodle bowls” coexist simultaneously in a single region. The first one is the sum of many bilateral FTAs signed by Latin American countries in the 1990s and 2000s. The second is that of regional and subregional integration schemes (MERCOSUR, CAN, UNASUR, MCCA, CARICOM, to name a few) coexisting with each other, and each with a number of ad hoc institutions that pursue their own goals.

What’s to be done to increase trade within this complex institutional structure? The first objective should be not to create more institutions, but to try to make existing structures work. This will not be easy. Once institutions are entrenched, it is extremely difficult for them to change, and even more so, to converge with others.

The reasons are twofold. The first corresponds to the logic of any bureaucracy: do not cede power voluntarily. The second, and more important, is that Latin American countries have not been willing to give, in practice, supranational authority to regional superstructures. The contrast with the EU mode of operation is striking. Brussels has power over national governments in Europe, not only in trade rules, but also in such matters as

market competition, regulatory framework, and juridical principle. There is no comparable power structure in Latin America.

What is needed for regional integration to work in Latin America is to change the focus from a top-down approach to one that is bottom-up. If companies do not trade more within the region, despite being in front of a market of 550 million people, it's probably because of binding constraints that make them noncompetitive in the intra-regional export business.

One constraint is inadequate infrastructure in roads, ports, and telecommunications. This is reflected in the fact that, in general, freight expenditures for exports to the U.S. market are higher in most Latin American countries than for countries in Europe and East Asia.³¹ Likewise, Latin American countries' transport costs are significantly higher than prevailing external tariffs. In fact, in 2005 the average transport cost from Latin America to the U.S. market was 7.8 percent per unit of value of exports, while the average tariff was 2.7 percent. In the same year, the average transport cost within the region was 4.3 percent, while the average tariff was 1.9 percent.³² Thus, public investment in infrastructure across borders should be a high priority to move toward an efficient, competitive, and integrated market with lower transport costs.

Competitiveness in exports can also be increased for the region as a whole, through joint investments that increase the volume, and reduce the costs, of critical inputs for the export effort, such as energy and water resources. The reality today is that notwithstanding multiple agreements signed at the top, existing abundant energy resources are to a large extent unexploited.

Trade facilitation, meanwhile, implies simplifying rules and procedures in customs as well as in other administrative procedures. In some Latin American countries, a public agency has to "authorize" items to be imported, leaving ample ground for de facto application of nontariff restrictions to trade.

The other obvious area where trade among Latin American countries could be amplified would be to pursue the harmonization of existing bilateral FTAs. That would require convergence in tariff structures, rules of origin, and dispute resolution mechanisms.

A few clear recommendations suggest themselves. First, regional integration in Latin America should put more emphasis on facilitating trans-regional investment, as Asian governments have done for several decades with indisputable success. Doing away with bureaucratic procedures and nontariff restrictions and lowering transport costs also would dramatically increase the effectiveness of regional trade agreements in Latin America.

Second, regional trade agreements in Latin America lack the kind of social cohesion or structural funds that the EU uses to compensate the less-developed economies and to gradually eliminate the big differences in income and welfare. The absence of these funds has acted as a continuous source of discontent for smaller economies, such as Paraguay and Uruguay within MERCOSUR. Initiatives along these lines would stimulate a faster pace to full regional integration.

Third, no external pull factor exists in the Latin American integration process. In the Eastern European case, the EU acted as a magnet, providing a rationale for Eastern European countries to undergo deep structural and institutional changes to conform to EU standards. In the case of East Asia, this pull factor has been the Japanese economy since 1960, and more recently, that of China as a surging powerhouse in the region. A partial substitute for an external pull factor would be to pursue FTAs with more open, like-minded economies, regardless of whether they are within the region. This would provide the demanding but necessary higher standards required to accelerate Latin American economies' path toward international competitiveness.

East Asian regional integration: What role after the crisis?

The bottom-up process of regional integration in East Asia is a *deus ex machina* that works. The so-called Asian Factory brings together companies that integrate themselves into production and distribution networks. The mechanism has been effective in inducing a high rate of growth in Asian exports. The vulnerable point in this process has been the heavy reliance on increased demand from the United States and the European Union for Asian (and ASEAN) exports. In fact, for 31 percent of exports from Asian economies, the final destination has been the European and U.S. markets. When recession took down the U.S. and EU economies, exports from Asia were negatively affected.³³

The response to this scenario would be for Asian economies to pursue two complementary alternative courses. One would consist of changing the composition of their demand from exports to domestic consumption. The other would seek to reinforce intra-regional trade. Here is where ASEAN could be a catalyst, by speeding up the enactment of the ASEAN+3 and ASEAN+6 initiatives.

But for ASEAN+3 or ASEAN+ 6 to be successful, better coordination is needed among existing institutions, with trade facilitation as the single overriding purpose. As in Latin America, the existence of a large number of FTAs signed by Asian countries, within the region and beyond, makes for complex and overlapping rules of origin and weak dispute resolution mechanisms, particularly at the multilateral level.

The “institutional noodles” that are emerging in East Asia, as in Latin America, are the consequence of no clear leadership within the region. Japan and China dispute that role. The United States used to be a determinant political actor in the region, but no longer. A China-centric Asia might be emerging.³⁴

But the fact that Japan, China, and South Korea continue to actively seek an association with ASEAN economies signifies that beyond their leadership disputes, they agree that regional trade integration will be a critical source of their economies' future dynamism. Whether it will be an Asia-only regional bloc, or an Asia-Pacific bloc, or a China-centric bloc remains to be seen.

To conclude, some persistent challenges for further progress in regional integration in East Asia can be summed up as follows: first, success in intra-regional trade should be accompanied by strengthening supranational institutions that would take care of homogenizing multiple, overlapping trade rules and would pave the way toward an expanded trade bloc made up of ASEAN countries plus China, Japan, and South Korea.

Second, other emerging markets should receive fresh attention from East Asian governments. Slow growth in the developed economies makes fast-growing emerging economies natural partners for Asian countries in the future. Not only are they a rich source of raw materials, but they also would offer a rapidly expanding middle class that represents potential new customers for products manufactured in East Asia.

Third, the current financial crisis underscores the importance of regional financial mechanisms to ameliorate shocks suffered by individual economies. East Asia learned the lesson from the 1990s crisis and as a result set up bilateral foreign exchange swaps (the Chiang Mai Initiative) and issued Asian Bonds in local currency (the Asian Bonds Market Initiative). Both have proved timely and effective during the current global financial crisis. Eastern European and Latin American economies should learn from East Asia's experience.

RTAs: building or stumbling blocks for a multilateral free trade agreement under WTO rules?

The more multilateral trade negotiations stagnate in a World Trade Organization context, the higher the relevance of regional trade agreements as an alternative strategy to increase trade flows. This process has accelerated in the past decade. As Richard Baldwin has put it: “WTO members have ‘voted with their feet’ for an RTA option.”³⁵

This pressure to set more ambitious goals for existing RTAs in East Asia, Latin America, and Eastern Europe is already present, but it faces institutional, political, or policy constraints. What is the way forward under these constraints? One possibility is for some countries to embrace what has been called “opportunistic plurilateralism.”³⁶ This means that RTA members would accept flexibility of rules within existing agreements in order to allow countries that would like to move faster toward free trade to do so, either unilaterally or in groups of like-minded countries (meaning countries that are ready to agree on the Doha proposals, as made explicit by the WTO), or even better, among those countries that would agree on “Doha plus” trade liberalization.³⁷ These trade pacts would consider subregional or even extra-regional trade agreements. An example would be the Trans-Pacific Partnership (TPP), which consists of Brunei, Chile, New Zealand, and Singapore, and eventually, Australia, Peru, the United States, and Vietnam, which have agreed to join the TPP.³⁸ Another example would be the Agreement on Government Procurement, the Telecommunications Agreement, or other agreements that have been reached by a broad group of countries, usually WTO members, under the WTO institutional framework.

A condition that these agreements should meet is that once they are reached, they should be bound within the WTO, accept WTO mechanisms for dispute resolution, and be open to other countries that would like to join. As argued by Gary Hufbauer and others, current negotiating modalities

for tariff cuts in agriculture, and in nonagricultural manufacturing in the Doha Round, should be a starting point for more ambitious goals of trade liberalization. Were these conditions met, RTAs would constitute genuine building blocks and not stumbling blocks for a WTO-based multilateral trade agreement.

It should be in the interest of middle-income countries that participate in regional trade agreements to move into a WTO-based multilateralism, because most middle-income countries are rule-takers rather than rule-makers in international trade anyway. Fair rules of access to world markets, enforced by a mutually accepted multilateral institution such as the World Trade Organization, should be the final objective, and the WTO could set the standards for convergence of existing regional trade agreements.

CONCLUSIONS

What lies ahead for regional trade agreements in a postcrisis scenario? There is no single answer to that question. For one group of middle-income countries, those in Eastern Europe, the future of their trade bloc, the EU, as an engine of export growth will depend less on RTAs and more on the way EU countries solve the current macroeconomic dilemmas: how to gradually reduce huge fiscal deficits without backsliding into recession; how to regain competitiveness when exchange rates are not flexible for most economies in the EU; and how to finance huge balance of payments deficits when public and external debt have had explosive growth in recent years.³⁹ If these problems are solved promptly, regional trade in the European context should again become a powerful engine of growth. But this optimistic scenario is far from certain. In the face of an extended period of slow growth in the EU, Eastern European economies should be looking at Asia and emerging markets as new sources of export dynamics.

Regional economic integration in Latin America, meanwhile, should be facilitated by the fact that these economies face the postcrisis period with a relatively solid macroeconomic position, adequate crisis management, and positive growth prospects. Because developed economies will not grow very much in the postcrisis, the potential of dynamic regional markets in Latin America looks attractive.

To take full advantage of it, though, regional integration in Latin America should focus more on diversifying export structures toward manufactured goods, a sure source of more intra-regional trade, as the East Asian experience demonstrates. Another priority area should be trade facilitation—not only doing away with extremely bureaucratic procedures that act as nontariff restrictions to trade but also coordinating inter-country investments, particularly in transport and infrastructure, and in energy and telecommunications.

This is a realistic approach, because political and ideological differences will surely persist in Latin America. Trying to force political integration from the top down will not produce significant results, as demonstrated by mostly failed efforts over the past 50 years.

For East Asia, the outlook for regional integration looks rather positive. The economies in the region have rapidly recovered from the global crisis and are again growing at high rates. The fact that China and South Korea are actively interested, as is Japan, in an ASEAN+3 integration scheme provides an excellent opportunity for regional integration in East Asia. But an institutional structure to advance this goal is weak at best.

Some open questions remain: whether ASEAN countries would be willing to go further and incorporate Australia, New Zealand, and India in ASEAN+6 integration and whether they would consider as a next logical step an Asia-Pacific integration within the APEC framework.

This is not a minor strategic dilemma, because ASEAN+3 and ASEAN+6 exclude current APEC members such as the United States, Canada, and Pacific Rim Latin American economies. The United States would probably like to participate in any of those schemes, among other reasons to prevent an Asia-only bloc from emerging.

For countries in Latin America, Asia represents the single most dynamic area in the global economy, and the “Pacific Rim” notion provides the right opportunity to support an APEC-based regional integration in the Asia

Pacific region. If that goal were to be achieved, a Doha-type multilateral trade agreement would not be too far away. The reason is that few countries would choose to be left out of this APEC bloc, which was responsible for 45 percent of total world exports in 2007.⁴⁰ Given predicted trends, that share cannot but significantly increase in the next few decades.

Summing up, a few concluding remarks might be useful here. Regional trade agreements should perform a positive role in stimulating more trade and growth in middle-income countries in the next few years. This becomes all the more important because of slow growth predicted for developed economies due to the global financial crisis, and because of the lack of progress in multilateral trade negotiations within the WTO framework.

RTAs work better and display their full potential when conditions allow companies to integrate with others in the region, in production and distribution networks. When this happens, a built-in pressure for better coordination at the supranational level will emerge; eventually, supranational institutions will define rules of exchange for the future.

The main constraints faced by RTAs to achieve their full potential are usually of a political or ideological nature. They range from governments suspicious of the benefits of free trade and globalization to under-the-surface hegemonic disputes in key regions, as in East Asia and Latin America. Doing away with these differences will probably take a long time, but the obvious benefits of increased reciprocal trade should help in gradually reducing the differences.

When these constraints prevent consensus, countries should not wait for everybody to agree on everything. Instead, they should look for like-minded partners—be they regional or extra-regional—that are willing to expedite free trade. The potential of regional trade agreements as an engine of growth will expand when extra-regional, like-minded countries, are included.

NOTES

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- 1 The definition of “de facto integration” follows Nathalie Aminian et al. (2008: 2): “regional integration via de facto agreements or integration of markets, focuses on the idea that economies can integrate among themselves through the use of the marketplace, i.e., allowing the private sector to be the vanguard of trade integration. More concretely, this means that the economies in a region, trade intensively among themselves without explicit formal preferential trade agreements.”
- 2 “ASEAN+3” and “East Asia” are used interchangeably in this report.
- 3 See Fernando Luengo (1996); Olivier Blanchard, Kenneth Froot, and Jeffrey Sachs (1994); Susan Collins and Dani Rodrik (1992).
- 4 Data from *Appendix of Economic Survey of Europe*, no. 2 (1999).
- 5 Fernando Luengo (1996).
- 6 Ibolya Mile (2000).
- 7 Bartłomiej Kaminski (2000).
- 8 In 2004, the following Eastern European countries joined the EU: the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Slovakia, and Slovenia.
- 9 A large part of this increase is a consequence of the RTA, but higher growth rates in Eastern European countries and the EU also had an impact on more intra-regional trade. It is difficult to isolate one from the other.
- 10 Barbara Stallings (2009: 64).
- 11 Ibid.

- 12 Another index for intra-regional trade is the trade intensity index (TII). This index is a measure of intra-regional trade, compared with the relative importance of that region in total world trade. When the TII is calculated for Eastern Europe, East Asia, and Latin America, the conclusions about the relative importance of regional trade among regions does not change (this table is available upon request).
- 13 Barbara Stallings (2009: 65).
- 14 For more details, see Roberto Bouzas (2009).
- 15 Barbara Stallings (2009: 65).
- 16 See Celso Amorim (2009).
- 17 For an excellent analysis of MERCOSUR, see Noemí Mellado (2007).
- 18 Mercedes Botto et al. (2003: 13).
- 19 For a good overall balance, see Sebastián Sáez (2008), Roberto Bouzas et al. (2008), and Pedro Da Motta and Sandra Polonia Rios (2009).
- 20 Indermit Gill and Homi Kharas (2007).
- 21 Justin Lin and Ha-Joon Chang (2009) and Justin Lin (2010).
- 22 An additional factor is that the East Asian economies have proved that they could systematically develop current account surpluses. This ability made them less defensive in trade policy.
- 23 Ludo Cuyvers et al. (2005).
- 24 Helen Nesadurai (2003).
- 25 For more details, see Denis Hew (2007).
- 26 Data from ADB's Regional Integration Center (ARIC) FTA Database, accessed in January 2010.
- 27 IMF (2010) forecasts an annual GDP growth of 1.0 percent in 2010 and 1.8 percent in 2011.
- 28 Uri Dadush et al. (2010).
- 29 Paul Krugman, *New York Times*, May 7, 2010.
- 30 See Vera Eidelman (2010).
- 31 See Mauricio Mesquita Moreira et al. (2008).
- 32 Ibid.
- 33 Based on quarterly data of export growth (year-to-year percentage change), Asia's exports declined 5.2 percent in the fourth quarter of 2008 and grew just 4.1 percent in the fourth quarter of 2009.

- 34 The “China-centric Asia” expression is from Stephen Roach, chairman of Morgan Stanley Asia, writing in the *Financial Times*, June 9, 2010, <http://www.ft.com/cms/s/0/6db3b66a-733c-11df-ae73-00144feabdc0.html>.
- 35 Richard Baldwin (2010).
- 36 Gary Hufbauer et al. (2009).
- 37 See Uri Dadush (2009).
- 38 It remains to be seen whether the U.S. Congress will be willing to deliver on President Obama’s commitments to join the TPP.
- 39 See Uri Dadush et al. (2010).
- 40 APEC consists of Australia, Brunei Darussalam, Canada, Chile, China, Chinese Taipei, Hong Kong, Indonesia, Japan, Malaysia, Mexico, New Zealand, Papua New Guinea, Peru, the Philippines, Russia, Singapore, South Korea, Thailand, the United States, and Vietnam. The data are based in Hyun-Hoon Lee and Jung Hur (2009).

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APPENDIX

Table 1
Real GDP and Export Growth Rates (%)

	Export Growth, annual average			Real GDP Growth, annual average		
	1980– 1990	1993– 2003	2004– 2007	1980– 1990	1993– 2003	2004– 2007
Eastern Europe	1.3	8.3	12.5	2.9	4.2	5.7
Czech Republic	0.2	9	15.6	3.1	2.5	5.5
Estonia	—		11.4	2.8	5.7	5.6
Hungary	1.2	10.7	15.3	1.5	3.9	2.4
Latvia	—	3.4	11.7	3.9	4.9	6.8
Lithuania	—	9.7	9.5	3.1	3.8	6.9
Poland	3.4	10.7	11.2	3.1	4.5	5.4
Slovakia	0.2	8.8	12.9	2.9	4.4	8
Slovenia	—	5.9	12.3	3.1	4.1	5.1
European Union 15	4.8	6.6	6.2	2.3	2.9	3.1

Source: Data of GDP from Economic Research Service, International Macroeconomic Data Set. Data of export growth from World Development Indicators 2009, World Bank except data of 1980–1989 for Eastern European economies, which are based on data from Economic Survey of Europe, no. 1 (1999).

Notes:

European Union 15 consists of Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, the Netherlands, Portugal, Spain, Sweden, and the United Kingdom. Data of export growth of 1980–1990 for the Czech Republic and Slovakia correspond to data of Czechoslovakia

—: not available

Table 2

Trade Openness (merchandise exports' share of GDP, %)

	1993	2003	2008
Eastern Europe	27.2	42.8	54.6
Czech Republic	42.1	53.3	68.2
Estonia	0.0	57.1	52.7
Hungary	23.1	51.1	69.8
Latvia	—	25.9	29.8
Lithuania	—	38.5	50.1
Poland	16.5	24.8	31.8
Slovakia	33.6	47.7	72.1
Slovenia	48.0	43.9	62.6
European Union 15	24.4	34.0	37.5

Source: Author's calculations based on World Development Indicators 2009, World Bank.

Note:

—: not available

Table 3

**Intra-Regional Distribution of Merchandise Exports, Eastern Europe
(% of total exports)**

	1995		2002		2008	
	EE	EU 15	EE	EU 15	EE	EU 15
Czech Republic	21.7	60.9	15.9	68.3	19.7	63.5
Estonia	13.6	54.1	14.1	57.2	16.9	46.3
Hungary	8.2	63.3	6.7	75.1	14.4	57.5
Latvia	12.1	44.0	17.1	60.4	36.0	36.3
Lithuania	14.1	36.3	18.1	48.3	24.4	35.5
Poland	6.8	70.2	11.1	69.4	14.2	61.6
Slovakia	45.5	37.4	27.5	60.6	27.2	55.5
Slovenia	5.0	67.0	6.3	61.1	11.4	54.9
Eastern Europe (EE)	15.4	60.9	13.1	67.8	17.9	58.4

Source: Author's calculations based on World Integrated Trade Solution (WITS).

Table 4
Intra-Regional Distribution of Merchandise Exports, Latin America
(% of total exports)

	1990	1995	2002	2008
Latin America				
% intra-regional exports	13.9	19.3	14.1	12.1
CAN				
% intra-regional exports	4.2	12.1	10.7	7.4
MERCOSUR				
% intra-regional exports	8.9	20.5	11.5	14.9
MCCA				
% intra-regional exports	15.9	21.4	24.2	23.8
European Union 27				
% intra-regional exports	—	—	68	67.5

Source: Author's calculations based on World Integrated Trade Solution (WITS). Data of EU27 from Eurostat.

Notes:

European Union 27 consists of Austria, Belgium, Bulgaria, Cyprus, the Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, the Netherlands, Poland, Portugal, Romania, Slovakia, Slovenia, Spain, Sweden, and the United Kingdom.

Latin America refers to the member countries of MERCOSUR (Argentina, Brazil, Paraguay, and Uruguay); MCCA (Costa Rica, El Salvador, Guatemala, Honduras, and Nicaragua; and CAN (Bolivia, Colombia, Ecuador, and Peru) plus Mexico, Chile, and Venezuela.

—: not available

Table 5
Destination of Exports From Principal Subregional Integration Groups
in Latin America (% of total exports)

Exporting Group	Intra-regional		United States		European Union 15		European Union 27		ASEAN+3 (East Asia)		ASEAN+6		Latin America	
	1995	2008	1995	2008	1995	2008	1995	2008	1995	2008	1995	2008	1995	2008
Latin America	19.3	12.1	46.0	40.5	16.2	13.3	16.6	13.9	8.0	9.6	8.5	10.7	19.3	12.1
MERCOSUR	20.5	14.9	15.3	12.1	25.6	21.0	26.3	22.0	12.1	15.3	13.4	16.6	10.7	13.1
CAN	12.1	7.4	40.7	30.7	17.5	12.8	17.8	13.6	5.8	10.0	5.9	10.5	12.4	26.3
MCCA	21.4	23.8	34.7	41.1	27.1	11.7	27.3	11.8	3.5	4.9	3.6	5.3	7.0	11.0
Chile	-	-	13.4	11.3	26.7	23.5	27.4	24.6	28.6	31.9	29.7	35.1	19.4	19.3
Mexico	-	-	83.4	80.3	4.2	5.7	4.2	5.9	1.7	1.9	1.8	2.7	5.5	6.8

Source: Author's calculations based on *World Integrated Trade Solution (WITS)*.

Table 6
Average Tariffs (%)

	1992	1996	2001	2006
Latin America				
Argentina	12.7	13.3	9.3	5.5
Brazil	15.7	13.8	10.4	6.7
Chile	11.0	11.0	8.0	2.2
Mexico	11.9	13.1	15.3	2.4
MERCOSUR	—	10.9	8.6	4.9

Source: World Development Indicators 2009 and World Trade Indicators, World Bank.

Note:

—: not available

Table 7
Trade Ppenness (merchandise exports as a share of GDP, %)

	1984	1992	1999	2002	2007
ASEAN(10)	46.1	45.5	58.6	59.7	66.0
ASEAN+3	18.3	17.4	19.9	20.4	31.5
ASEAN+6	14.4	15.2	14.8	16.3	19.1

Source: Author's calculations based on World Development Indicators 2009, World Bank.

Notes:

ASEAN(10) represents Brunei, Cambodia, Indonesia, Laos, Malaysia, the Philippines, Singapore, Thailand, and Vietnam (data for Myanmar missing). Cambodia is missing data in 1984 and 1992; Vietnam is missing data in 1984; and Brunei is missing data in 2008.

ASEAN+3 is ASEAN(10) plus China, Japan, and South Korea.

ASEAN+6 is ASEAN+3 plus Australia, India, and New Zealand.

Table 8
Intra-Regional Distribution of Merchandise Exports (% of total exports)

	ASEAN(10)	ASEAN+3	ASEAN+6
1990			
ASEAN(10)	19.0	43.3	46.7
ASEAN+3	12.4	27.2	30.3
ASEAN+6	12.0	27.9	31.3
1995			
ASEAN(10)	24.9	44.4	47.6
ASEAN+3	17.9	34.9	37.6
ASEAN+6	17.3	34.9	38.1
2002			
ASEAN(10)	22.6	44.5	49.1
ASEAN+3	14.4	34.3	37.5
ASEAN+6	14.1	34.2	37.7
2008			
ASEAN(10)	25.3	48.8	56.3
ASEAN+3	14.2	34.2	39.0
ASEAN+6	13.8	34.6	39.6

Source: Author's calculations based on World Integrated Trade Solution (WITS).

Notes:

ASEAN(10) represents Brunei, Cambodia, Indonesia, Malaysia, the Philippines, Singapore, Thailand, and Vietnam due to missing data for Myanmar and Laos. Cambodia and Vietnam are missing data in 1990 and 1995; and Brunei is missing data in 1995 and 2008.

ASEAN+3 is ASEAN(10) plus China, Japan, and South Korea.

ASEAN+6 is ASEAN+3 plus Australia, India, and New Zealand.

Table 9**Composition of Merchandise Exports (% of total merchandise exports)**

	1992		2007	
	Manufacturing	Primary	Manufacturing	Primary
ASEAN(10)	5.0	55.0	73.1	26.9
ASEAN+3	58.4	41.6	78.9	21.1
ASEAN+6	55.2	44.8	70.3	29.7

Source: Author's calculations based on World Integrated Trade Solution (WITS).

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