
REVIEW ESSAYS

LATIN AMERICAN REGIONAL INTEGRATION: Alternative Perspectives on a Changing Reality

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ECONOMIC INTEGRATION IN CENTRAL AMERICA. Edited by WILLIAM R. CLINE and ENRIQUE DELGADO. (Washington, D.C.: The Brookings Institution, 1978.)

THE COMMONWEALTH CARIBBEAN: THE INTEGRATION EXPERIENCE. By SIDNEY E. CHERNICK. (Baltimore, Md.: Johns Hopkins University Press, 1978. Pp. 521. \$22.50.)

THE ANDEAN GROUP: A CASE STUDY IN ECONOMIC INTEGRATION AMONG DEVELOPING COUNTRIES. By DAVID MORAWETZ. (Cambridge, Mass.: MIT Press, 1974. Pp. 171. \$18.50.)

CENTRAL AMERICA: REGIONAL INTEGRATION AND NATIONAL POLITICAL DEVELOPMENT. By ROYCE Q. SHAW. (Boulder, Colo.: Westview Press, 1978.)

THE POLITICS OF THE CARIBBEAN COMMUNITY, 1961-1979. By ANTHONY PAYNE. (Manchester, England: University of Manchester Press, 1980.)

REGIONAL DEVELOPMENT IN A GLOBAL ECONOMY: THE MULTINATIONAL CORPORATION, TECHNOLOGY, AND ANDEAN INTEGRATION. By LYNN K. MYTELKA. (New Haven, Conn.: Yale University Press, 1979.)

The Latin American integration movement has spanned a variety of experiences in regional cooperation over the past two decades, which include examples of some of the greatest successes as well as the greatest

failures in Third World regional integration. The Latin American Free Trade Association (LAFTA) is generally viewed as an unsuccessful attempt from which important lessons were learned and a major effort at subregional integration was launched. The Andean Group, spawned by dissatisfaction within LAFTA, is considered by many to be the most successful example of integration in the region or indeed among all Third World integration schemes, notwithstanding the withdrawal of one of its members and some difficulties and delays in implementing certain policies. Judgments regarding the Central American Common Market (CACM) and the Caribbean Community and Common Market (CARICOM) have been mixed, in spite of the fact that members of the latter have imposed import restrictions on intraregional imports, and two members of the former have been engaged in a military conflict. The Latin American Economic System (SELA) is a broader framework of regional cooperation that encompasses members of all the other schemes and is not based on the traditional approach of a customs union. It has not existed long enough to have been evaluated in any meaningful way.

Assessment of the success or failure of a regional integration scheme is a complicated and difficult task, an enterprise that can be, in itself, misleading. This is because of diversity in, and debate over, the choice of variables that are appropriate to indicate the success or failure and the underlying causes of these outcomes. The choice of variables is determined by the units of analysis employed, which are rooted in the particular theoretical (or pretheoretical) approach used to study regional integration. Since Latin American integration has been studied by scholars from several different disciplines and from a number of different schools within these disciplines, it is not surprising to find diversity and conflict in its assessment. This diversity becomes even more understandable when the relevant variables encompass the subnational, regional, and global levels of analysis.

The goals of Latin American integration have evolved along with socioeconomic changes in the member countries, changes in the nature of the world economic situation, and changes in thinking about economic development. This evolution, when considered in the context of different approaches to the study of integration, has created a situation in which some of the principal effects of integration (increases in trade, investment) may be interpreted as successes or as failures depending on the perspective of the analysis. The diversity in contemporary scholarly analysis is reflected in the recent literature, and can be better understood in the context of recent political and intellectual history.

THE BACKGROUND OF LATIN AMERICAN INTEGRATION

Latin American regional integration is a post-World War II phenomenon, both in its inception and in its realization. Although there is a long history of movements towards unity in the region, the present form of cooperation was influenced by the move towards the establishment of universal and regional international organizations as a basis for reconstructing a new postwar world order. By the time of the signing of the United Nations Charter at San Francisco in 1945, the Latin American countries were acting as a regional bloc, and the beginning of the European Communities in 1951 marked the origin of the trading bloc which was to provide the example and the stimulus to Latin American economic integration. Both of these international organizations had as their principal goal the maintenance of peace and the avoidance of future conflicts like that of the recently ended war. This mission was embodied in the predominance of the collective security task of the United Nations and in the "peace through common interest and control" mechanism of the High Authority of the European Coal and Steel Community. Although both organizations also included goals and institutions to improve economic well-being, they were clearly secondary to the principal task of security maintenance. This essential fact is important for the understanding of the literature dealing with Latin American integration as it evolved out of the United Nations and European community experiences.

The United Nations and the European Communities (which, by 1958, included the European Economic Community, EEC, and the European Atomic Energy Community, Euratom) provided for economic and social cooperation as a means of contributing to international peace and security. This represented the twentieth century embodiment of the venerable "functionalist" ideas found in the public international unions of the nineteenth century and propounded in David Mitrany's 1943 essay inspired partly by the Tennessee Valley Authority.¹ Within the United Nations organization, the Economic and Social Council (ECOSOC) provided the institutional framework under which were grouped the specialized agencies including the regional economic commissions (including the Economic Commission for Latin America—ECLA) and the United Nations Conference on Trade and Development (UNCTAD), both of which have played an active role in promoting Third World regional integration. These origins of regional integration in postwar international organizations explain why the early literature on integration in North America originally found a home in political science writings on international organizations.²

From these early postwar experiences in international organiza-

tion emerged several bodies of literature that provide the background for understanding recent scholarly studies on Latin American integration. The traditional theory of customs unions in the economic sphere and neofunctionalist theory in the political sphere developed out of the experience of European integration, but have had an important impact on the theory and practice of Latin American integration. The "center-periphery" analysis of Raúl Prebisch and its embodiment in the "ECLA Doctrine" have had an even more direct influence on the establishment and functioning of various integration schemes in Latin America. In the more recent analysis of Latin American integration these separate intellectual threads have been interwoven with more holistic attempts to understand the politics and economics of underdevelopment in Latin America and the rest of the Third World through the approach of political economy. We can find traces of all these elements in the examples of recent studies of Latin American integration discussed in this essay.

In the 1960s the most prominent studies of Latin American integration by North American social scientists were based in neofunctionalist theory. This theoretical movement played an important role in advancing the analysis of international organizations beyond purely descriptive institutional studies to provide it with an important place within a modernizing discipline of political science.³ A key element in this movement was the translation of the functionalism of Mitrany and others, which was essentially grand theory, teleological and normative in nature, into neofunctionalism, a theoretical tool that was middle range, probabilistic, and empirical in orientation. Ernst Haas's work, *The Uniting of Europe*, is often cited as the first major neofunctionalist study that spawned a series of more detailed and sophisticated analyses, principally by Haas's own students.⁴ This literature is well known and available, and itself has been the subject of a number of critiques, so that no extensive treatment is necessary here. It should suffice simply to point out that the central contribution of this literature was to provide an understanding of how regional cooperation in economic and social matters could lead to increasing levels of political integration in Europe, through the process of expansion of tasks known as "spillover." It provided an insight into the relationship between economics (the "technical" sphere) and politics (the "political" sphere) represented in the growth of supranationalism, which was the original and ultimate goal of the European communities.

Neofunctionalist theory was meant to be general, relevant beyond the immediate case, as all good theory must be, and thus applicable to other regional integration schemes, as that was the phenomenon it was meant to explain. Latin American integration provided the basis for further studies by neofunctionalists in the 1960s, leading to

refinements of the theory and to conclusions as to the nature and process of Latin American integration.⁵ None of the books in the sampling of recent works included in this essay is based on neofunctionalist theory, one explicitly eschews it,⁶ and another attempts to demonstrate its fallacies.⁷ This reflects the fact that neofunctionalist theory has not been able to offer a satisfactory basis for the analysis of Latin American integration, even with certain modifications such as the introduction of the role of *técnicos* and of “spill-around” and “encapsulation” as possible outcomes.⁸ The adequacy of neofunctionalist analysis of Latin American integration deserves a much more detailed treatment than can be offered here, but elaboration of several basic points helps us to understand the evolution of recent literature on the subject. These points relate to the goal of regional integration and the dependent variable in its analysis; the relationship between economics and politics in regional integration; and the economic and political conditions in Latin America.

None of the regional integration movements in Latin America had as a principal goal the political integration of the region or the maintenance of peace and security such as was the basis of European integration. There have been such movements, notably in Central America and the Commonwealth Caribbean, but these goals have not figured in the present integration schemes. A theoretical approach that is centrally concerned with explaining political integration, as is neofunctionalism, is not the most appropriate tool for analyzing organizations which have not adopted that goal, even if it is seen to be closely linked with the process of economic integration. The source of the problem of trying to understand Latin American integration within frameworks designed to explain political integration is not so much the assumption that political integration is a goal of Latin American integration, but the tendency to forget that European economic integration was originally adopted as a means to achieve that goal, which has now been superseded (or, more accurately, achieved). Neofunctionalism, with its main dependent variable of political integration, is more appropriate for the analysis of an organization whose principal goal is also political integration, as in the case of the European Community.

Inasmuch as regional institutions must be created and endowed with a certain competence to achieve the goals of economic integration, political integration is a part of all regional integration schemes, and neofunctionalist studies of Latin American integration have contributed to the understanding of this process. One example is the process of “externalization,” whereby joint regional policies are adopted vis à vis third countries. However, since this variable remains essentially a measure of political integration it does not distinguish among the *content* of different regional policies which may have vastly different consequences

for specific economic goals of integration. The Andean Group's Decision 24 and subsequent rules regulating foreign investment and CARICOM's harmonization of fiscal incentives are two examples of externalization with vastly different economic and political implications.

The success of neofunctionalist analysis of economic integration based on politicization of cooperation in "technical" areas contributed to confidence in the generalizability of the theory to Latin America. Yet the expansionist dynamic in European integration, which is central to the logic of spillover, was inherent in the economics of customs unions in industrialized settings. Thus, the expansionist dynamic was specific to the "technical" sector chosen rather than to the general relationship between the technical and political domains. Increasing levels of economic cooperation to secure and build upon the gains from economic integration led to greater political integration as part of the creation of an industrialized economic union.

As a result, the political integration which followed greater degrees of cooperation within a particular "technical" sector was interpreted as representing a more general phenomenon of spillover from "technical" cooperation (regardless of the specific technical task) to political integration in the form of growing supranationalism. Interpreted this way the results of European integration offered support for the principal thesis of neofunctionalism that posited the relationship between technical and political cooperation as a more general phenomenon. While this criticism of neofunctionalism may offer some understanding as to why the same results were not observed in other contexts, such as the U.N. specialized agencies, it is not adequate to show why neofunctionalism fell short in its attempts to explain Latin American regional integration, as it was based on the same principles of economic integration as the European Communities. Nor does the absence of the explicit goal of political integration which was present in Europe explain the inadequacy of neofunctionalism as an analytic framework in Latin America, because the spillover dynamic is asserted to be independent of the explicit desire for political integration. Rather, the explanation lies in the relationship between economics and politics, which is fundamentally different under the socioeconomic conditions of underdevelopment.

Traditional customs union theory is based on conditions of a modern industrialized economy including full employment of factors of production. The expansionist logic of spillover is based on the noncontroversial nature of common decisions taken to achieve the creation of an economic union along with the incentive of tangible rewards realized progressively as further steps toward integration are taken. Neither of these two fundamental conditions prevails in situations of regional in-

tegration among developing countries. Industrialization, full employment, and sustained economic growth are the goals rather than the underlying conditions of Third World regional integration. And every question of economic policy, no matter how "technical," is likely to be highly politicized.

THE THEORETICAL BASES OF LATIN AMERICAN INTEGRATION

The transference of an analytical theory of European integration to the Latin American context was no more simplistic and direct than was the transference and application of the basic customs union theory to the region. The latter occurred as a direct reaction to the experience of the European Community and through the diffusion of the idea by the United Nations economic commissions, particularly ECLA. LAFTA and CARIFTA, as free trade areas, are a more extreme example of this as the absence of a common external tariff deprived them of one of the basic elements of regional import substitution. The CARIFTA agreement was said to be a verbatim copy of the European Free Trade Association Treaty. Latin American integration was given an impetus not only by the desire to emulate the European experience, but also by the need to counteract its possible negative effects on the region.

Latin America, and other Third World regions, provided a receptive context for regional integration as a development strategy because of its compatibility with the dominant economic doctrine of the period. And as thinking about economic development evolved so did the theory of economic integration among developing countries undergo modifications reflecting this evolution. We can trace the progress of thinking about regional integration as it relates to the evolution of development theory in very broad terms. This provides a context for situating some of the recent literature on Latin American integration in relation to these trends.

Traditional Customs Union Theory

Prescriptions for development based on neoclassical theory and programs of integration coming out of traditional customs union theory owe their great degree of compatibility to their shared origins in liberal laissez-faire economics. Based on a simplistic analogy with Great Britain during the Industrial Revolution, this approach saw unfettered free enterprise as the best means to bring about industrialization to the developing countries. International trade would serve as the "engine of growth," which along with foreign investment and aid would provide the much-needed capital to implant productive enterprises in these

countries. The spin-off effects of forward and backward linkages and employment would eventually diffuse throughout the economy bringing development. One of the major debates within this "diffusionist" approach to development was over the issue of balanced or unbalanced growth which turned on the question of availability of capital and markets. International free trade and laissez-faire national policies are basic prescriptions of this approach.

Customs union theory presents regional economic integration as "second best" to global free trade as it represents a step in that direction away from individually protected national economies. Customs union theory is directly derived from neoclassical economics and its principal benefits are based on increases in efficiency derived from freeing trade. Hence the emphasis on "gains from trade" and the central role occupied by the criterion of the net amount of trade creation over trade diversion as the principal determinant of the beneficial result of a customs union.⁹ The larger market and potential gains from trade resulting from economic integration along with the stimulative example of the EEC made it an obvious policy adapted to a concept of development based in liberal economics. In transferring traditional customs union theory from Europe to Latin America the importance of one crucial aspect of the theory was neglected. The eventual goal of integration in an underdeveloped setting, the creation of an industrialized economy, was a precondition of the theory. Customs union theory assumes the existence of an industrialized economy with full employment of factors of production for its beneficial effects to be realized. In addition to this it specifies certain conditions (of size, significance of foreign trade, etc.) which are necessary for it to generate the expected gains. Developing countries generally do not satisfy these conditions. This led economic theorists to question the desirability of integration schemes among developing countries.¹⁰ It was recognized that traditional customs union theory could not be transferred to regions like Latin America, but it could be adapted to them, and this adaptation involved a shift in the conception of gains defined as increases in income through marginal growth in productivity to gains defined as creation of new industrial activity involving unemployed or underutilized factors of production even at relatively low levels of productivity. The real impetus for the adaptation of regional integration as a development strategy came, however, from the ECLA doctrine of import substituting industrialization under the leadership of Raúl Prebisch.

Regional Integration and Development

In the 1950s and 1960s development policies in Latin America and the Caribbean were greatly influenced by the ideas put forth by Raúl Prebisch

and W. Arthur Lewis in their essays dealing with industrialization and development in the region.¹¹ Based on these ideas the dominant theme in development strategy became import substituting industrialization through the attraction of foreign investment. Popularly known as industrialization by invitation, this policy relies on a protected national market and fiscal incentives to attract industrial investment. Where these policies were seen to have exhausted their potential contribution to development at the national level, customs union theory provided a basis for their extension to the regional level. Trade diversion, an undesirable effect according to traditional customs union theory, became the embodiment of import substitution at the regional level with the added inducements to investment of the larger regional market and common external tariff. ECLA became a major proponent and promoter of this strategy and actively contributed to the establishment of LAFTA and the Central American Common Market, and to a lesser degree to CARIFTA. ECLA did not play this role of godfather to integration in the establishment of the Andean Group, which grew out of dissatisfaction on the part of some member countries of LAFTA. ECLA has remained, however, actively involved in the promotion of economic integration throughout the region.

The doctrine of industrialization by invitation brought disappointments as well as successes as increased foreign investment led to alienation of control of the economy, distortions in the labor market, large import bills for inputs, and expatriation of profits. At the regional level these effects were often exacerbated by the greater ability of the multinational companies to take advantage of the larger protected market and the tendency of regional integration to reinforce and politicize existing inequalities among countries of the region. These developments confirmed the view of a number of critics who saw in the integration process an opening up of the economies to the exploitation of the multinational companies and even greater disintegration of the local economy.

Integration, Inequality, and Dependence

The emphasis on regional integration as a market solution to economic development and its marriage to the doctrine of industrialization by invitation made it the object of harsh criticism on the part of scholars of the *dependencia* tradition.¹² When looked at closely the data that showed the "success" of Latin American integration in the form of an impressive expansion of trade revealed the important degree to which this trade was accounted for by multinationals and to which the "gains from trade" were concentrated in the more advanced member countries of all Latin American integration schemes.

The issues of unequal distribution of the gains from integration and the polarization of industrial development within the regional groupings were manifest in the earliest examples of Latin American integration and some attempts were made to offset their impact. The issue of dependency arose later and has given rise to fewer attempts to define a regional policy to counter the problem, principally in the Andean Group and CARICOM. Both of these problems have been the source of the major political conflicts that have disrupted the process of Latin American integration throughout its history.

The problems of inequality and dependence, plus the highly politicized nature of these issues in Latin America, required an approach to understanding integration that could not be satisfied by economic theories of integration or theories of political integration. The historical and holistic nature of *dependencia* thinking along with the shifting of the nature of integration more towards a tool of policy coordination for economic development gave rise to a political economy approach to regional integration.¹³ Such a focus shifts attention away from the economic gains from freeing trade and political integration toward a sociopolitical analysis of developmental regionalism within the world economy.

Unlike studies of economic integration and studies of political integration, which have clearly defined dependent variables of "welfare" and "supranationalism," respectively, the political economy of regional integration is more concerned with the role of integration in the sociopolitical process of economic development of member countries within the world economy. As Latin American integration has been the object of study of economists and political scientists, the evolution of thinking is reflected in the different approaches to studies within and across these disciplines.

THE STUDY OF LATIN AMERICAN INTEGRATION

One of the most remarkable features of Latin American regional integration has been its capacity to survive and remain active and dynamic in the face of numerous obstacles, shortcomings, and failures. Taken as a region-wide phenomenon in its different institutional manifestations (LAFTA, CACM, CARICOM, Andean Group), integration presents an image of great flexibility and adaptability in the face of differing conditions. The scholarly literature on Latin American integration has reflected this flexibility growing out of the evolution in thinking about development and out of the need to keep pace with the changing reality. While it might be possible to classify contemporary works on integration according to several different "schools" of integration, it would be more

accurate to describe them as eclectic, as most of them reflect the influence of cross-fertilization from different schools and disciplines. An idea of the diversity of the contemporary literature on Latin American integration can be had by looking at recent books by economists and political scientists dealing with the different Latin American integration schemes.¹⁴ Comparing books by an economist and a political scientist on each of the three integration schemes, the CACM, CARICOM, and the Andean Group provides a good illustration of the contemporary literature on Latin American regional integration.¹⁵ In addition to the scholarly literature, official and "quasi-official" reports on the progress of integration in Latin America provide a broad source of information on the subject.¹⁶

As would be expected, the writings by economists and those by political scientists differ according to their discipline in the major questions asked, in the data on which they are based, and in the focus of their explanations. However, given that they are all addressing a question that is inextricably tied to the economics and the politics of the region, they do contain a certain unity of purpose in trying to understand and explain the phenomenon of regional integration in Latin America. This unity between economists and political scientists is perhaps unique to this particular field.¹⁷ It is particularly notable in the examples of the works by Mytelka on the Andean Group and Cline and Delgado on the CACM, where the focus goes beyond simply explaining the politics of economic policy or the economics underlying regional integration to attempting a greater understanding of the economic-political nexus that underlies integration. The two books on the Caribbean, by Anthony Payne and by Sidney Chernick, provide thorough descriptions of the politics and economics of the regional experience, while Royce Shaw's book on the CACM and David Morawetz's book on the Andean Group undertake to provide an explanation of the politics and economics of integration, respectively. Payne explicitly eschews all attempts at theorizing and provides a comprehensive political history of Caribbean integration from 1961 to 1979. Likewise, Chernick presents a comprehensive survey of the economic conditions of the Caribbean in a book that is the edited version of a World Bank study of the region from which any judgments which might be sensitive have been removed.

Among the studies by economists there is a diversity of approach which ranges from the regional economic survey of the Caribbean by Chernick, to the case study of the Andean Group from traditional customs union theory by Morawetz, to the series of studies employing a range of methodological tools by economists of SIECA and the Brookings institution edited by Cline and Delgado. The last of these is the most penetrating and innovative of the studies, employing new and

sophisticated techniques and using extensive data to come up with answers beyond the traditional questions of economic integration theory. Of particular importance are the identification and measuring of the effects of labor opportunity cost, economies of scale and foreign exchange savings, and the impact on employment and intranational income distribution, all of which are more relevant to concerns of development than are the traditional static welfare benefits of integration.

The political studies show a similar diversity of approach, although none of them follows the path of earlier neofunctionalist studies of political integration. They are rather studies of the politics of economic integration, or in the case of Mytelka's work, the political economy of integration. The study of the Central American Common Market by Shaw does not so much eschew theory, as Payne's study of CARICOM does, but rather it poses a challenge to all theorizing about the politics of regional integration. Payne finds existing theories inadequate or inappropriate while Shaw asserts that earlier theoretical analyses of the CACM (particularly from the neofunctionalist perspective) were fundamentally incorrect in their conclusions. His approach is essentially atheoretical and his main thesis is that Central American integration can be best understood as a manifestation of the domestic politics of the member countries. This perspective is a reaction to the limitations of the regional level of analysis adopted by both neofunctionalism and traditional customs union theory. This issue is grounded in the different perspective arising from international relations (neofunctionalism) on the one hand and comparative politics on the other, with Shaw's analysis falling in the latter category. As well as being a point of convergence for the disciplines of economics and political science, regional integration is the point of convergence between domestic and international politics, and the emphasis of a particular study is determined by the perspective from which one begins. While there are a few contradictions between the findings of all the different studies, most of the differences in the conclusions represent not so much opposing as alternative explanations of the same phenomena. The major problem lies in the inability to integrate the different findings into a common framework that would permit some assessment of the relationship and relative importance of the different factors that each perspective sees as most important to understanding the integration process.

Mytelka's study of the Andean Group, among the political studies of regional integration, goes farthest toward this kind of synthesis, while Cline and Delgado's collection of essays among the economic studies makes the greatest contribution to an eventual understanding of the economic bases of the politics of regional integration.

The political economy of integration sees integration as it im-

pinges on development within the twin constraints of the domestic sociopolitical system and the global economy as they have developed historically. It provides for the understanding of regionalism as a form of collective self-reliance whose goals are different from both the welfare-maximization of traditional customs union theory and the political integration of neofunctionalism. Its emphasis on the holistic and historical processes of development provides a much broader understanding of integration, but also raises the same problem as Raymond Aron's "diplomatic constellation" approach to international politics. Everything is related to everything else and it is impossible to take into consideration every facet of the complex process that explains the phenomenon under study. In any approach the best place to start is with factors that impinge most directly on the process of integration. Less ambitious theories (particularly the more formal ones) will then relegate the less important factors to the status of *ceteris paribus* conditions while political economy will attempt to include them, albeit often in a very general and imprecise way. An extreme example of the former can be found in neoclassical economic theory where political considerations tend to be treated as "market imperfections."

Mytelka's study of the Andean Group provides an explanation of regional integration based on the analysis of social change (including the class structure) at the national level within the global political economy. It focuses on two elements of development that have received little treatment in the literature of integration, regulation of direct foreign investment and regulation of the transfer of technology. This study of the Andean Group indicates the present trend of regional integration away from market-oriented freeing of trade toward the use of common institutions for policies of regional regulation and sectoral programming.

Cline and Delgado's offerings reflect this same trend to a lesser degree and provide important insights into the economic underpinnings of regional regulation. The essays in this volume reflect a welcome move away from the tendency of economic integration studies to be strongly biased toward concerns of efficiency which are much more appropriate to customs unions among industrialized countries than developing countries, and toward concerns more relevant to development. This move is reflected in an attempt to address the problem of tradeoffs between economic concerns of efficiency and political concerns of redistribution which is central to Third World integration schemes. In their conclusions Cline and Delgado point out that in Central America "costs" from trade diversion have been small, thus reducing the degree of contradiction between efficiency and politics.¹⁸ For the most part studies of regional integration by political scientists have not made any serious attempt to deal with this problem, which is of graver consequence the

smaller the regional economy given the need to move toward diversification through export promotion. They usually treat it as a "necessary cost" of the political compromise required to maintain a viable integration scheme.¹⁹

The issues of *desarrollo equilibrado*, equitable distribution of the benefits of integration, and polarization on the one hand, and foreign investment, transfer of technology, and dependence on the other provide a focus around which the political science and economics literature on Latin American integration have been converging.

Chapter 3 of the book on the CACM by William Cline, which deals with the costs and benefits of integration, goes beyond the traditional customs union theory treatment of this question and offers a more sophisticated treatment than simple measures of income can provide. His factor analytical treatment yields findings on the relative level of development of the member countries which contradict both the previous economic findings and the generally accepted position that Nicaragua is one of the countries to benefit least from integration. This divergence between the perceived and the actual situation underlines the necessity to go beyond purely economic analysis of integration to understand the process of regionalism. And, considering the importance to integration of domestic political concerns as underlined by Shaw, and the emphasis on understanding integration within the global political economy by Mytelka, it demonstrates the need to approach the understanding of integration from the perceived opportunity costs of the parties involved. The most fruitful approaches to Latin American integration will be based on a synthesis of this kind, a synthesis that can perhaps be best provided by the approach of political economy.

Lynn Mytelka's study of foreign investment, transfer of technology, and sectoral programming, with emphasis on the role of the multinational corporation, addresses a key issue in understanding the role of integration in overcoming the problems of dependent underdevelopment. The Andean Pact's Decision 24, dealing with the regulation of foreign investment and technology, provides the basis for a policy to increase the benefits of integration in the form of increased employment, reduced payments for technology, greater use of local inputs, and increased export potential *inter alia*.²⁰ Mytelka's findings show why Decision 24 has fallen short of its expectations and at the same time show that it has not been a deterrent to foreign investment, as has been argued by a number of critics.

Although the Andean Group is the only Latin American integration scheme to have adopted a comprehensive policy of this kind, Cline and Delgado's collection of essays reveals findings directly relevant to the likelihood of success of such a policy in the Central American Com-

mon Market. In chapter 4, Frank, Soto, and Sevilla, dealing with the substitution elasticity of factors, find a relatively high degree of substitutability between capital and labor in the industrial sector. This suggests that in the CACM, and other regions where this condition exists, policies that raise capital costs could effectively stimulate the use of technology with greater employment benefits. There are also important policy implications for sectoral programming to be drawn from Cline and Rapaport's analysis of industrial comparative advantage in the CACM, which could contribute to resolution of the economic efficiency versus political distribution problem that sectoral policy aims to achieve.

In these areas of policy, which represent the vanguard of Latin American integration research, efforts in economics and those in political science have much to offer each other. As Latin American integration moves away from its original form, studies of integration are evolving beyond their original theoretical bases and are shaking off some of the limitations imposed by the demands of their individual disciplines. This in turn, provides a flexibility and adaptability more suited to the understanding of the changing nature of regional integration.

THE LESSONS OF LATIN AMERICAN INTEGRATION

Latin American integration is not what it used to be. It began as a model of and reaction to European integration transplanted into conditions quite different from those under which the European example operated, both in theory and in practice. From the relatively modest goal of freeing trade to increase the growth of GNP in LAFTA, to a system of regional policy coordination to attack the more fundamental causes of dependent underdevelopment in the Andean Group, it has reflected different concepts of the problems of development and their solution. Perhaps regional integration has changed so much that it is no longer proper to use the term to refer to these organizations.²¹

Regional integration can be better understood today as a manifestation of collective self-reliance. The term refers to cooperation among developing countries on a South-South basis as part of the larger struggle to bring about a redistribution of world production, control over the creation and allocation of surplus in the developing countries, and the power to make decisions on matters affecting their own societies. Collective self-reliance implies restructuring the links between Third World and industrialized countries through the creation of new links among developing countries. Clearly this approach goes beyond the goals of traditional customs unions and provides a much broader basis for understanding and evaluating Latin American integration.

Although all the regional integration schemes in Latin America

are based on the establishment of a free trade area or a customs union, no longer does this trade liberalization approach reflect the major thrust of regionalism. Within Latin America this is most evident in the Andean Group, which has gone farthest toward a system of sectoral programming, one example of integration policy more adapted to solving problems of development. This tendency is symptomatic of a trend in Third World regional integration toward more intensive integration on a less extensive scale: the adoption of policies much more "positive" and *dirigiste* in nature within a limited sector of activity, and perhaps among a smaller group of countries, in the form of subregional integration. The Andean Group's emergence as a subregional grouping out of LAFTA, and CARICOM's move to "deepening" rather than "widening" the integration movement are examples of this trend. Often the political compromises required to adapt these more advanced policies can only be achieved among a smaller grouping of states.

The reasons behind this trend become evident when one examines the various integration policies in the context of the requirements of regional integration for development. First, integration must bring about an increase in net benefits for the region. Second, it must provide for a distribution of those benefits that is satisfactory to all members of the region. And third, it must contribute to the increased capacity of the region to maintain an internal dynamic of development, reducing the dependence on outside forces. Moreover, it must accomplish these tasks within the social, economic, and political conditions prevailing in developing countries.

Traditional customs union theory demonstrates how an economic union can achieve the first of these goals, achieving a real increase in welfare for the region as a whole. The requisite conditions of an industrialized economy and the lack of attention to intercountry distribution of gain puts into question the role that this freeing of trade approach has in integration among developing countries. If trade integration has a small contribution to make to economic development, however, it may play a significant but double-edged role in the politics of integration. All Latin American integration schemes resulted in a rather quick increase in intraregional trade. This effect, which is generally perceived as a significant benefit by the member countries, may provide an incentive to further steps toward integration, particularly since other visible benefits are not likely to be seen in the short term. However, because of the tendency for these gains in trade to be distributed unequally, and their tendency to increase the role of foreign investment in the long run, the ultimate effect of trade liberalization may be to undermine the basis for cooperation in taking further steps toward integration. These further steps may include joint projects to develop a regional infrastructure,

regional planning, or sectoral programming, all of which are more likely to make a greater contribution to development and require greater political coordination than liberalization of trade.

Intraregional disparities and the tendency for economic integration to reinforce them make explicit policies to effect more equal distribution of benefits necessary. These mechanisms may involve a simple transfer among member countries, or an allocation of productive activity among the territories of the region. In either case they involve a direct intervention into the economic forces operating in the region, a political action that requires agreement among the member governments beyond simply eliminating obstacles of trade.

The same is true with regard to regional policies aimed at increasing the role of local production in the regional economy through policies to regulate foreign investment and the transfer of technology, as in Decision 24 of the Andean Group or the Draft Agreement on Foreign Investment and Development of Technology that CARICOM failed to adopt. The complex nature of the policies required to respond to the complex problems of development, the rather high administrative and institutional requirements for implementing them, the controversial nature of the matters they deal with, and the perceived threat they pose to some of the established interests of the region pose formidable political obstacles to their adoption and implementation. This is even further complicated by the national tendency to perceive development gains relative to the gains of regional partners rather than in absolute terms. The recent literature on the politics of Latin America reflects this situation.

The contradiction of Latin American regional integration lies in the fact that the kinds of policies most likely to contribute ultimately to development are the most difficult to adopt and implement. Sectoral programming provides a clear example of this. It is a policy that creates net benefits for the region by expanding productive capacity, permits equitable distribution of benefits by allocating production among member countries, and contributes to reduction of dependence by providing a defined role for local participation. Precisely because it affects these crucial questions it raises issues of intraregional distribution of benefits, *laissez-faire* economics versus *dirigisme*, multinational versus national companies, and the influence of metropolitan countries in the region. Yet, since sectoral programming does represent an attempt at more intensive integration on a less extensive scale it provides a basis for political compromise. Negotiations can take place and compromises may be struck over the principal issues within a limited sector that allow the perceived opportunity costs to be clearly defined and trade-offs to be made.

On a broader scale, regional development planning offers a context in which sectoral programming can be integrated. Fraught with greater political difficulties because of its broader scope, no Latin American regional integration scheme has yet moved to this stage, although CARICOM has been studying the possibility for a number of years. It is one area in which the rationalization of regional production could be combined with the economy of scale in the use of one scarce resource, administrative skill.

These aspects of Latin American regional integration illustrate the extent to which the process has moved away from the laissez-faire approach of freeing trade toward a framework for the formulation and implementation of regional policies to restructure the existing economic relationships among member countries and with the rest of the world.

It is important to be aware of the limits of Latin American integration. It cannot be a panacea for the development problems of the region, and in a number of ways it can only make a partial contribution to their solution. Political integration is not one of the goals, and approaches to the study of political integration are not likely to yield many relevant insights into the most important aspects of integration. It is possible to understand better the process of regional integration through a theoretical perspective directed at the level of the political negotiations of regional integration, but at this level of analysis a great number of relevant factors which may be of major importance must be relegated to the *ceteris paribus* category. These include the domestic politics of member states as well as the influence of the global political economy.

Latin American integration does not offer a solution to the problems of intranational inequalities of wealth and income, one of the fundamental characteristics of the member countries. Nor has it as yet made much of a contribution to the basic needs of the population of the region. This latter area is one in which there is some reason for hope. All of the Latin American regional integration schemes have paid lip service to the development of regional agriculture, but practice has fallen short of this commitment. Recently the Andean Group and CARICOM have initiated measures in this area, the latter's Regional Food Plan and Caribbean Food Corporation being the most ambitious. Regional policies in the agricultural sector may constitute the area in which integration can ultimately make the most significant contribution to the region, particularly if they go beyond simple measures of freeing trade to restructure production along lines of regional needs.

Ultimately development implies socioeconomic changes which will fundamentally alter the present political and social structure of Latin American countries. Since such changes pose a major threat to the dominant elites in these countries, and since it is these elites who direct

the integration process, there must be serious reservations as to the possibility of achieving a type of integration which can make a major contribution to development. It is not to be expected that these elites will pursue policies likely to undermine their own positions. In this regard Latin American integration has not yet provided a satisfactory response to the radical critique that effective integration can take place only after fundamental sociopolitical changes have occurred in the member countries.²² This, perhaps, poses the most fundamental challenge to regional integration in Latin America.

NOTES

1. David Mitrany, *A Working Peace System* (Chicago, Ill.: Quadrangle Books, 1966).
2. Economic integration schemes were usually studied as an example of "regional" organizations as contrasted with the "global" United Nations Organization.
3. Ernst Haas played a key role in the development of this approach with his major work on European integration, *The Uniting of Europe: Political, Economic, and Social Forces, 1950-1957* (Stanford, Calif.: Stanford University Press, 1958); other elaborations of the functionalist approach included James P. Sewell, *Functionalism and World Politics: A Study Based on U.N. Programs Financing Development* (Princeton, NJ: Princeton University Press, 1966) and Harold E. Engle, "A Critical Study of the Functionalist Approach to International Organization" (Ph.D. dissertation, Columbia University, 1957). Also, Ernst Haas, *Beyond the Nation-State: Functionalism and International Organization* (Stanford, Calif.: Stanford University Press, 1964).
4. Among the best known of these are Leon Lindberg, *The Political Dynamics of European Economic Integration* (Stanford, Calif.: Stanford University Press, 1963); Leon Lindberg and Stuart Scheingold, *Europe's Would Be Polity* (Englewood Cliffs, NJ: Prentice-Hall, 1970).
5. Ernst B. Haas and Philippe C. Schmitter, "Economics and Differential Patterns of Political Integration," in *International Political Communities: An Anthology* (Garden City, NY: Doubleday, 1966), pp. 259-99. Ernst B. Haas and Philippe Schmitter, *The Politics of Economics in Latin American Regionalism* (Denver, Colo.: University of Denver Monograph, 1965).
6. Anthony Payne, *The Politics of the Caribbean Community, 1961-1979: Regional Integration amongst New States* (Manchester, England: University of Manchester Press, 1980).
7. Royce Q. Shaw, *Central America: Regional Integration and National Political Development* (Boulder, Colo.: Westview Press, 1978).
8. Philippe C. Schmitter, "Central American Integration: Spill-Over, Spill-Around, or Encapsulation?," *Journal of Common Market Studies* 9 (1970):1-48.
9. This criterion is found in Jacob Viner, *The Customs Union Issue* (New York: Carnegie Endowment for International Peace, 1950), and virtually all expositions of traditional customs union theory. J. F. Meade, *Problems of Economic Union* (Chicago, Ill.: University of Chicago Press, 1953) and *The Theory of Customs Unions* (Amsterdam: North Holland Publishing Company, 1955); Rolf Stannwald and Jacques Stohler, *Economic Integration* (Princeton, NJ: Princeton University Press, 1959); Tibor Scitovsky, *Economic Theory and Western European Integration* (Stanford, Calif.: Stanford University Press, 1958); Jan Tinbergen, *International Economic Integration* (Amsterdam: Elsevier, 1954); Bela Balassa, *The Theory of Economic Integration* (Homewood, Ill.: Richard D. Irwin, 1961).
10. Hiroshi Kitamura, "Economic Theory and the Integration of Underdeveloped Regions," in Miguel S. Wionczek, ed., *Latin American Economic Integration* (New York: Praeger, 1966); Raymond F. Mikesell, "The Theory of Common Markets as Applied to Regional Arrangements among Developing Countries," in Roy Harrod and Douglas Hague, eds., *International Trade Theory in a Developing World* (New York: St. Martin's Press, 1963); Tayseer Jaber, "The Relevance of Traditional Integration Theory to Less

- Developed Countries," *Journal of Common Market Studies* 11 (Mar. 1971); R. S. Bham-bri, "Customs Unions and Underdeveloped Countries," *Economia Internazionale* 15 (May 1962); F. Kahnert et al., *Economic Integration among Developing Countries* (Paris: OECD, 1969); Fuat Andic, Suphan Andic, and Douglas Dosser, *A Theory of Economic Integration for Developing Countries* (London: Allen and Unwin, 1971); Jorge Sakamoto, "Industrial Development and Integration of Underdeveloped Countries," *Journal of Common Market Studies* 7 (June 1969); Bela Balassa, *Economic Development and Integration* (Mexico: Grafica Panamericana, 1965); Yu-Min Chou, "Economic Integration in Less Developed Countries," *Journal of Development Studies* (July 1971); C. A. Cooper and B. Massell, "Toward a General Theory of Customs Unions for Developing Countries," *The Journal of Political Economy* 73 (1965).
11. W. Arthur Lewis, "The Industrialization of the British West Indies," *Caribbean Economic Review* (May 1950); Raúl Prebisch, *The Economic Development of Latin America and Its Principal Problems* (New York: United Nations, 1950).
 12. Latin American integration has been criticized on this basis by: Susanne Bodenheimer, "Masterminding the Mini-Market: U.S. Aid to the Central American Common Market," *NACLA Report*, and "Dependency and Imperialism: The Roots of Latin American Underdevelopment," in K. T. Fann and Donald C. Hodges, eds., *Readings in U.S. Imperialism* (Boston, Mass.: Porter Sargent, 1971), p. 167; André Gunder Frank, "Latin American Economic Integration," in André Gunder Frank, ed., *Latin America: Underdevelopment or Revolution* (New York: Monthly Review Press, 1969), pp. 175–80; Havelock Brewster and Clive Y. Thomas, *The Dynamics of West Indian Economic Integration* (Mona, Jamaica: ISER, 1967); Clive Y. Thomas, "Neo-Colonialism and Caribbean Integration," *Ratoon* (Apr. 1975): 1–28.
 13. This evolution is presaged in Constantine V. Vaitsos, "Crisis in Regional Economic Cooperation (Integration) among Developing Countries," *World Development* (1978).
 14. As Lafta has drifted into stagnation, most recent works have dealt with the three other Latin American integration schemes that, because of their attempts to deal more effectively with problems of development, have elicited greater interest.
 15. The studies by economists are those (given on the title page) by Cline and Delgado, Chernick, and Morawetz; the studies by political scientists include (also listed on the title page) Shaw, Payne, and Mytelka.
 16. A prime example of this literature is Institute of Latin American Integration (INTAL), I.D.B., *The Latin American Integration Process in 1977* (Buenos Aires: Intal/IDB, 1978). Published annually since 1973.
 17. A major exception is the work of Vaitsos, "Crisis in Regional Economic Cooperation."
 18. Morawetz also recognizes that once "distorsions" are introduced, market forces are perhaps not the best means of determining location of industry (p. 80). Chernick does not discuss this problem, although it is interesting to note that the original World Bank report on which his book is based estimated that CARIFTA/CARICOM has had a net trade creating effect.
 19. Royce Shaw differs from most economic and political analysts in maintaining that the crisis over *desarrollo equilibrado* in the CACM was a function of national rather than regional policies (*Central America*, p. 102).
 20. For a revealing analysis of the activities of multinational corporations in the several Latin American integration schemes, see Constantine V. Vaitsos, *Regional Integration cum/versus Corporate Integration: A Review of the Motives, Conduct, and Implications of Transnational Enterprises in Regional Economic Cooperation Processes among Developing Countries* (New York: U.N. Center on Transnational Corporations, 1978).
 21. Anthony Payne, *Politics of the Caribbean Community*, sees CARICOM as regionalization rather than regionalism, and Constantine Vaitsos uses the word "integration" parenthetically in the title of his article (see note 13).
 22. See André Gunder Frank, "Latin American Economic Integration." This theme is developed most extensively in Clive Y. Thomas, *Dependence and Transformation* (New York: Monthly Review Press, 1974). See also his "On Formulating a Marxist Theory of Regional Integration," *Transition* 1 (1978):59–71.