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Tides of Cooperation: The Ebb and Flow of Regional Cooperation in Latin America

Abstract

Regional organizations have developed into important global actors as they negotiate inter-regional trade agreements, regulate economic policies, and develop international security communities. States have much to gain from such regional cooperation efforts particularly in emerging regions such as Latin America. Such gains can include increased trade and economic relations, enhanced security, attracting external investment, and increasing bargaining power at the international level. With such gains to be had, one might expect states in these regions to regularly cooperate in order to achieve their common interests. However, this is clearly not always the case. Latin America has struggled for decades with an ebb and flow of regional cooperation schemes. Why do we see variation in levels of regional cooperation in Latin America? More specifically, given the potential gains from regional cooperation, why do we see periods of defection within these organizations?

Historical cases within the Latin America suggest that regional cooperation suffers under conditions of unequal gains. Asymmetrical distribution of economic gains from cooperation efforts hinder further integration and increase the chance a state will defect from the group's arrangements. This study uses a mixed methods approach to explore the impact of economic asymmetry on regional cooperation in Latin America. Beginning with a large-N statistical analysis utilizing a cross-nested model to capture variance within and between organizations, it finds evidence that asymmetric distribution of investment and trade hinders political indicators of cooperation. Additional in-depth case analysis of the Andean Community and Mercosur further highlight these trends through showing country-specific data and diplomatic statements during periods of major defection within the groups. Based on these findings, this study demonstrates the importance of the distribution of gains expected from regional cooperation efforts as it concludes that increasing economic asymmetry within a region leads to lower overall cooperation among an organization's member-states.

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TIDES OF COOPERATION: THE EBB AND FLOW OF REGIONAL
COOPERATION IN LATIN AMERICA

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the Faculty of the Josef Korbel School of International Studies

University of Denver

In Partial Fulfillment

of the Requirements for the Degree

Doctor of Philosophy

by

Amaleia E. Kolovos

March 2018

Advisor: Martin Rhodes

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Chapter One: Introduction

Introduction

Since the end of the Cold War, regional agreements around the world have become increasingly prevalent. Nearly every state in the world is a member of at least one regional organization generated from such agreements. Many of these organizations have developed into important global actors as they negotiate inter-regional trade agreements, regulate travel and migration policies, and develop international security communities. Despite this global trend of regionalization and the potential gains from regional cooperation embodied in these organizations, there are varying levels of intra-regional cooperation. While some organizations successfully negotiate and implement regional agreements, others struggle to build relationships between their member-states and appear to be only symbolic. Latin America in particular has witnessed an ebb and flow of regional cooperation schemes for decades with organizations making progress in building cooperation only to then experience member defection. Why do some regional organizations exhibit periods of deep regional cooperation while others do not? Why do we see variation in levels of cooperation within Latin American regional organizations over time?

Individual states have much to gain through regional cooperation. Economic gains include increased market size and efficiency as states deepen their relationships and drop borders within the group. Such gains are less valuable to emerging regions such as Latin

America where many states share similar market profiles and a relatively low economic reliance on their neighbors. However, even without a high level of interdependence, cooperation efforts offer economic gains through increased bargaining power for the group in multilateral institutions and increasing appeal for foreign (extra-regional) investment. In addition, the potential benefits of regional cooperation are not only economic but political and social as well. Deepening political and economic ties through regional organizations can lead to increased peace within the region along with cooperation on common issues such as poor infrastructure, development, and democratic consolidation.

Even with the many potential benefits from regional cooperation, states struggle to maintain their agreements and deepen connections with their neighbors. Rather than a continual increase in cooperation levels over time, organizations throughout Latin America continue to also experience periods of decline and stagnation. This vacillation is demonstrated when regional organizations move from periods of active cooperation in which they develop institutions and further regional policies to periods of defection with member-states violating or exiting regional agreements and even engaging in inter-state disputes. While stagnation and adherence to existing agreements once the organization is formed can be expected as states enjoy the benefits of the status quo, what enables these periods of active cooperation within the group or leads member-states to defect? This research tests the impact of economic health and relationships among states on political indicators of regional cooperation arguing that, while economic benefits may stem from cooperation, asymmetric distribution of these benefits hinders further progress and can lead to state defection.

Background

Beginning in the late 1950s, multiple regional cooperation efforts emerged in Latin America. Of these, four prominent examples are the Caribbean Community (CARICOM), the Central American Common Market (CACM), the Andean Community (CAN), and the Southern Common Market (Mercosur). Since their formation, these regional organizations have experienced varying levels of regional cooperation in terms of dropping trade barriers between member-states, developing common regional policies such as common external tariffs, and negotiating as a unit in multilateral organizations (e.g. the World Trade Organization). This variation in levels of cooperation occurs both when comparing Latin American organizations to one another as well as when observing cooperation within individual organizations over time.

A brief historical overview of the four regional organizations listed above highlights the variation in levels of regional cooperation between and within these organizations since their founding. Created in 1973, CARICOM has been a relative success story for promoting regional cooperation, experiencing a general increase in overall cooperation overtime along with periods of stagnation. Shortly after CARICOM's formation, the region created a development bank designed to promote regional trade and provide development assistance to member-states in need. These measures increased intra-regional trade dramatically and led to further support for common economic policies including a common social security agreement implemented in 1990s to help with labor mobility. By 2006, the region had established a single market with all members except the Bahamas and Haiti. In addition, the Caribbean Court of Justice was created to settle regional trade disputes. Today, 12 of the 15 member-states have

implemented a common passport and intra-Latin American regional trade is over 20% of total trade (CARICOM Secretariat, 2017) though progress within the group has stagnated in recent years.

While CARICOM has experienced a steady increase of regional cooperation, the member-states of CACM struggled initially to agree upon or implement any regional measures. Founded in 1960, CACM appeared to be off to a promising start with lofty economic and political cooperation goals. Within its first decade, the organization liberalized approximately 95% of tariffs within the region, agreed on a common external tariff for member-states, and progressed as a group in terms of industrialization (Ocampo & Ros, 2011:345). However, the organization quickly encountered difficulties with states defecting from the group as political and economic tensions rose. Unequal distribution of wealth between member-states, the stress of financial crises, and poor economic diversity preceded violations of CACM policies including increased protectionist measures by members. In addition, a growing Honduran trade deficit with El Salvador increased tensions between the two member-states and contributed to the 1969 war between them. Economic and political instability in the region led to the suspension of CACM's efforts by the mid-1980s. However, the organization was revamped in the 1990s as member-states increased regional cooperation through the creation of regional infrastructure projects and the creation of a debt-settlement mechanism (Merrill, 1993).

In contrast to CACM, CAN started auspiciously. However, cooperation within the group has struggled with strong periods of defection over its history as two members defected from the community by exiting the organization altogether. CAN began as the Andean Pact, which was founded in 1969. Originally, the regional grouping was driven

by import substitution based policies and a desire to sever extra-regional economic dependency. The member-states developed an Andean court of justice and parliament to coordinate regional policies. However, cooperation efforts stagnated during the debt crises of the 1980s. The organization was revamped and restructured in the 1990s as the Andean Community with more liberal outward-looking economic policies. Four of the five member-states successfully implemented a regional free trade agreement and agreed upon a common external tariff (Giordano & Devlin, 2011). However, this momentum did not last and cooperation within CAN deteriorated for a period in the mid-2000s with the exit of Venezuela as it sought stronger economic ties with the neighboring regional grouping, Mercosur. Currently, two member-states (Ecuador and Bolivia) are following suit and negotiating membership with Mercosur (“Bolivia Invited to Become,” 2012) though neither have initiated an exit from CAN¹. Though the organization has struggled with membership, it does prove adept at adjusting to changes within the region and is currently furthering its integration with Mercosur through the continued development of UNASUR.

While much younger and larger, Mercosur has had a harder time than CAN recovering from periods of defection within the group. Shortly after its founding in 1991, Mercosur was viewed as the “golden child” of the new wave of regionalism in Latin America. The region rapidly liberalized economic relations between member-states while intra-regional trade, extra-regional FDI, and regional exports thrived under the newly coordinated policies. In addition, Mercosur established itself as a legal international

¹ Bolivia began accession to full Mercosur membership in 2015 while Ecuador remains an associate member along with the rest of the CAN states.

personality able to negotiate inter-regionally and in international forums. Unfortunately, when financial crises hit the region (primarily Brazil and Argentina) in the late 1990s, cooperation within the organization halted. Intra-regional trade dropped dramatically and economic tensions led to a blockade between Argentina and Uruguay. A decade later, relationships between member-states of Mercosur were strained further as the organization debated membership for Venezuela. Paraguay adamantly opposed this addition arguing that Venezuela did not meet the democratic standards set forth by the grouping. However, when Paraguay was suspended due to undemocratic practices, Venezuela was voted in. Paraguay's suspension has since been lifted but the tension between the two members remains (Farnsworth, 2013) and Venezuela's continued membership in the group is in doubt². Despite such political tensions, Mercosur continues to push for increased economic cooperation and improved diplomatic relations. In addition, new and potential member-states including Bolivia and Ecuador allow for an increased market size and cooperation that might prove beneficial to the region in the near future. However, Mercosur appears to struggle under the weight of the new members despite the potential advantages they bring.

Research Purpose

Each of these four Latin American regional organizations has experienced periods of increased cooperation as member-states implemented regional policies and lowered borders among themselves. In addition, each organization has suffered major setbacks for cooperation as member-states violated regional agreements, engaged in disputes with

² At the time of writing, Venezuela's membership is suspended due to violation of Mercosur's democratic principles.

each other, and/or exited the organization altogether. What explains this ebb and flow of cooperation? A large body of existing research on regional organizations seeks to understand the benefits and challenges of deepening regional ties. However, much of this work is done in a European context with less focus on emerging regions such as Latin America. In particular, few comparative studies of emerging regions exist to better understand what factors help and hinder these organizations. Emerging regions offer additional insight to the phenomenon of regional integration as they are less economically interdependent yet still form and maintain regional agreements contrary to many Eurocentric theories. Further research of these regional organizations in emerging regions is needed to better understand the drivers and dynamics of regional cooperation.

Realist theory would suggest that these cooperation efforts disintegrate as soon as they cease being in the best interest of individual states. But does this hold true? Even if it does, at what point does a state determine regional cooperation is no longer in its best interests, particularly when there is still the potential to gain in absolute terms if not relatively? Since their inception, the four regional groupings in Latin America discussed above have experienced a wide variance in levels of cooperation. Their collective struggles with cooperation are representative of the many additional regional organizations within Latin America. Why did some organizations take off and embody cooperation while others did not? What explains the variation in levels of regional cooperation throughout Latin America? More specifically, given the potential gains from regional cooperation, why do we see periods of defection within these organizations?

International influence, in particular the state of the global economy, likely plays a critical role in regional cooperation efforts, as times of crisis often correlate with

periods of low levels of cooperation. However, the ebb and flow seen throughout Latin American organizations is not consistent enough to be explained exclusively by global factors. There must be specific regional dynamics at play in these episodes of cooperation and defection. For example, at the same time that the Andean Pact was thriving, CACM experienced extremely high levels of defection. In a particularly notable instance of defection from a regional agreement in Latin America, the 1969 “Soccer War” between Honduras and El Salvador highlighted the damage done by uneven economic gains within a group³. While CACM as a whole benefitted from their initial cooperation, member-states experienced unbalanced growth with Honduras falling behind relative to El Salvador. The regional imbalance caused tensions to rise between the states and ultimately led to war (Cable, 1969). This moment of defection ultimately put a hold on regional cooperation within CACM for over a decade and highlighted the impact unequal economic conditions can have on political relations between states.

This research seeks to further fill the gap in the literature on regional cooperation through a comparative analysis of Latin American organizations. In particular, it seeks to add to the comparative analysis of emerging regions in order to capture both nuance and unique motivations for cooperation often missed in comparisons to the EU. Taking a political economy approach, it looks at the impact of economic relationships among member-states in an organization on political indicators of regional cooperation to see what factors help or hinder. Contrary to hegemonic stability theorists who argue that

³ The 1969 “Soccer War” is the only instance of inter-state war among Latin American states post-WWII according to the Correlates of War Militarized Inter-State Disputes database.

regional agreements need to be stabilized by the presence of a large economic and political power in, this work finds evidence that economic asymmetry among member-states in an organization is detrimental to overall levels of regional cooperation.

Research Objectives and Structure

This study addresses regional cooperation in Latin America using a mixed methods design (Cresswell, 2014). After further discussion of the existing literature and the theoretical grounding for this research, the first phase of the study is a quantitative analysis of regional organizations within Latin America using time series analysis to explore the impact of major factors, particularly economic asymmetry, on cooperation. The analysis considers the variation between the various organizations in Latin America as well as within each organization over time. The second phase of the research presents qualitative case studies of two regional organizations, CAN and Mercosur, in order to better illuminate the causal relationships found in the quantitative analysis.

This research aims to better understand the driving factors and dynamics of regional cooperation. In particular, it addresses the impact of economic indicators on political indicators of cooperation in Latin American organizations and argues that economic asymmetry leads to periods of defection. In an era of globalization, emerging regions have much to gain from regional cooperation as they seek simultaneously to integrate with the global economy and protect themselves from international volatility. Through a better understanding what helps and hinders cooperation efforts, regional organizations will be better aware of the challenges they face and able to explore policies to minimize the impact of potentially detrimental factors.

Chapter Two: Explaining Regional Cooperation

Introduction

States have much to gain from regional cooperation particularly in emerging regions such as Latin America. Such gains include increased trade and economic relations as well as enhanced security within the region. In addition, attracting external investment and increasing bargaining power can be helpful for countries in regions that depend on extra-regional actors such as the United States or the European Union for trade and investment (Krapohl & Fink, 2013). With such potential gains, neoliberal institutionalists might expect states in these regions to regularly cooperate to achieve their common interests. However, this is clearly not always the case.

From the liberal perspective, regional cooperation provides significant economic benefits including increased efficiency as states utilize their comparative advantage and access to larger and more diverse markets. Efforts to liberalize economic relations within the region can signal a move towards further liberalization and commitment to liberal practices in attempt to attract outside foreign investment and trade bringing money and technology into the region. Through regional cooperation efforts, states can signal their commitment to ‘good policies’ over ‘bad’ ones to extra-regional actors as they agree to liberal policies on a more local level (Giordano & Devlin, 2011, p. 343). This provides a stronger signal to extra-regional actors than unilateral policy changes as states are then held accountable, or at the very least more closely observed, by their neighbors. This

signaling is particularly important for emerging regions such as Latin America often seeking to join the global economy and promote internal development through foreign investment. Through regional agreements, “[states] signal authorities’ commitments to investors and lock-in policy reforms that otherwise might be more easily reversible” (Devlin & Ffrench-Davis, 1999, p. 274).

A stable and interconnected region is an asset for states in Latin America interested in integrating further into the global economy. Through regional cooperation efforts, states are able to increase their competitiveness and bargaining power on the global market.

By engaging in market expansion (integration of larger regional markets) and by employing selective protection/privileges (preferential treatment only to group members), governments [have] perceived regionalism either as a form of gaining and locking in access for their competitive export or of helping competitive domestic industries before exposing them to global market competition (Tussie, 2009, p. 178).

States can operate as a larger market when cooperating as a region making them more appealing and competitive on the global scale. In addition, cooperation among regional groupings can also be a tool to increase bargaining power on the international stage with a number of small economies grouping together to negotiate in multilateral arena for their shared interests (Mansfield & Milner, 1999). This is particularly important in developing or emerging regions such as Latin America where individual states may have little influence in multilateral negotiations on their own. This motivation is often overlooked in work on regional cooperation utilizing Eurocentric theories and comparisons with more economically developed regions.

Even those states and regional organizations ideologically opposed to integrating into the global economy, such as the Bolivarian Alliance for the People of Our America (ALBA)⁴, seek a great deal of potential gains from regional cooperation. Deepening economic relations and political stability within the region is critical to decrease dependency on global trade and increase local exports. Encouraging deeper economic ties with neighboring states throughout Latin America and giving increased preference to local markets assists with economic growth throughout the region and decreases reliance on extra-regional imports (Devlin & French-Davis, 1999, pp. 274-276). In addition, regional cooperation assists states in preserving and distributing natural resources throughout Latin America the region such as the Amazon Basin (ACTO) and local oil reserves (Petrocaribe).

Advantages of regional cooperation go beyond increased economic efficiency. For an emerging region like Latin America, regional integration and cooperation can be particularly useful for joint infrastructure projects and development.

Deeper integration provides a useful infrastructure and incentives for further cooperation, including investments in regional public goods such as regional road networks, energy transmission lines, or, more generally, cooperation in a wide array of cross-border matter (Giordano & Devlin, 2011, p. 343).

Such cooperation in regional infrastructure projects has the additional benefit of assisting with trade and furthering economic interconnectedness. This is particularly critical for

⁴ ALBA was formed in 2005 by president Hugo Chavez of Venezuela and President Fidel Castro of Cuba in response to the neoliberal restructuring seen in Latin America throughout the 1980s and 1990s. ALBA's policies promote Latin American independence and self-sufficiency.

Latin America which struggles with infrastructure both domestically and throughout the region as well as unusually low levels of intra-regional trade (Lanau, 2017).

Beyond economic benefits, increased cooperation among states can also increase security within the region. While some regions, most traditionally Europe, have pushed for regional cooperation to protect against further inter-state war, Latin America traditionally has a very low level of inter-state conflict (Nolte & Wehner, 2012).

However, transnational security issues such as drug trafficking and civil unrest are security concerns that require regional cooperation to combat. In addition, many states in Latin America continue to struggle with democratization and state stability. One of the many goals for regional cooperation efforts in the region is to assist with these concerns. For example, in the case of Mercosur, “Integration, it was felt, was the appropriate instrument to consolidate democracy and promote modernization and development,” (Gardini, 2010, p. 164).⁵

Despite these gains, states in the region struggle with continued cooperation. Rather than a steady increase in cooperation efforts, there is a wide variation in levels of cooperation between the different groupings as well as within each grouping over time. While there are many potential gains, both political and economic, to be had from regional cooperation, concerns around maintaining state sovereignty, an inability to agree on the right course of action, and a concern about free riders within agreements all pose potential obstacles. A growing body of literature has sought to understand both why

⁵ For more on the relationship between regional cooperation and security/democratization, see Giordano & Devlin, 2011.

states would cooperate on a regional level as well as under what conditions they cooperate best.

This research builds off of previous work on regional integration and finds that a major impediment to cooperation is the potential for unequal distribution of gains. While cooperation is expected to produce many gains in absolute terms for the region, such gains are often distributed unequally. Some states within a region may stand to gain more than others. I argue that if a state is more concerned with increasing its absolute gains, it will likely cooperate at the regional level. However, if it is more concerned with the relative distribution of these gains within the region, in particular other states gaining more, it is likely to defect from regional cooperation schemes and act unilaterally. The more unequally gains from cooperation are distributed among members of regional organizations, the more likely those receiving relatively less than their counterparts will fear being the relative “loser” giving the state more incentive to defect.

This particular study focuses exclusively on regional organizations within Latin America in order to test the impact of asymmetrical economic gains on political indicators of cooperation. This focus on Latin America allows for further insight into the challenges faced by emerging regions as they seek to integrate. Through regional cooperation, emerging economies work to gain not only from easing interactions with each other but also signaling extra-regional actors and promoting development. This likely heightens the influence of relative gains within the group as they compete for extra-regional trade and investment as well as more relatively scarce regional capital. Asymmetric economic gains are likely to be detrimental in regions such as Europe and

North America as well. However, their impact may be more nuanced with the regions' primary focus begin easing and developing existing interdependence.

Conceptualizing Regional Cooperation

Regional cooperation is a complex variable that can be conceptualized on multiple dimensions. Past literature on regional organizations puts a heavy focus on intra-regional trade as a proxy for integration noting that the more states within a region trade with each other, the more interdependent their economies are. While this measure does capture a level of economic integration often caused by cooperation on economic policies, it misses the full complexity of regional cooperation by ignoring the social and political motivations. In addition, intra-regional trade is particularly biased against regions with developing economies that tend to rely heavily on extra-regional trade partners. Latin America has very low levels of intra-regional trade particularly when compared to Europe or North America often leading researchers to conclude that there has been little evolution in the region's level of cooperation. However, Latin America and other emerging regions often have different goals regarding regional cooperation efforts. Rather than a strict desire to become more economically interdependent by making trade more efficient, they often seek to increase development for member-states. This does not always happen through intra-regional trade with other struggling economies but can also take the form of standardizing policies and cooperating in order to attract extra-regional trade and investment. Additional goals of regional cooperation efforts often include the development of regional infrastructure and stabilizing member-states' democratic regimes to further growth and prosperity.

In conceptualizing cooperation for this research, I highlight three distinct aspects (shown in Figure 2.1 below). The first dimension is a sliding scale from closed to open cooperation. This dimension captures the angle or perspective of a cooperation effort as a group's position on it alters their goals and understanding of what the arrangement is supposed to achieve. Closed cooperation refers to cooperation that emphasizes an "us vs. them" mentality. In regional cooperation efforts, this often looks like an exclusionary agreement meant to strengthen relationships between member-states while excluding non-members from any benefits. An example of closed cooperation would be the Bolivarian Alliance for the People of Our America (ALBA) formed as a reaction against Western influence. In contrast, open cooperation refers to liberally-motivated cooperation that seeks to drop barriers among member-states as well as with non-member states. The newly formed Pacific Alliance⁶ is an example of such cooperation as it seeks to increase economic relations with non-member states around the world.

How open or closed a cooperation effort is affects the goals of the group as well as the type of agreements made. Both ends of the axis are likely to be impacted by asymmetrical economic gains though the mechanisms behind the relationship would differ. In open cooperation, states are focused on liberalization and integrating into the global economy. They therefore find themselves competing for the same goals they are cooperating to achieve such as foreign investment and increased global influence. In

⁶ The Pacific Alliance formed in 2011 with the goal of promoting neoliberal economic policies and expanding global trade. In contrast to ALBA, the Pacific Alliance seeks to integrate its members into the global economy in order to promote economic growth and development.

contrast, closed cooperation focuses on developing intra-regional ties and protecting the group from excessive extra-regional influence. As these states cooperate to promote internal development, they may compete over limited regional resources such as capital.

The second dimension to cooperation highlighted in Figure 2.2 is the focus of cooperation efforts as it captures the specific types of policies sought by the group. I list three primary foci of cooperation: economic, political, and social. Economic cooperation aims for harmonizing and increasing economic relations among member-states. Political cooperation focuses on increased diplomacy among members, minimizing security threats, and developing shared governing bodies. Finally, social cooperation includes efforts to build a shared identity through efforts such as common educational policies. These three categories are not mutually exclusive though the emphasis on each can vary throughout different cooperation efforts. For example, the Union of South American Nations (UNASUR) emphasizes economic cooperation through lower trade barriers as well as political cooperation with a focus on regional security⁷. As cooperation efforts expand and develop in one area, they are bound to spill into the other foci. For example, an organization cannot tackle all aspects of economic cooperation without spilling into political and social agreements.

The final dimension of cooperation is the primary focus of this study. It is a sliding scale from defection (“rule-breaking”) to passive (“rule-following”) to active

⁷ UNASUR formed in 2004 bringing together all states in South America. While it promotes economic interdependence among member-states, the organization’s primary goals include increasing political dialogue and promoting human development within the region.

(“rule-making”) cooperation that aims to capture the direction and momentum of regional cooperation efforts. The more active cooperation is, the more states in a regional organization are attempting to pursue continued meaningful cooperation in any of the three foci on either end of the scale between open and closed cooperation. This scale does not attempt to capture the depth of cooperation efforts. While active cooperation in the form of developing a free trade agreement is not equal to developing a monetary union (the latter being an example of much deeper cooperation), both would be examples of active cooperation. Though depth is an important aspect of cooperation, it has its own dimension that is not crucial for this study which seeks to explain waves of increased cooperation versus defection.

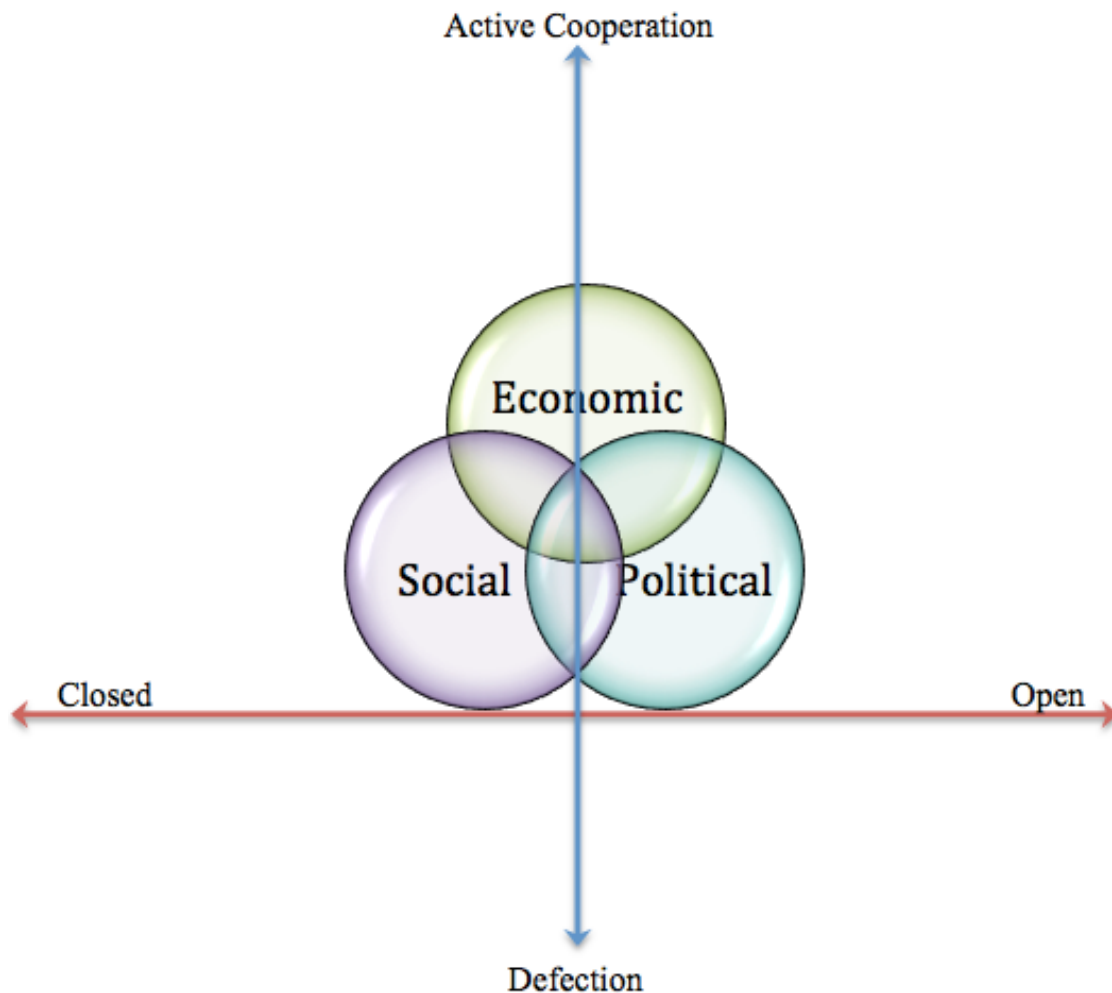


Figure 2.1. Conceptualizing Cooperation

No matter the angle (open/closed) or the focus (economic, political, or social) a group takes when approaching cooperation, regional efforts throughout Latin America fluctuate along the vertical axis of cooperation shown in Figure 2.1 moving from periods of defection to active cooperation. Despite many potential gains that can be achieved through cooperation such as economic growth and regional security, there is not a consistent upward trend in cooperation levels. This research seeks to understand the importance of the impact of symmetrical economic gains on indicators of cooperation.

The Importance of Relative Gains

Regional cooperation offers a number of potential economic, social, and political gains particularly to states in emerging regions such as Latin America. While this may be seen as a strong incentive for states to cooperate, states are often reluctant to deepen their interdependence and adopt uniform regional policies. “[Regional cooperation efforts] invariably face the formidable obstacle of the countries’ unwillingness (or lack of incentives) to forgo their sovereignty rights to define their own domestic policies” (Blyde et al, 2012, p. 207). Notably adding to states’ concerns is that expected gains from cooperation efforts are not always equally distributed among participating states. In particular, many economic gains from cooperation are expected to be distributed asymmetrically among member-states of regional organizations, and are more likely to flow to larger states first before trickling down to their smaller counterparts (Devlin & Ffrench-Davis, 1999, p. 278). This heightens states’ concerns about adopting regional policies as states do not want to lose relative to their neighbors.⁸

Previous work on the impact of relative gains over absolute gains builds on a major debate in international relations theory between neoliberals and neorealists (Grieco et al, 1993; Halas, 2009; Morrow, 1997; Powell, 1991; Werner, 1997). In this debate, neorealists counter the liberal assertion that the potential for absolute gains and an inherent harmony of interests encourages cooperation between actors. Instead, neorealists

⁸ If the region is already uneven, states may be hesitant to join in cooperation efforts to begin with unless there is some sort of agreement made to satisfy this concern. This work is not concerned with the formation of agreements, but rather with the variation of cooperation levels within a grouping after they’ve been formed, as well as variation between the many different groupings within Latin America.

stress the importance of considering the relative gains between actors and the negative impact that unequal distribution can have on cooperation at the international level.

According to neorealists, there is an inherent disharmony of interests among states as each seeks to increase its relative position in the international system. Each state's focus on relative gains makes international cooperation tentative at best if not impossible.

Much of this work is primarily focused on traditional security concerns and the potential for armed conflict between state actors. However, economic security and prosperity are also a major concern for states. Neoliberals have shown that international cooperation is possible, but there are few models for how countries are able to overcome the relative gains problem underscored by realists. More work needs to be done through an international political economy lens in order to understand the impact of relative gains on economic security and cooperation. Regional cooperation efforts provide an opportunity to study the impact of relative gains on economic security and cooperation as most are primarily focused on enhancing economic prosperity and development for member-states. In addition, the smaller membership of regional organizations allows us to more thoroughly analyze relationships within the grouping than if we were to focus on global economic cooperation efforts such as the WTO. Smaller group membership size is beneficial to solving collective action problems. Therefore, regional organizations are likely better equipped to overcome such problems in order to cooperate than their global counterparts.

Regional cooperation appears to suffer under conditions of unequal economic gains. Argentina defected from Mercosur's policies when Uruguay benefited

disproportionately from regional gains after the financial crisis of the late 1990s (Dabene, 2009). In the CACM, Honduras and El Salvador stopped cooperating after unequal trade distributions between the two member-states. Venezuela, Bolivia, and Ecuador have strayed from the agreements in CAN looking for greener economic pastures with the more rapidly developing Mercosur states. As Latin American regionalism has progressed, states have continued to express concerns about the unequal distribution of the gains it has created.

Requests for the creation of compensatory mechanisms have increased, as some members judged that the benefits of integration were not equally distributed. As an example, Mercosur has established a fund to deal with asymmetries, but all members are eligible to access it (Giordano & Devlin, 2011, pp. 352-353).

States are concerned with the distribution of gains created by regional cooperation though the impact of this concern is unclear.

One of the benefits states, particularly in emerging regions such as Latin America, hope to gain from regional cooperation is an increase in FDI inflows. Absolute gains to each state may occur if such efforts increase FDI inflows to the region. However, an uneven distribution of FDI among member-states could be problematic.

While regional integration can clearly induce foreign direct investment in the expanded subregional market, it can locate unevenly and - in the absence of harmonized incentives - be a source of competition among partners and a fiscal drain (Devlin & French-Davis, 1999, p. 278).

Despite the potential for absolute gains for all states involved, uneven distribution of FDI inflows can become a source of conflict within the region and even deter further cooperation efforts.

In addition to the distribution of FDI inflows, previous work on regional trade agreements (RTAs) in Latin America has found that the benefits of increased trade are

often not distributed equally among member-states. While uneven distribution of both the costs and benefits of RTAs are thought to be problematic for regional cooperation, it is unclear which states are inherently at a disadvantage.

On the one hand, [in the case of a typical RTA] smaller economies within an RTA are the ones that tend to benefit disproportionately from a trade agreement that ensures preferential access to large regional markets. On the other hand, the small countries are more vulnerable to the RTA imperfections owing precisely to their increased exposure to regional trade (Blyde et al, 2012, pp. 202-203).

States that are unhappy with the results of a RTA or feel that they have been treated unfairly are able to take their disputes to either the WTO or the RTA itself if it has set up a formal dispute settlement mechanism. In their work on regional disputes in Latin America, Gomez-Mera & Molinari (2014) find that large differences in the overall economic size of member-states tend to increase the occurrence of trade disputes within RTAs. These findings show dissatisfaction among smaller states within a group and somewhat contrast previous research that suggests larger states, or regional hegemons, are often dissatisfied with regional agreements feeling that it limits their relationships with larger extra-regional actors (Krapohl & Fink, 2014). Most often it is the state with a smaller economy within the group that initiates the dispute. Research suggests that asymmetry can be problematic for regional cooperation efforts but more work is needed to understand the impact of the distribution of economic gains rather than just the overall size difference among members.

Based on this past research, an asymmetrical distribution of economic gains within a regional organization is expected to hinder regional cooperation. When member-states receive relatively equal gains in terms of intra-regional trade flows, increased FDI, and enhanced economic growth, states will be more inclined to continue and even further

regional cooperation efforts. However, the less equal these gains, the more likely members are to become concerned with the distributions of gains and defect from cooperation. Figure 2.1 below highlights the expected relationship between asymmetric economic gains and regional cooperation.

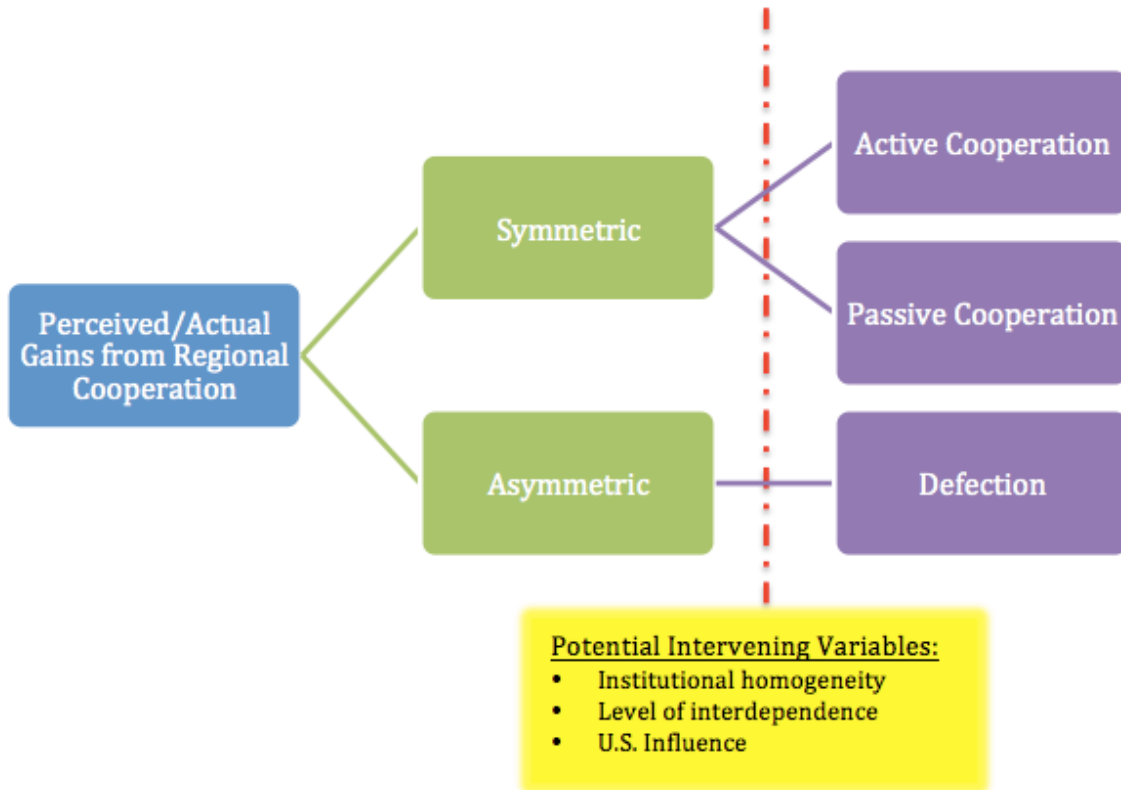


Figure 2.2. Expected Relationship between Symmetry of Gains and Cooperation

After a regional organization is created, member-states expect to gain from their cooperation on economic, political, and social policies. Success in achieving these gains for all members would be expected to have a positive impact on overall cooperation. However, the distribution of these gains among the member-states also plays an important role in the progression of regional cooperation. If the gains are distributed relatively equally, member-states within an organization realize the benefits of

cooperation and either continue with the status quo or decide to deepen ties. In contrast, if the gains are distributed relatively unequally, power dynamics in the region will shift leaving some states feeling potentially threatened or exploited. Those member-states receiving relatively fewer gains will perceive the cooperation arrangement as unfair and express concerns about being mistreated or left behind in the regional efforts despite any absolute gains they may experience. Member-states that gain disproportionately more than their neighbors might also pull back from regional agreements as they experience an increased strengthening of extra-regional ties, leaving them less reliant on the group. Therefore, an asymmetric distribution of gains among member-states is expected to decrease regional levels of cooperation. This can be observed through member-states weakening their ties with the group, defecting from regional policies, or even initiating conflicts with other states within the organization.

While the prospect of absolute gains is an incentive for states to participate in regional cooperation efforts, the relative distribution of these gains matter. However, additional factors may act as potential intervening variables altering the relationship between the distribution of gains and cooperation by making member-states less concerned with or threatened by unequal gains. First, institutional homogeneity among member-states, particularly in terms of regime type, suggests a level of shared norms within the organization potentially lessening any threat felt by states should their neighbors gain disproportionately from cooperation efforts. Secondly, higher levels of economic interdependence may decrease concerns with unequal distribution as close economic ties may eventually lead to a spillover effect for smaller states. Finally, the

presence of external influence from a global or potentially regional hegemon may force states to maintain cooperation efforts despite concerns with unequal distribution⁹.

Both perceived gains from the formation of the regional organization and actual gains received after its formation should impact overall cooperation among member-states. However, this research will primarily focus on actual gains received by member-states in a regional organization. The more unevenly economic gains are distributed among members of a particular organization, the more likely states will be to defect from cooperation through violating the agreements of the organization, exiting the organization, and/or initiating an interstate dispute. Policies such as the preferential treatment of lesser-developed states in the region should aid in minimizing unequal gains and therefore aid cooperation through reducing asymmetry among member-states.

Literature Review

Most existing research on regional cooperation stems from work done on the EU since its initial formation as the European Coal and Steel Community in the 1950s. This work provides valuable insights into the motivations behind and potential benefits of regional agreements. However, it helps much less in explaining why we see variation in cooperation in emerging regions such as Latin America. More comparative research involving non-European regions is needed to better understand the ebb and flow of regional cooperation efforts.

⁹ The influence of a global hegemon may have a negative impact on cooperation through discouraging regional cooperation via the encouragement of bilateral agreements. But the presence of a regional hegemon may also have a negative impact on cooperation as it may contribute to regional asymmetries and an unequal distribution of gains.

There is a growing body of literature on regional cooperation in Latin America. A large portion of this work focuses on comparing Latin American regional organizations to the European Union (EU) or North American Free Trade Association (NAFTA) (Dorrucci et al, 2004; Dorrucci et al, 2005; Duina & Buxbaum, 2008; Moxon-Browne, 2010; Munck & Hyland, 2013; Roy, 2010). These studies often utilize Eurocentric theories on regional integration such as neofunctionalism and liberal intergovernmentalism that stress, respectively, an escalating relationship between (economic) interdependence and cooperation through either a spillover effect from previous cooperation efforts or domestic-level pressures for economic liberalism. Comparing regional cooperation efforts in Latin America to Europe and North America using these Eurocentric theories does little to explain the variation seen within emerging regions due to Latin America's relatively low level of economic interdependence.

For example, Edward Moxon-Browne compares Mercosur and the EU to better understand their different levels of political integration. He concludes that the former is less integrated and remains focused on less consistent intergovernmental cooperation as opposed to more binding supranational cooperation due, at least in part, to its relatively low levels of economic interdependence (Moxon-Browne, 2010). Such studies comparing Latin American organizations to their more developed international counterparts highlight the broad differences between regions around the world and can help us narrow down potential factors that drive regional cooperation such as economic interdependence. However, they miss crucial differences between the various Latin American agreements

that might better illuminate such mechanisms and how they relate to emerging and developing regions.

Much of the work focused specifically on Latin American regionalism analyzes the rapid success and subsequent stagnation of Mercosur (e.g. Gardini, 2010). Additional research has sought to explain the revamping of regional cooperation in the 2010s among Mercosur's member-states by analyzing the impact of domestic pressures (Margheritis, 2013). Case studies of Mercosur provide insight into the internal workings of the organization and can illuminate specific countries' motivations for cooperation. However, by leaving out the neighboring regional groupings, these studies cannot explain variation in levels of cooperation throughout Latin America. With the recent 2004 creation of the Union of South American Nations (UNASUR) scholars have expanded their focus to look at the regional dynamics between CAN and Mercosur, the two major member groupings in UNASUR (Carrasquilla & Rivero, 2015; Nolte & Wehner, 2012) but do not explain the various failures and successes of regional cooperation seen within each grouping.

In their analysis of regional integration schemes around the globe, Yi Feng and Gaspare Genna (2003) seek to understand the relationship between domestic institutions and regional cooperation. They argue that similar domestic structures throughout a region enhance cooperation. Homogeneity of domestic institutions (such as regime type) makes it both easier and more beneficial for states to cooperate as it reduces the cost of implementation. In addition, similar institutions can promote similar interests and therefore enhance the motivation for cooperation. Feng and Genna's research on the

effects of state-level institutions suggests that an increased homogeneity of domestic economic institutions facilitates integration. Their research is not exclusive to Latin America though they do look at CAN and CACM as two of their cases. Feng and Genna ultimately find that both Latin American cases exhibit low levels of cooperation when compared to the EU. While this work provides some insight into the impact of domestic institutions on regional cooperation, it again does not explain the nuances found specifically within Latin America.

Laura Gomez-Mera (2008) looks at the effects of extra-regional factors on the implementation of regional agreements in Latin America. She argues that global interdependence and global power asymmetries lead to increased economic vulnerability in the region and hinder regional cooperation schemes. Gomez-Mera's assertion that global interdependence and international power structures impact regional cooperation relates to a large debate in regionalization studies. There is a growing body of work on the impact of globalization on regional relationships (Duina, 2006; Gomez-Mera, 2008; Hancock, 2009; Shiff & Winters, 2003; Tussie, 1998). However, there is a debate as to whether regionalization serves as a protectionist backlash to counteract global liberalization or a form of "training-wheels" to prepare developing states for eventual global economic integration. Some scholars in the former camp, see increasing regionalization as a sign of declining US hegemony arguing that protectionist blocks form as the global power structure shifts and is no longer able to promote a global economic order (see Mansfield & Milner, 1999, pp. 608-609). Others argue that regionalization is a protectionist reaction after globalization has failed to bring prosperity

to much of the developing world (Duina, 2006). Rather than a hindrance to globalization, scholars in the latter camp see regional integration as a building block to eventual global multilateralism.

A new multilateralism can emerge as the regional units become part of the collective decision-making process. Rather than being exposed directly to the multilateral level...countries will have a first direct say at the regional level. The new regional units will deal with each other on a more equal footing (Tussie, 1998, p. 93).

Further research is needed to better understand the impact of globalization on regional cooperation efforts. Do globalization and economic openness stimulate regional cooperation or are they detrimental to it, as Gomez argues?

In addition to her assertion that economic vulnerability from increasing global interdependence hinders regional cooperation, Gomez-Mera (2008) finds that, within Latin America, Mercosur struggles the most with implementing regional agreements while CACM and CARICOM are relatively successful. Through a statistical test of multiple explanatory variables, she concludes that regional hegemony is positively correlated with the implementation of regional agreements but only for the regional hegemon, not for the regional organization as a whole. For example, Brazil shows the highest level of implementation in Mercosur despite low levels in the organization overall. Gomez-Mera's findings contradict the expectation of many hegemonic stability theorists that a strong and dedicated hegemon is needed to increase cooperation throughout the region (e.g. Mattli, 1999), as Mercosur, the only organization with such a hegemon, shows the lowest levels of implementation of the cases observed.

There is a growing debate in the literature concerning the impact of a regional hegemon on regional cooperation. Hegemonic stability theory (HST) comes from

international relations and stresses the importance of a hegemon to building and maintaining international cooperation and stability (Gilpin, 1981; Ikenberry, 1992; Kindleberger, 1978; Keohane, 1984). Due to its unusual size and strength, a hegemon is thought able to provide international public goods such as institutions, as well as to help states overcome collective action problems associated with implementing international agreements. This same reasoning has been applied to regional agreements in which states seek collective gains through mutual cooperation. When forming and implementing regional agreements, states suffer from collective action problems in which states are reluctant to fully cooperate, despite the potential for mutual benefit, due to fear of free riders and defectors in the group. Therefore, a regional hegemon is considered necessary to enforce cooperation through supplying the necessary conditions to overcome such collective action problems, foster stability, and provide the collective good of regional institutions (Chacha, 2014; Charaf-Eddine & Strauss, 2014; Genna, 2008; Hansen, 1969; Mattli, 1999; Pedersen, 2002). Following HST logic, the absence of cooperation in the presence of a regional hegemon could be explained by a regional hegemon that either lacks the willingness to enforce cooperative behavior or is in decline and lacks the capability.

In contrast to HST proponents, some argue that the presence of a regional hegemon is often detrimental to cooperation efforts, particularly in developing regions such as Latin America (Krapohl & Fink, 2013; Krapohl et al, 2014). They argue that the economic strength and international connections of the regional hegemon allow it to defect from regional agreements and act unilaterally when it will be beneficial. This

behavior damages long-term cooperative relationships within the region and can build resentment in the smaller states. Sebastian Krapohl and Simon Fink (2013) test this theory using trade network data for Mercosur, the South African Development Community (SADC), the Association of Southeast Asian Nations (ASEAN), and the EU. They find that the regional hegemon in both Mercosur and SADC often exploits its increased bargaining power and acts unilaterally when regional cooperation is less efficient. Therefore, in contrast to HST proponents, regional groupings that include a regional hegemon are expected in this view to show lower levels of cooperation.

Adding to the debate on the impact of a regional hegemon on cooperation, a similar strain of literature seeks to combine both the international and regional emphasis on hegemonic power. This literature posits that the international hegemon must assist a regional hegemon in implementing regional agreements in order for them to be successful (Katzenstein, 2005; Kupchan, 1998). When it is in the global hegemon's best interest for a region to cooperate, it can press for increased regional arrangements via a regional hegemon. While this may support the different levels of integration seen between Europe and East Asia (Katzenstein, 2005), further research is necessary to understand any impact of the US/global hegemon's influence on regional cooperation in Latin America. With only one hegemon in the region, Brazil, how are Mercosur and other arrangements including Brazil impacted by US influence? Additionally, does US influence play a significant role in cooperation in any of the other regional groupings lacking a regional hegemon?

While the body of work on regional cooperation in Latin America continues to grow, more comparative work must be done to understand the critical factors involved in regional cooperation. In particular, it is important to expand our research comparing regional groupings within Latin America rather than to their counterparts in Europe or North America in order to more clearly see the factors facilitating and impeding cooperation in this emerging region. This research will therefore explore the impact of asymmetric economic gains on cooperation while controlling for the alternative explanations discussed above.

Conclusion

Latin American states have much to gain from regional cooperation including increased trade, external investment, and bargaining power in the international arena. Even those states and regional organizations ideologically opposed to integrating into the global economy can gain the benefits of decreased dependency on global trade, increased preferences to local markets, and assistance with economic growth through joint infrastructure projects. Despite these gains, states in Latin America struggle to continue or increase their levels of cooperation. Rather than a gradual increase in regional cooperation efforts, organizations experience a wide variation in levels of cooperation both over time and when compared to one another.

Regional cooperation is a complex variable covering economic, political, and social factors. Its full range cannot be captured through intra-regional trade levels alone. This research will look particularly at political indicators of cooperation focusing on the direction and momentum of regional cooperation efforts. What factors increase political

indicators of cooperation? Perhaps even more importantly, what factors lead to periods of defection throughout the region?

There is a great deal of existing literature on Latin American regional cooperation and the topic of regional integration more broadly. A majority of this literature utilizes Eurocentric integration theory focused on high levels of economic interdependence often directly comparing the EU to emerging regions. This literature therefore misses the nuances in less interdependent regions such as Latin America. In addition, there is a lack of comparative work among regional organizations in emerging economies.

Working off of previous studies on regional and international cooperation through a comparison of regional organizations throughout Latin America, this research expects to find that unequal distribution of gains among member-states is a major impediment to cooperation. Though cooperation is expected to produce many gains in absolute terms for states, such gains are often distributed unequally. The more unequally gains from cooperation are distributed among members of regional organizations, the more likely those receiving relatively less than their counterparts will have incentive to defect. This research explores the impact of unequal distribution of gains and economic heterogeneity with an organization on regional cooperation efforts.

Chapter Three: Methods and Results

Introduction

As discussed in the previous chapter, past literature on regional integration expects member-states to experience overall gains as they join these regional organizations. Gains can include economic benefits such as increased trade, FDI inflows, and GDP growth within the region. Though these gains are expected through membership in a regional organization, this research does not look specifically at whether or not they are created. Instead, its focus is to understand if unequal distribution of such potential gains (or losses) has an impact on an organization's member-states ability to cooperate with one another. Based on inferences from past research on international cooperation, an asymmetrical distribution of economic gains among member-states within a regional organization is expected to hinder their overall level of cooperation. The argument presented here is that when member-states receive relatively equal gains in terms of intra-regional trade flows, increased FDI, and enhanced economic growth, states will be more inclined to continue and even further regional cooperation efforts. If the gains are distributed relatively equally, member-states within an organization realize the benefits of cooperation and either continue with the status quo or decide to deepen ties. However, the less equal these gains, the more likely members are to defect from cooperation within the organization. If the gains are distributed relatively unequally among member-states,

power dynamics in the region will shift leaving some states feeling potentially threatened or exploited and therefore less inclined to pursue cooperation efforts.

My primary hypothesis is that higher levels of economic asymmetry between member-states will lead to lower levels of political cooperation within a regional organization. H1 and H2 below aim to test this directly through looking at the overall variation in economic measurements throughout each region. While H2 is not directly testing economic indicators, the assumption is that a hegemon is a strong indicator of economic asymmetry within a region. H3, H4, and H5 capture additional variables expected to have a significant effect (either positive or negative) on cooperation based on previous literature.

H1: An increase in economic variation (measured by balance of trade, FDI inflows, GDP growth, and economic openness) between member-states will lead to lower levels of cooperation.

H2: The presence of an economic regional hegemon will decrease levels of cooperation.

H3: An increase in intra-regional trade and/or the similarity of regime type between member-states will increase levels of cooperation index (positive effect control variables).

H4: An increase in the total number of member-states within an organization will decrease levels of cooperation (negative effect control variables).

H5: An increase in the variation of US influence among member-state within an organization will decrease levels of cooperation (negative effect control variables).

To test the impact of asymmetric economic gains and potential additional variables on regional cooperation in Latin America, I created a dataset for 16 Latin American regional organizations. The years observed ranged from 1953 to 2015. Nine independent variables were measured and tested for significant relationships with the dependent variable of regional cooperation.

Case Selection

The 16 Latin American regional organizations observed including the year they were founded and their total membership are listed below in Table 3.1. These 16 groupings represent the regional organizations that have formed in Latin America for the purposes of promoting economic and/or political cooperation within the region. Free trade agreements such as NAFTA, CAFTA, and LAFTA are not included due to the extremely limited scope of their agreements and lack of institutional structure. Additionally, 2/3 of NAFTA's membership is composed of non-Latin American states. Similarly, the Organization of American States was omitted for its inclusion of the United States and Canada.

Table 3.1
List of Latin American Regional Organizations

<u>Name</u>	<u>Abbreviation</u>	<u>Year Founded</u>	<u>Members (year joined if after founding)</u>
Association of Caribbean States	ACS	1994	Antigua & Barbuda, Bahamas, Barbados, Belize, Colombia, Costa Rica, Cuba, Dominica, Dominican Republic, El Salvador, Grenada, Guatemala, Guyana, Haiti, Honduras, Jamaica, Mexico, Nicaragua, Panama, St. Kitts & Nevis, St. Lucia, St. Vincent & the Grenadines, Suriname, Trinidad & Tobago, Venezuela
Amazon Cooperation Treaty Organization	ACTO	1978	Bolivia, Brazil, Colombia, Ecuador, Guyana, Peru, Suriname, Venezuela
Association of Latin American Integration	ALADI	1980	Argentina, Bolivia, Brazil, Chile, Colombia, Cuba (1998), Ecuador, Mexico, Panama (2009), Paraguay, Peru, Uruguay, Venezuela
Bolivarian Alliance for the People of Our America	ALBA	2004	Antigua & Barbuda (2009), Bolivia (2006), Cuba, Dominica (2008), Ecuador (2009), Grenada (2014), Nicaragua (2007), St. Kitts & Nevis (2014), St. Lucia (2013), St. Vincent & the Grenadines (2009), Venezuela
Central American Common Market	CACM	1960	Costa Rica (1962), El Salvador, Guatemala, Honduras, Nicaragua
Andean Community	CAN	1969	Bolivia, Chile (left 1976), Colombia, Ecuador, Peru, Venezuela (joined 1973, left 2006)
Caribbean Community	CARICOM	1958	Antigua & Barbuda (1974), Bahamas (1983), Barbados, Belize (1974), Dominica (1974), Grenada (1974), Guyana, Haiti (1998), Jamaica, Montserrat (1974), St. Kitts & Nevis (1974), St. Lucia (1974), St. Vincent & the Grenadines (1974), Suriname (1995), Trinidad & Tobago

Community of Latin American & Caribbean States	CELAC	2011	Antigua & Barbuda, Argentina, Bahamas, Barbados, Belize, Bolivia, Brazil, Chile, Colombia, Costa Rica, Cuba, Dominica, Dominican Republic, Ecuador, El Salvador, Grenada, Guatemala, Guyana, Haiti, Honduras, Jamaica, Mexico, Nicaragua, Panama, Paraguay, Peru, St. Kitts & Nevis, St. Lucia, St. Vincent & the Grenadines, Suriname, Trinidad & Tobago, Uruguay, Venezuela
Southern Common Market	Mercosur	1991	Argentina, Bolivia (2015), Brazil, Paraguay, Uruguay, Venezuela (2012)
Organization of Eastern Caribbean States	OECS	1981	Antigua & Barbuda, Dominica, Grenada, Montserrat, St. Kitts & Nevis, St. Lucia, St. Vincent & the Grenadines
Pacific Alliance	PA	2011	Chile, Colombia, Costa Rica (2016), Mexico, Peru
Central American Parliament	PARLACEN	1987	Costa Rica, Dominican Republic (1998), El Salvador, Guatemala, Honduras, Nicaragua, Panama (1994)
Petrocaribe	PC	2005	Antigua & Barbuda, Bahamas, Belize, Cuba, Dominica, Dominican Republic, Grenada, Guatemala (2008), Guyana, Haiti (2007), Honduras (2007), Jamaica, Nicaragua (2007), St. Kitts & Nevis, St. Lucia, St. Vincent & the Grenadines, Suriname, Venezuela
Latin America & Caribbean Economic System	SELA	1976	Argentina (1977), Bahamas (1998), Barbados, Belize (1992), Bolivia, Brazil, Chile (1977), Colombia (1979), Costa Rica (2010), Cuba, Dominican Republic, Ecuador, El Salvador (2009), Guatemala, Guyana, Haiti (1977), Honduras, Jamaica, Mexico, Nicaragua, Panama, Paraguay (1986), Peru, Suriname (1979), Trinidad & Tobago, Uruguay (1977), Venezuela
Central American Integration System	SICA	1991	Belize (2000), Costa Rica, Dominican Republic (2004), El Salvador, Guatemala, Honduras, Nicaragua, Panama

Union of South American Nations	UNASUR	2004	Argentina, Bolivia, Brazil, Chile, Colombia, Ecuador, Guyana, Paraguay, Peru, Suriname, Uruguay, Venezuela
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Data was initially collected for each variable by observing country data by year (e.g. Colombia 1990). This data was then compiled to create an organizational aggregate for each organization by year. Therefore, while the unit of observation was individual states, the unit of analysis for each observation used is regional organization by year (e.g. ACTO 1990). While individual state-level data was necessary in order to compile the aggregate data for each organization over time, the analysis in this research is concerned with the relationship of the measurements for each state, such as the variation or average, among member-states in a given organization. Many states in the region are involved in multiple organizations simultaneously. However, the measurement for each organization is unique as it captures the unique nature of that particular organization in a given year. For example, while Colombia is involved in measurements for both UNASUR and the Pacific Alliance, the level of variation it has with its fellow member-states is different in each case due to each organization's unique membership composition. It is this relationship among the measurements for each member-state within an organization that the unit of analysis captures.

Each regional organization was observed from 5 years prior to their formation through 2015 in order to capture the member-states' variation and cooperation in the years of negotiations leading to the organization's formation. Organizational aggregate data includes all member-states of an organization beginning 5 years prior to membership. Member-states that exit an organization are no longer included in the

aggregate measurement starting their first full year of non-membership. In total, the dataset contains a total of 536 observations.

Measuring Regional Cooperation

The dependent variable for this research is regional cooperation. As discussed in the previous chapter, regional cooperation is a complex variable that can be conceptualized on multiple dimensions. This research is focused on capturing aspects of political cooperation within regional organizations in an effort to highlight the strength of relationships built politically between its member-states and explain why levels of such cooperation in Latin America vacillate over time. While not all of the organizations observed here are economically focused in their missions, asymmetric economic indicators are likely to impact states' ability to form deeper political ties within the organization which they are all aiming for to some degree.

For this research, regional cooperation was operationalized using five indicators meant to capture the depth of political relationships between states in an organization. The first three indicators capture both active and passive cooperation within the organization by observing the depth of formal agreements and diplomatic relations. The more political ties established among member-states through these formal procedures, the higher the organization's level of cooperation is considered to be. In contrast, the next two indicators capture defection or conflict within the group via interstate disputes. These indicators highlight periods where relationships are strained among member-states within an organization and cooperation levels decline.

Positive Indicators of Cooperation. The first indicator to capture formal political relationships between states is the level of diplomatic relations. As member-states develop deeper diplomatic ties through the establishment of embassies and official ambassadors, their formal connections deepen and political cooperation can increase. Data on the level of diplomatic relations within Latin America were collected from the Pardee Center for International Futures. The initial measure was between country dyads to show the total level of diplomatic representation (LOR) of Country A in Country B using an index from 0 to 1 with 1 representing the highest level of representation.¹⁰ In order to aggregate this data for each regional organization, I first found the annual average LOR score for each state with all of its fellow member-states. I then took the average of the LOR score of all member-states within the organization to create a score for the organization itself for each year. For example, the average LOR for Argentina with each member of Mercosur was calculated for 1991. This was done for each member of Mercosur and then these state scores were averaged in order to determine the overall LOR score for Mercosur in 1991.

While the majority of the organizations observed either maintain or increase their level of diplomatic representation over time, there are a few notable exceptions including ALBA, CARICOM, and OECS. The low level of representation within CARICOM and OECS is likely due to their relatively small member-states consisting exclusively of island states in the Caribbean. In contrast, ALBA appears to decrease its LOR score with

¹⁰ A 1 indicates a strong diplomatic relationship between 2 states including a dedicated embassy and ambassador. In contrast, a 0 indicates no formal diplomatic relations. See Appendix A for a more details on the LOR scale.

the gradual addition of new members suggesting that widening cooperation efforts does not always deepen overall ties.

The second indicator to capture formal diplomatic relations within regional organizations is an alliance index. This indicator measures the overall level of formal military alliances between member-states with deeper alliances indicating a higher level of cooperation. Data for the alliance index was collected from the Alliance Treaty Obligations and Provisions Project (ATOP) at Rice University¹¹ at a country dyad level in order to capture the level of formal military alliances between two states for a given year. The index variable includes nonaggression, defensive, and offensive agreements weighting the presence of an offensive obligation the most heavily.¹² Similar to the LOR score, the average alliance index score for each state with its fellow members was calculated for each year in each organization. The annual average for the organization was then determined.

The possible range for the alliance index score is from 0 to 330. However, over the time observed, Latin America as a whole only demonstrated a range from 0-101.67 and an average score of 91.11. All organizations observed either increase or maintain the same alliance index score over time with the exception of ALADI that dropped significantly with the addition of Cuba in 1998 (measurements including Cuba for ALADI began in 1993, 5 years prior to official membership). This indicates deeper

¹¹ This data was initially collected from ATOP by the Pardee Center for International Futures and then used for this research.

¹² See Appendix A for formula for alliance index.

military cooperation within the region over time while highlighting more contentious political relationships.

The final measurement to capture formal political cooperation within regional organizations is a trade index that measures the depth of economic agreements between states. Levels of political cooperation increase among states as they enter into more binding and open economic agreements with each other. While the actual implementation of these agreements drastically varies, the act of negotiating and signing such agreements indicates deeper relationships among the member-states and an increase in cooperation efforts. Data for the trade index was collected from the World Bank's Preferential Trade Agreements Database and formulated into an index by the Pardee Center for International Futures in order to demonstrate the depth of trade agreements within country dyads by year. The trade index observes the presence of any trade agreement ranging from an enforced preferential trade agreement to a signed customs union accession agreement, weighting the latter most heavily.¹³ First, the trade index score was found for all country dyads within an organization for a given year. To create an organizational aggregate, the annual average of all dyads within that organization was calculated.

The possible range for the trade index score spans from 0 to 102. However, over the years observed, the range for Latin American regional organizations spanned from 0 to 48 with a mean of 15.73. This highlights the generally low levels of economic integration efforts within Latin America during the time observed. However, the general trend in the region shows a positive increase in the depth of trade agreements despite both

¹³ See Appendix A for the formula used to generate the trade index variable

Mercosur and the Pacific Alliance seeing reduced levels of cooperation in trade agreements as they took on additional members in recent years.

Negative Indicators of Cooperation. In contrast to the previous indicators of cooperation, the next two indicators capture defection or disputes between member-states in an organization highlighting a decrease in their overall cooperation level. In order to capture dispute levels within the region, I measured both militarized interstate disputes and formal disputes brought to the World Trade Organization (WTO). Data on militarized interstate disputes was collected from the Correlates of War Project. For each year, I calculated the total number of interstate disputes within each organization. If a dispute spanned more than one year, it was included in all years it was active. For example, a dispute between Honduras and Nicaragua lasting from 1981 and 1985 was counted in each year's total disputes for CACM. To weigh the magnitude of disputes, the highest level of fatalities (coded 0-6) and highest level of militarized action (coded 0-5) were also observed.¹⁴ This weight allows for more violent and heavily militarized disputes to have a stronger negative impact on overall cooperation levels than their less violent counterparts.

In addition to data on militarized inter-state disputes, data on WTO disputes was collected from the WTO Dispute Settlement Database¹⁵. Formal disputes brought to the WTO indicate a decrease in regional cooperation as member-states turn to a multilateral

¹⁴ See Appendix A for further information on the coding of level of fatalities and militarized action.

¹⁵ This data was initially collected by the Pardee Center for International Futures and then utilized for this research.

organization for assistance in solving economic conflict. This indicator was measured as a binary variable capturing whether or not a dispute is present between two states. The total number of disputes taken to the WTO between member-states in an organization was calculated for each year. There are no WTO disputes measured prior to 1995 when the WTO was formed.

To capture the total level of disputes within an organization, I created an index variable combining the number of interstate disputes, the highest level of fatalities, the highest military act taken by either side, and the number of WTO disputes for each organization by year. This index variable ranges from 0-14¹⁶ and gives more weight to heavily militarized disputes than disputes taken to the WTO. Though there was only one instance of interstate war¹⁷ within Latin America during the time period observed, all regional organizations with the exception of ALBA and the Pacific Alliance experienced at least one year of interstate disputes between their member-states indicating temporary periods of decreased levels of cooperation.

Cooperation Index. After collecting the data for each indicator above, I assembled an index measurement for cooperation. This was done to better capture the conceptualization of cooperation as a multifaceted variable as laid out in this research. While each indicator measures cooperation on its own, the combination of them into an index variable generates a more thorough picture of the political ties within the regional

¹⁶ Theoretically, the index could continue indefinitely. It is only limited by the number of disputes present within a region.

¹⁷ The 1969 “Soccer War” between Honduras and El Salvador in CACM

organization in a given year. In addition, the creation of an index variable helped to combat the sporadic distribution of each dependent variable on its own interfering with valid regression analysis. To create the cooperation index, each indicator with the exception of dispute level was standardized to fit a 0-1 scale and then added together to create a total cooperation score using the formula below:

$$\textit{Cooperation} = \textit{Level of Representation} + \textit{Alliance Index} + \textit{Trade Index} - \textit{Dispute Level}$$

The first three indicators of the cooperation index are equally weighted as they each reflect variations of formal political ties between states that strengthen relationships. The dispute level indicator was also standardized in order to prevent disputes from exerting an extraordinary influence when calculating the overall level of cooperation. Should an organization have perfect scores in level of representation, alliance index, and trade index, yet a conflict between members, the dispute level would significantly reduce the overall cooperation score though it cannot bring the score into the negative.

Figure 3.1 below shows the range of cooperation over the time observed highlighting the highest, average, and lowest recorded levels for each organization. Some organizations such as CAN and CACM have a wide range of cooperation over time while others such as the Pacific Alliance have a small range, primarily due to its young age as an organization. Despite struggling with membership loss, as of 2013 CAN had the highest overall score for cooperation in the region while Mercosur, previously the highest, has struggled in recent years. Overall, SELA displays the lowest average level of cooperation while Mercosur has the highest. While, as a region, Latin America shows a gradual increase in cooperation levels in the time observed, the trend is not consistent

with organizations showing dips and peaks in cooperation levels over time. Both between regional organizations and within them over time, overall cooperation levels show a great deal of variation¹⁸.

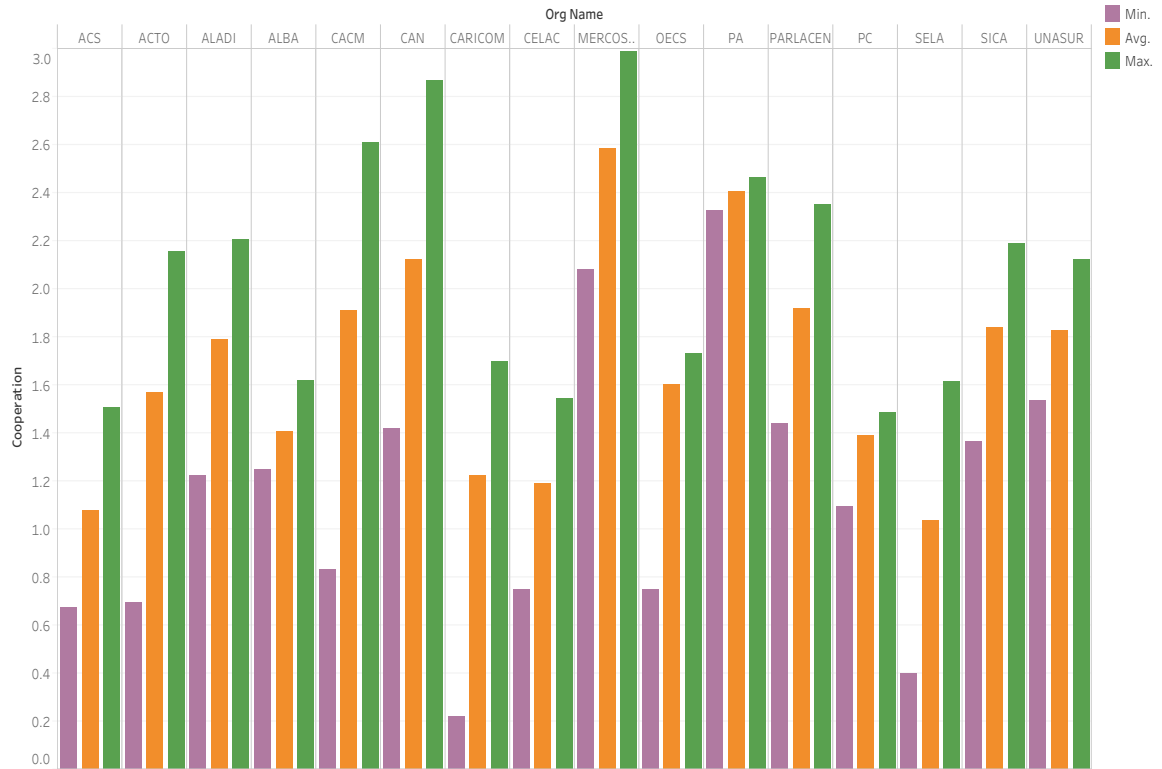


Figure 3.1. Cooperation levels by organization. Minimum, average, and maximum values for each organization over period observed.

Capturing Economic Asymmetry

Five economic indicators were measured in order to capture the overall levels of economic asymmetry within the regional organizations observed. These indicators include the presence of a hegemon, balance of trade, FDI inflows, GDP growth, and economic openness. While each variable was measured on a state level initially, both the

¹⁸ See Appendix B for a histogram demonstrating relatively normal distribution of the cooperation index among all cases observed.

average and the variation of these measurements¹⁹ utilized the data in order to create an observation for each organization by year and capture the relationships between member-states in each organization. Therefore, despite overlapping membership in many organizations, each indicator is unique to the specific organization and year in which it was measured. Higher *average* scores on these economic indicators throughout the organization are an indication of economic health and are often stated as specific goals of the organization itself. Therefore, higher average scores are likely to be beneficial for cooperation if these gains are distributed relatively equally among the group. However, higher *variation* of economic indicators among member-states in a regional organization indicate a higher level of economic asymmetry and unequal gains among member-states. This is expected to have a negative relationship with overall cooperation levels.

Presence of a Hegemon. The first variable that captures economic asymmetry within the region is the presence of a hegemon. For this research, a hegemon was considered any state with a GDP at least three times larger than the next largest state in the organization²⁰. The presence of a state with a significantly larger GDP than its fellow member-states suggests that there is a clear economic power in the grouping and therefore an increased level of economic asymmetry. A dummy variable was used to

¹⁹ Neither the average nor variation of the indicator for a regional hegemon was calculated as it is a binary variable determined by the overall structure of the regional organization and the relationship between its member-states' relative size.

²⁰ This measurement was used as it was the largest multiplier available to maintain Brazil's hegemony in Mercosur with the presence of Argentina. As there is a wide consensus within the literature that Brazil is the economic hegemon within the organization, this relationship was important to maintain in any operationalization of a regional hegemon for this research.

represent the presence of a hegemon with a 1 indicating its presence and a 0 its absence. Table 3.2 shows the distribution of these scores over the organizations and time period observed. 7 of the 16 organizations observed are categorized as having a hegemon and include states such as Mexico, Brazil, and Venezuela²¹. None of the organizations changed in terms of the presence of a hegemon over the time period observed.

Table 3.2
Presence of a Hegemon

Presence of Hegemon	0	1	Total
Frequency	376	160	536
Percent	70.15%	29.85%	100%

Balance of Trade. The next indicator of economic asymmetry is the variation in overall balance of trade within the region. In order to capture asymmetric economic gains, I looked at the distribution of trade within each region. For each state, I calculated the net current account balance as a percent of GDP from data beginning in 1969. I then took both the standard deviation and the average for each organization over time. Within the period observed, the average balance of trade as percent of GDP varied from -29.13% to 13.93% and an average of -5.35% suggesting that the region maintained a negative balance over the majority of the time observed. The standard deviation in balance of trade within the region reached its peak in the early 1970s showing a spike in economic asymmetry and has been gradually declining since 2010. Figure 3.2 shows the variation the members' current account balances by organization.

²¹ When two or more of these states are present in the same organization, no economic hegemon is present due to their more comparable economic size.



Figure 3.2. Variation in member-state current account balances by organization. The data in the figure reflects the minimum, average, and maximum variation between member-states over the period observed.

Figure 3.3 shows the average balance of trade for each regional organization on the left and the average variation in the balance of trade for each organization on the right as they relate to the organization’s average level of cooperation throughout the time period observed. While Figure 3.3 only highlights very general trends it suggests a weak yet positive relationship between average current account balances and cooperation levels between organizations. In contrast, organizations with a higher degree of variance between their member-states’ current accounts appear to have a lower overall level of cooperation. The presence of a hegemon is accounted for in the figures below. Interestingly, there does not appear to be a notable difference in organizational balance of trade indicators between organizations with and without a hegemon despite its unusually large economic size.

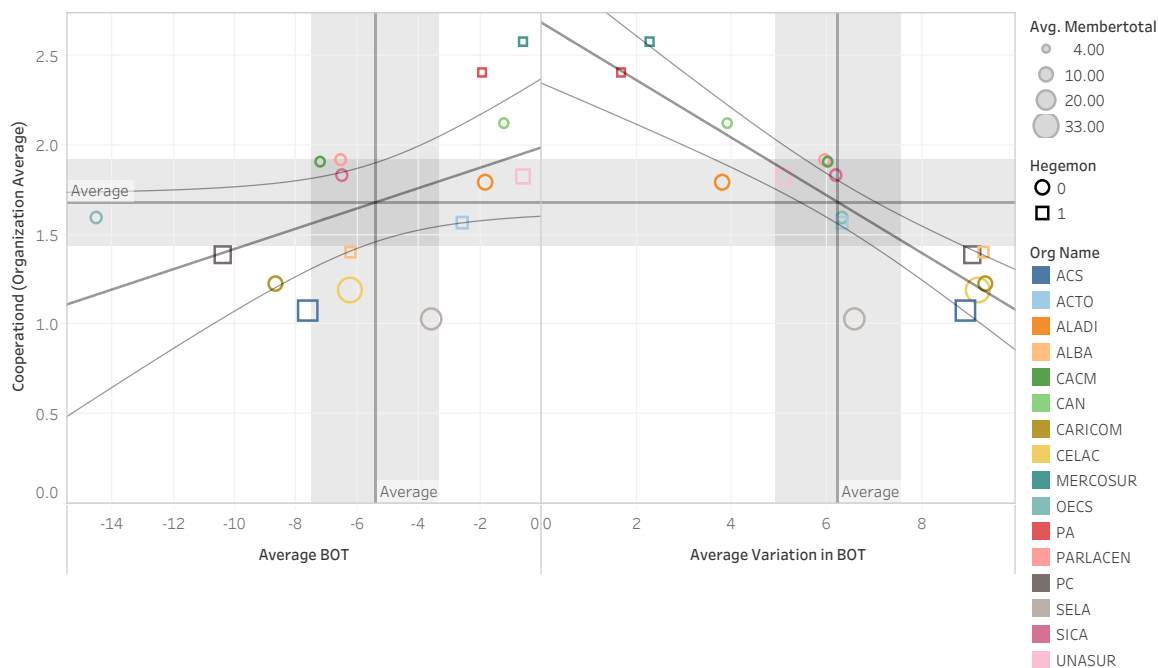


Figure 3.3. Balance of trade (BOT) and cooperation levels by organization. The figure shows the average current account balance of member-states within an organization over the period observed on the left. The right half show the average variation in current account balances among member-states over the period observed.

I also calculated the regional balance of trade to capture the asymmetry of trading relationships within the region alone without regard to overall current account balances for member-states. This measurement captures any regionally specific trade imbalances between member-states that may impact political cooperation efforts. To capture the overall variation and asymmetry in regional trade flows, I took the difference for each state between its exports and imports exclusively to its fellow member-states in an organization as a percent of GDP for each year. Within the period observed, the average regional balance of trade as percent of GDP varied from -20.78% to 3.51% and an average of -1.89%. The standard deviation in balance of trade within the region reached

its peak in the early 2011 and has been gradually declining since showing a slight decrease in economic asymmetry throughout the region in recent years.²²

FDI Inflows. Another indicator of economic asymmetry is the distribution of FDI inflows to the region. To capture this, I calculated the total FDI inflows for each state divided by its GDP in order to control for the overall economic size of each member-state as larger economies are generally expected to draw more total investment.²³ I then determined the variance in these inflows among member-states through calculating the standard deviation per year. To measure the average level of FDI inflows within an organization, I calculated the total inflows to all member-states as a percent of their total combined GDP. Figure 3.4 shows both the average level of FDI inflows as well as the variance in the distribution of this FDI for all of Latin America over the time observed. Though, as a whole the region has seen an increase in FDI inflows since 1970, there is also increasing variation in its distribution. The figure suggests that as inflows to the region rise, so does the variation in their distribution highlighting that the FDI inflows are not rising equally throughout the region even when controlling for the GDP of individual states.

²² While the average and variation of regional balance of trade among member-states were calculated separately, they are closely related to each other. Unlike the previous measurement involving overall current account balances, this measurement only considers intra-regional trade. This means that a negative value in average regional trade balances must coincide with an increase in variation of member-states' regional trade balances. In other words, they are highly negatively correlated.

²³ Measurements for FDI inflows begin in 1970 due to data availability.

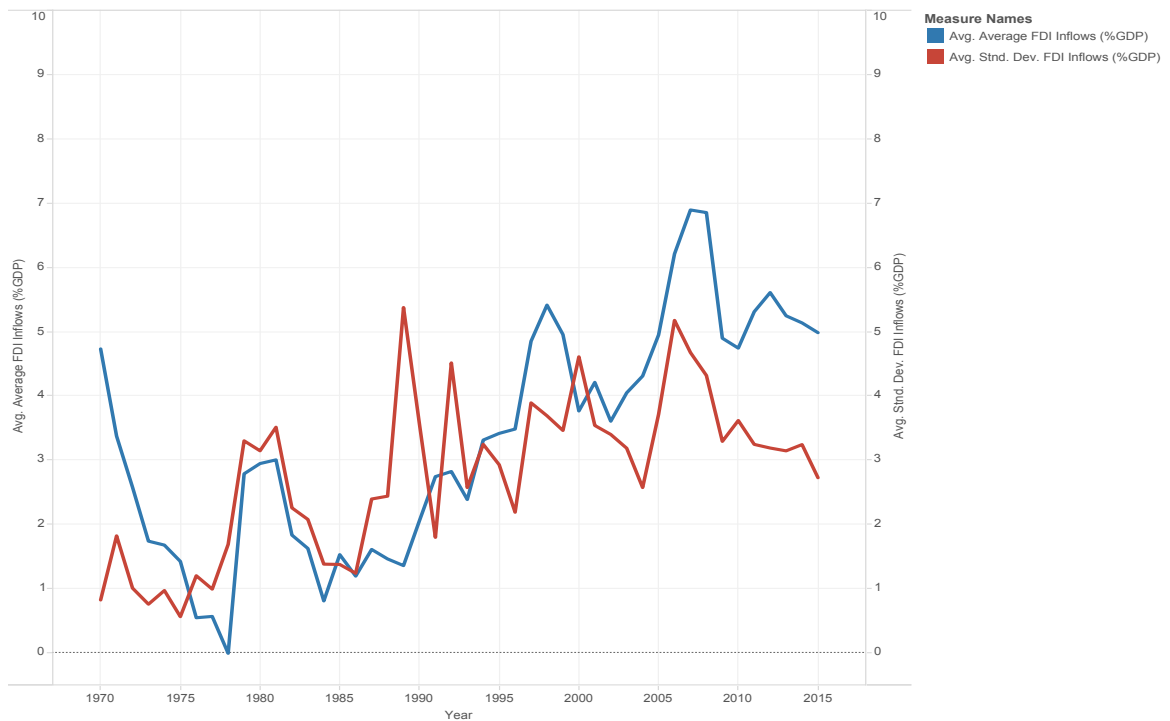


Figure 3.4. FDI Inflows as % GDP for Latin America (1970-2015)

Figure 3.5 shows the average level and variation of FDI inflows for each organization compared to its average level of cooperation throughout the time period observed. While the figure only highlights very general trends among the organizations, it suggests there is not a significant relationship between the average level FDI inflows and an organization's level of cooperation. In contrast, variation in FDI inflows among member-states appears to have a strong negative relationship with overall cooperation levels. In general, organizations in which FDI inflows are more unevenly distributed therefore indicating increase economic asymmetry appear to have lower overall levels of cooperation.

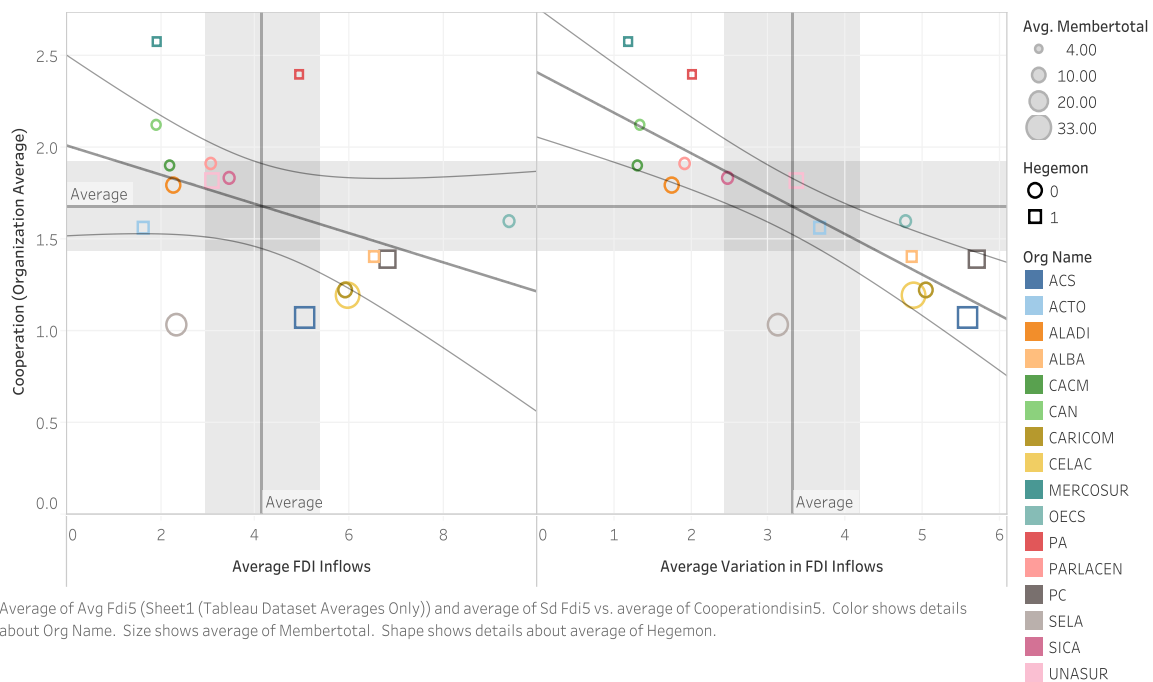


Figure 3.5. FDI by organization. The figure shows the average levels of FDI inflows within an organization as well as the average variation in FDI inflows among member-states over the period observed.

GDP Growth. A third indicator of economic asymmetry is the variation in GDP growth rates within an organization. To capture this variation, I calculated the GDP growth for each state in an organization for a given year and found the standard deviation among all member-states. In addition, the average GDP growth rate for each organization as a whole was calculated to show the overall economic health of the group. Many regional organizations cite economic growth as a motivation for cooperation efforts. Therefore, while an increase in the overall growth rates for the region would suggest successful cooperation and likely further efforts, asymmetrical growth is likely to hinder such efforts. Over the period observed, the average GDP growth rates for Latin America have been volatile with both the economic crises of the 1980s and 2008 contributing to severe drops in growth rates throughout the region. Average growth rates have remained

volatile in the time observed though the variation in growth rates within the Latin American region as a whole has marginally declined since the late 1970s suggesting a very slight decrease in economic asymmetry.

Figure 3.6 shows the relationship between cooperation and both the average overall growth rate and the average variation in growth rates for each organization. While the information in the figure presents only a general trend, it suggests that organizations with higher growth rates tend to do slightly better in terms of cooperation. However, similarly to the measure of FDI inflows, there is a stronger relationship between the variation in growth rates and cooperation than the overall level of growth rates. Organizations with a higher variation of growth rates among their members appear to suffer over time in terms of overall cooperation levels.

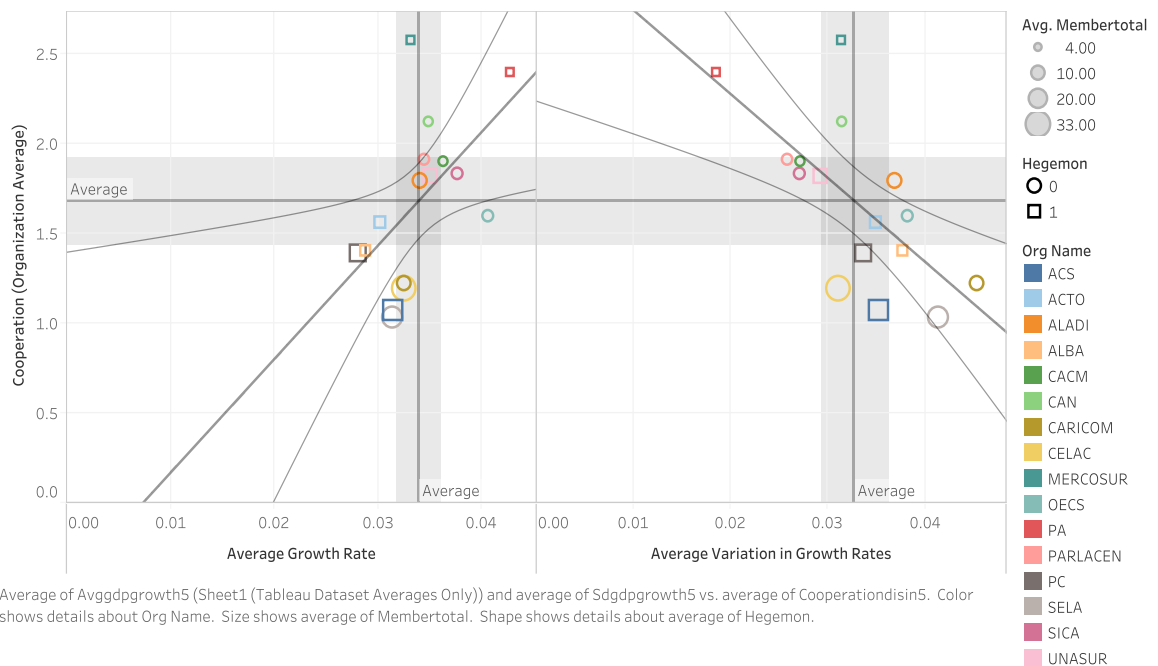


Figure 3.6. GDP growth rates by organization. The figure shows the average levels of GDP growth rates within an organization as well as the average variation in GDP growth among member-states over the period observed.

Global Integration. The final measurement of economic asymmetry for this research captures the levels of economic openness within an organization. The overall level of economic openness of a regional organization is expected to have mixed effects on regional cooperation levels as not all organizations strive to open up to the global economy. In contrast, high levels of variation in economic openness are expected to hinder regional cooperation efforts as member-state pursue differing policies. Both the average level of involvement in the global economy as well as the variance in global integration levels within an organization were calculated. Measuring each state's total trade as a percentage of its GDP for each year from 1960 to 2015, average trade as a percentage of GDP was determined for each organization as a whole. In addition, the standard deviation of trade/GDP between member-states was calculated for each organization in order to capture the variation in economic openness.

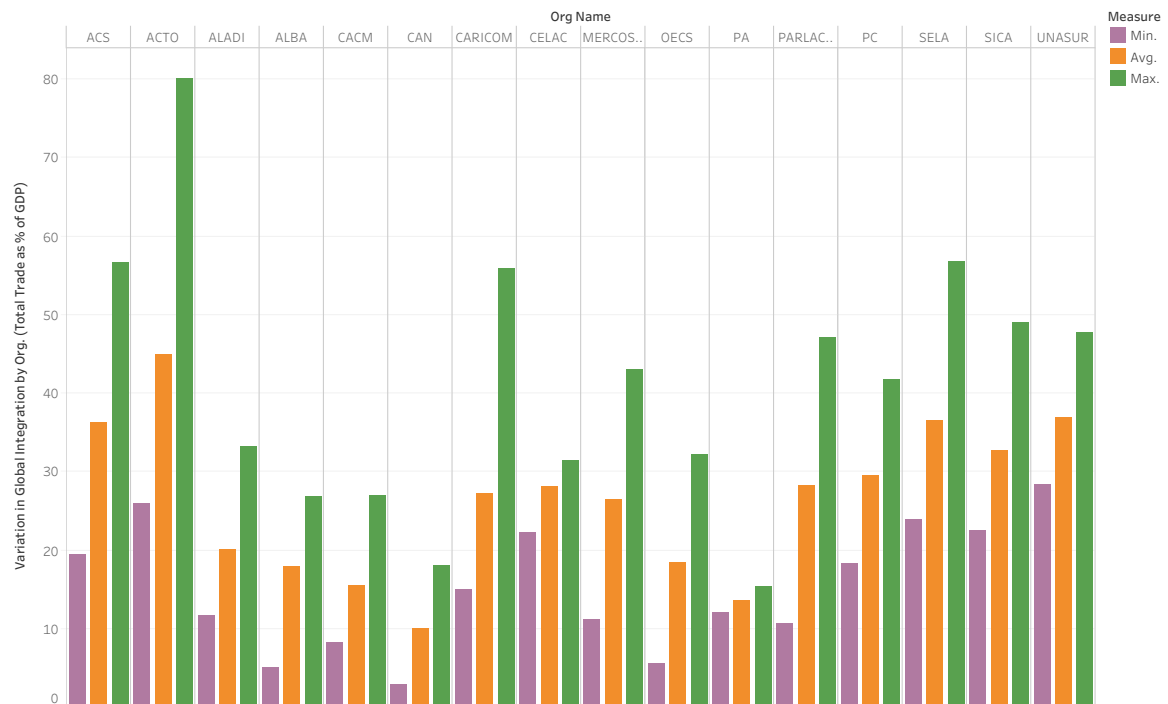


Figure 3.7. Variation in trade as a percent of GDP by organization. The figure displays

the minimum, average, and maximum levels of variation between member-states over the period observed.

This data showed that, on average, there has not been a significant increase in the trade to GDP ratio for Latin America over the time observed. However, within and between the regional organizations, there is significant variance as the range of global trade extends from 23.92% to 137.78% of GDP. Figure 3.7 shows the variation in the standard deviation of economic openness among member-states within an organization. This variation demonstrates that not only are some organizations more open to the global economy than others, as expected, but within organizations member-states have wide variation in how open they are.

Figure 3.8 shows the relationship between regional cooperation and both the average level and the average variance of economic openness within each organization among its member-states. Though only capturing general trends summarized in the data, both factors appear to have a negative relationship with an organization's average cooperation levels. Interestingly, overall openness appears to have a slightly stronger negative relationship with cooperation than the variation among member-states within an organization. This suggests the possibility that the more member-states of an organization are involved in the international economy through trade, the lower their overall cooperation levels are likely to be in the long run.

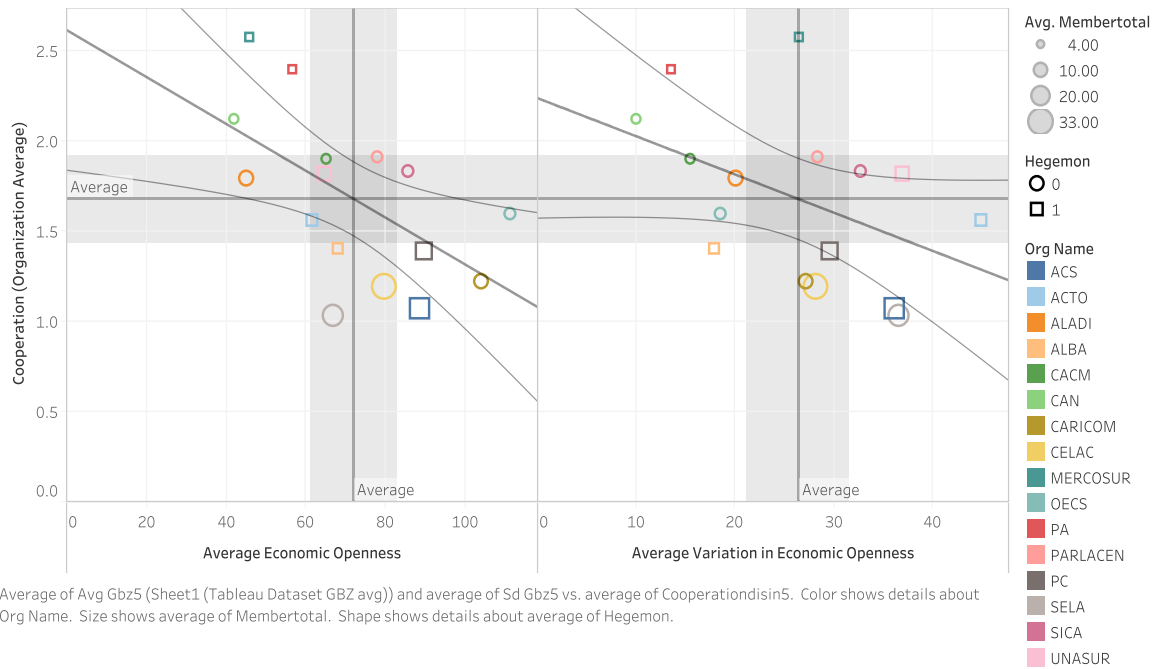


Figure 3.8. Economic openness by organization. The figure shows the average levels of trade as a percent of GDP of an organization as well as the average variation in trade as a percent of GDP among member-states over the period observed.

Additional Independent Variables

In addition to measuring the relationship between indicators of economic asymmetry and regional cooperation, four more factors were considered including membership size, intra-regional trade, regime type, and US influence. These variables were considered due to their prominence in the literature on regional integration and their potential to act as additionally significant variables affecting the relationship between economic asymmetry and regional cooperation. While an increase in intra-regional trade and similarity of regime type among member-states is expected to increase cooperation, high or disparate levels of US influence and a large membership size are expected to decrease cooperation levels within an organization.

Total Organizational Membership. The first potential control variable captures the total membership size of each organization. As mentioned in the previous chapter, the literature on collective action often argues that an increase in a group's size can be detrimental to cooperation efforts. With regard to regional cooperation, organizations with larger memberships do offer the potential for increased gains by allowing additional states to share in pooled resources and alliances. However, larger organizations also face more difficulty in coordinating efforts and are more likely to have contention between member-states if only due to the presence of more actors.

To test the impact of organization size on cooperation, the total membership for each organization each year was calculated based on the information on each organization's website. Table 3.3 presents a summary of the findings with regard to membership size throughout Latin American organizations. The range in membership spans from a minimum of 2 (ALBA at its founding) to a maximum of 33 (CELAC). The mean membership size for all organizations is just over 10 members per organization. While membership totals did change over time for most organizations, CAN was the only organization to see a decrease in membership. CAN lost members two times in the period observed first with the exit of Chile in 1976 under Pinochet and then the exit of Venezuela in 2006 as it pursued membership in Mercosur. In contrast, there were 44 observations where states joined organizations. Organizations with larger memberships are expected to struggle more in maintaining and deepening political cooperation than their smaller counterparts.

Table 3.3
Summary Statistics for Membership Size

	Observations	Mean	Std. Dev.	Min.	Max
Membership Total	536	10.67	7.30	2	33

Intra-Regional Trade. Intra-regional trade levels have typically been used as a proxy to measure regional integration. Here it is meant to highlight the level of economic interdependence within each grouping. Larger levels of intra-regional trade demonstrate deeper economic ties between member-states and is therefore expected to correlate with increased political cooperation through increasing the need and ability for states to interact. Intra-regional trade was measured as the combined imports and exports occurring between each member-state of a regional organization as a percentage of the organization's total trade with the world. Data was collected from the Direction of Trade Statistics from the IMF for 1953-2015. While intra-regional trade for Latin America as a whole has generally increased over the time period observed, it is significantly lower than most other regions in the world including Europe and East Asia. Intra-regional trade levels in Latin America peaked in 1995 and remain under 14% of total trade. This gradual increase in economic interconnectedness is expected to have a positive, if slight, impact on regional cooperation.

Figure 3.9 below shows the intra-regional trade levels within each organization highlighting the minimum, average, and maximum levels observed over time. This figure demonstrates a wide degree of variation within most organizations as well as between them. While some organizations such as CACM show dramatic shifts over time, others such as the PA show little variance.

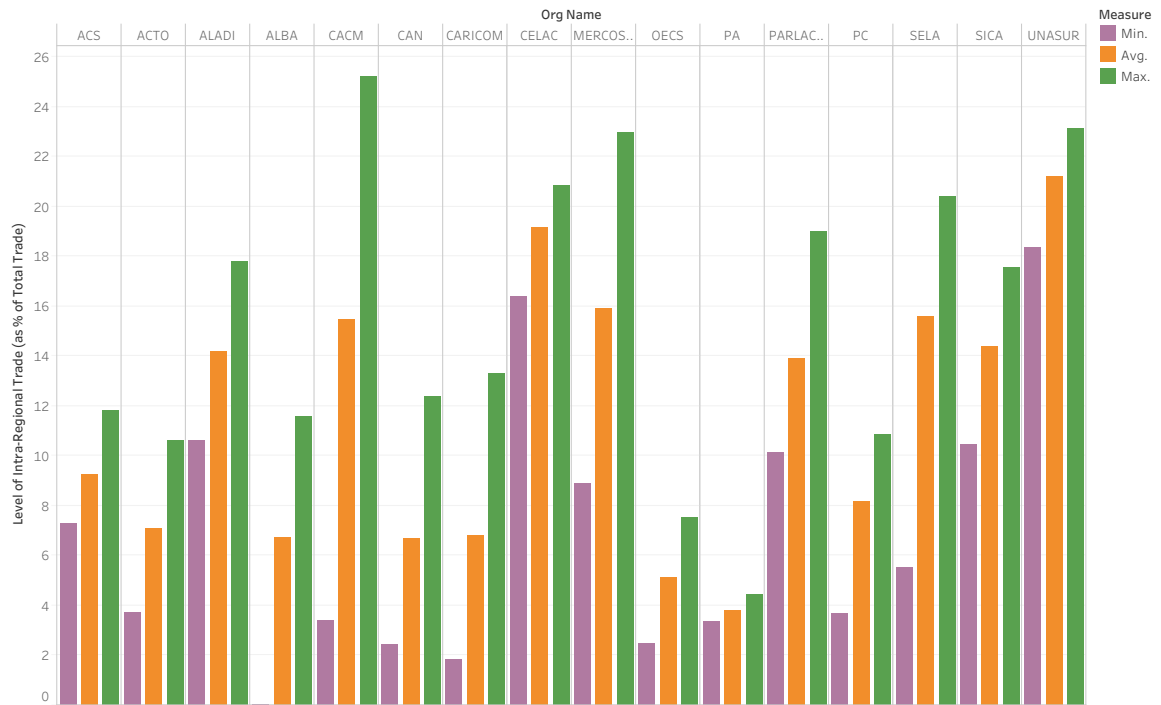


Figure 3.9. Intra-regional trade levels (as percentage of total trade) by organization.

Regime Type. Both levels of democratization and overall variation in regime type throughout a region is expected to have an effect on regional cooperation levels. Feng and Genna (2003) argue that homogeneity of regime types among members of an organization is a key part to regional integration as it both shows similar values and helps them foster similar (often times democratic) institutions internationally. A similarity in regime type among member-states in an organization highlights the existence of similar domestic political institutions and political values that can better foster cooperation. Lower variation in regime types as well as a higher level of democracy within a region are therefore expected to positively impact measurements of regional cooperation.

The regime type for each state was measured using data from Polity IV. The Polity IV scale was adjusted from -10-10 to 0-20, 0 representing the most authoritarian and 20 the most democratic. For each organization, both the average polity score and the

standard deviation were calculated by year. Figure 3.10 shows the average polity score for Latin America over time as well as the average variation in polity scores within the organizations. The graph clearly shows the region democratizing as a whole over the observed period while the variance in the region simultaneously decreases as states become more uniformly democratic.

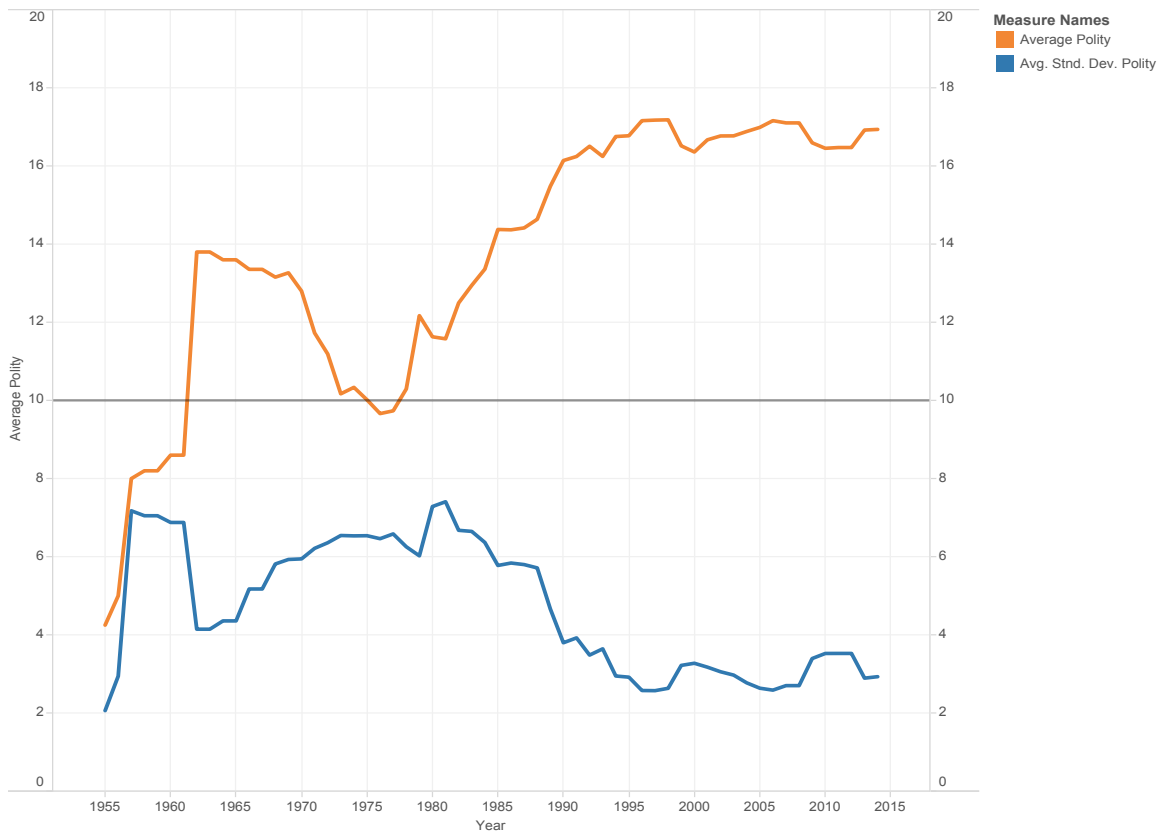


Figure 3.10. Polity IV scores by organization. The figure shows the average polity scores for an organization as well as the average variation in polity scores among member-states over the period observed (1953-2015).

US Influence. The final potential control variable captures the level of US influence on member-states within an organization. The literature presents conflicting views on the expected impact of overall US influence as it both indicates the support of the global hegemon as well as an alternative to regional cooperation for Latin American

states. In contrast, high variation in levels of US involvement among member-states in an organization is expected to be detrimental to overall cooperation levels as it suggests member-states have differing policy approaches to external actors and therefore may be less likely to deepen ties to each other. The level of US influence on Latin America was measured using an index variable based on the work of Francisco Urdinez et al.²⁴ Five measures were compiled for each state by year: shared votes in the U.N. General Assembly (UNGA), per capita military aid from the US, per capita economic aid from the US, FDI balance with the US as a percentage of GDP, and exports to the US as a percentage of total exports. The average of these measures was then taken for each state for each year to determine its total level of US influence. Both the average level and the variation in US influence was determined for each organization by year. As a whole, US influence peaked in 1985 in Latin America, particularly for OECS, and hit its lowest point in 1995. US influence was often lower and less varied in South American organizations such as Mercosur and higher in the organizations consisting primarily of Central American and Caribbean states. Figure 3.11 shows the variation in average levels of US influence among member-states within each organization.

²⁴ (Urdinez, Mouron, Schenoni, & de Oliveira, 2016)

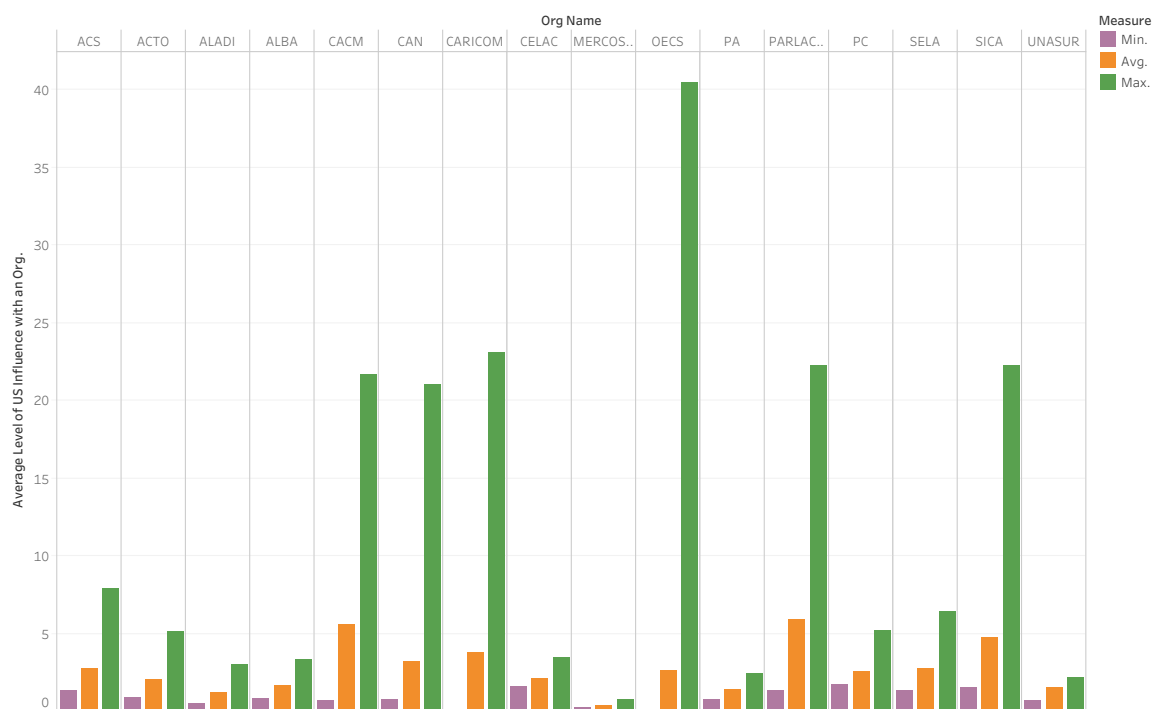


Figure 3.11. US influence by organization.

Table 3.4 gives the summary statistics for each of the variables meant to capture economic asymmetry and performance within the region. Due to data availability, not all indicators were captured for each observation. The data presented in the table reflects the original measurements to show the true variance on each indicator. The data was later adjusted in order to provide standardized coefficients in the statistical tests.

Table 3.4
Summary Statistics for Independent Variables

Measure	Observations	Mean	Std. Dev.	Min.	Max	
Balance of Trade - Global	Variation	485	6.09	3.36	0	17.62
	Average	488	-5.35	5.07	-29.13	13.93
Balance of Trade - Regional	Variation	501	3.95	5.36	0.20	64.29
	Average	502	-1.89	2.92	-20.78	3.51
FDI Inflows	Variation	497	3.09	2.42	0	18.4
	Average	497	3.78	3.07	-6.58	19.61
GDP Growth	Variation	503	0.03	0.02	0.01	0.14
	Average	505	0.03	0.02	-0.05	0.14

Global Integration	Variation	523	25.92	12.83	2.80	80.00
	Average	523	71.77	24.51	23.93	137.78
Regime Type	Variation	472	4.06	2.33	0.45	9.90
	Average	472	15.30	3.02	4.25	19
Intra-Regional Trade	N/A	536	11.15	5.46	0	25.19
US Influence	Variation	520	3.15	5.67	0	89.73
	Average	520	3.11	3.76	0.01	40.40

Statistical Analysis

The discussion above highlighted general trends found between measurements of economic asymmetry and regional cooperation finding evidence to suggest that they are negatively related. In order to further understand this relationship, statistical analysis is necessary as it can test for strength and significance of relationships between the measurements for economic asymmetry, controlling for the additional explanatory variables from the literature, and the dependent variable of regional cooperation. Before running a regression analysis on the data collected, I standardized variables as percentages with values ranging between 0 and 1. Three variables were not converted to this scale due to their unique nature; regime type (ranging 0-20), US influence (ranging 0-90²⁵), and organizational membership (ranging 2-33).

For the statistical analysis, I used a Linear Mixed-Effects regression model (LMEM) as it is better suited to capture the effects of both organizational groupings and time on the data collected than a more common Fixed Effects (FE) regression. FE regression models are commonly used for data that is grouped by organization or country.

²⁵ I could standardize the US influence to a 0-1 scale with 90 representing 1...it has been insignificant in all models though so I'm not sure how necessary this is in interpreting the results.

However, it is too limited in scope for this research as it controls out much of the variance of interest rather than modeling it in (Bell & Jones, 2015, p. 134). While a FE regression could thoroughly capture the variance occurring *within* each organization over time, it is unable to capture the variance occurring *between* them. For example, if an organization were to maintain high levels of economic asymmetry and low levels of cooperation while another maintained the opposite over the time observed, a FE model would risk a type II error by concluding there was little or no relationship between the 2 variables. In contrast, a Between Effects (BE) regression model would capture the variance between the organizations but not within them over time. This type of model is often not used because it aggregates the data and significantly lowers the number of cases available for analysis.

Random Effects (RE) regression models capture a combination of the variance observed in FE and BE regression models accounting for both variation within groupings over time and between them. However, traditional RE models are unable to specify the level of variance attributed to each type of variation. LMEM regressions can help solve many of the drawbacks such as this found in RE models (Baayen et al, 2008, p. 391). These mixed models have a goal of combining the variation observed in both fixed and random effects models while being able to weigh the variation and its effects on the DV appropriately. “[Mixed] models account for dependencies in the data, thereby producing more appropriate inferences” (Catran & Fairbrother, 2016, p. 23). One particularly attractive feature has been with LMEMs is that they can control for the effects of multiple

areas of variance (such as time and grouping) within a single coherent framework (Bates et al, 2015, p. 2).

There are different types of LMEMs to account for different data structures²⁶. The data in this research is nested in both year and regional organization observed. This means that the specific observation for each variable is likely influenced by the period in which it was observed as well as the organization for which it was calculated. For example, we may expect data from 1980 to naturally vary from data in 2010. In addition, we may expect the unique structure and policies of CARICOM to cause its data to differ from that of CAN. By accounting for the variation caused both time and organization, we can more clearly see the impact of the independent variables of interest on regional cooperation levels. Cross-classified mixed models control for data nested in two different factors while allowing the researcher to keep each factor independent rather than specify a hierarchy between them. This model recognizes that observations from a given year are likely to be more similar than from different years and observations from a given organization are likely to be more similar than from different organizations while considering the influence of years and organizations independently (Catran & Fairbrother, 2016, p. 25).

An initial test (the null model) was run with just the dependent variable of regional cooperation in order to capture the variation of the DV both between organizations and within them over time. The null model results show that there is significant variance in cooperation both between and within the organizations observed.

²⁶ For a thorough overview of 6 different model types, see Catran and Fairbrother (2016).

Just over 31% of the variation in cooperation occurs within organizations over time. A much larger part of the variation observed in cooperation (just over 46%) occurs between the organizations themselves²⁷. These results support the use of a cross-classified mixed model in order to understand the impact of the explanatory variables on the variation both between organizations and within them over time.

In order to utilize a cross-classified mixed model all independent variables were converted to highlight variation between organizations and over time. To allow the model to determine the variation in the independent variables between organizations, organizational averages were calculated for each variable and given the label “org”. In addition, all independent variables were converted to represent variation in specific years within each organization by finding the difference between the measurement for the year and the organizational average. This allows the model to determine variation generated over time within each organization and were given the label “time”.

The initial model directly tests the main hypothesis of this research by calculating the relationship between economic asymmetry (EAS) on regional cooperation while controlling for membership size. Due to multicollinearity issues, the two balance of trade variables were separated from the FDI measurements and run as two separate models²⁸. Results of the EAS models are below in table 3.5 for Models 1a and 1b. Both models are

²⁷ Calculated with the Intra-class correlation (ICC) coefficient. See Appendix C for the full results of the null model and ICC calculations.

²⁸ See Appendix D for full correlation chart between all measured variables. I ran each model as a regular OLS multiple regression first in order to run the VIF test to double check for issues of multicollinearity. The VIF test results for each model actually utilized are available in Appendix E.

statistically significant and reduce the variance between years and organizations significantly from the null model demonstrating that the independent variables account for variation in regional cooperation both over time and between organizations. Notably however, they do a better job explaining variation between organizations than within them over time.

The model was adjusted to incorporate additional potential explanatory variables from the literature including intra-regional trade levels, variation in regime type, and variation in US influence to see if this increased prediction of the DV or altered the explanatory power of any of the EAS variables of interest. Again, the model had to be divided into 2 different regression tests in order to avoid concerns of multicollinearity. The results of these tests are shown below for Models 2a and 2b. Both full variance models are statistically significant and, similarly to the EAS models, explain variation in cooperation both over time and, more strongly, between organizations.

Table 3.5
Economic Variance Models

Model		1a	1b	2a	2b
Prob > chi2		0.0000	0.0000	0.0000	0.0000
Observations		451	463	416	463
Random Effects Parameters	Year	.2543835	.2689799	.1972637	.2607075
	Org	.1931743	.1382544	.1722767	.1404254
	Residual	.2011576	.2095399	.1939596	.199867
Global BOT (Variance)	Org.	-11.99*** (2.94)		-8.40* (3.32)	
	Time.	-1.67*** (.49)		-1.91*** (.51)	
Regional BOT (Variance)	Org.	-1.46 (.87)		-1.65 (.90)	
	Time.	.26 (.34)		-.13 (.34)	

FDI Inflows (Variance)	Org.		-17.59*** (3.56)		-15.42*** (4.12)
	Time.		1.72** (.64)		1.91** (.62)
GDP Growth (Variance)	Org.	-9.84 (9.94)	.11 (7.54)		-2.20 (7.11)
	Time.	-.39 (.84)	-1.69* (.82)		-1.93* (.79)
Econ. Openness (Variance)	Org.	-.76 (.60)	-.41 (.46)	-1.52* (.64)	-.17 (.48)
	Time.	.36** (.15)	.46** (.16)	.24 (.16)	.44** (.15)
Hegemon		-.08 (.11)	.09 (.09)	.04 (.11)	
Regime Type (Variance)	Org.			-0.08* (.04)	
	Time.			-0.04*** (.01)	
Intra- Regional Trade (Org. %)	Org.			.69 (1.22)	-.30 (1.07)
	Time.			2.71*** (.52)	2.95*** (.48)
US Influence (Variance)	Org.				-.03 (.03)
	Time.				.003 (.002)
Membership Total	Org.		-.02*** (.01)		-0.03*** (.01)
	Time.		-.04*** (.01)		-0.06*** (.01)
Constant		2.95*** (.29)	2.49*** (.23)	2.88*** (.23)	2.61*** (.25)

*p<.05 **p<.01 ***p<.001 (standard errors in parentheses)

The variance models above found no significant relationship between the variations in an organization's regional BOT, GDP growth, or US influence and the DV. In addition, the presence of a hegemon does not have a significant impact on cooperation levels. In contrast, measurements for variance in organization's current account balance (Global BOT) and FDI inflows have a negative impact on regional cooperation between

organizations as well as over time as expected. Finally, variation in an organization’s economic openness appears to have a slight but positive relationship with cooperation though the results were inconclusive between models. Additional explanatory variables including variation in regime type, level of intra-regional trade, and total membership size all had a significant and expected impact on cooperation over the time observed though only membership size proved significant between organizations.

The second model tests the relationship between the organizational average of each variable rather than the variance among member-states observed above. The model was first tested only using economic indicators including the average current account balance among members in a given year as well as the average regional balance of trade, level of FDI inflows, economic openness. This allows us to see the direct relationship between indicators of economic health and policy on regional cooperation while controlling for membership. The results of these tests are below in Table 3.6 for Models 3a-3c. The model was then adjusted to incorporate the additional potential explanatory variables of regime type (or democratization levels), intra-regional trade levels, and degree of US influence (Models 4a-4c). All tests showed the model to be statistically significant and able to explain variation in cooperation levels both over time and between organizations with the exception of model 4b that did not explain variation over time.

Table 3.6
Economic Averages Model

Model		3a	3b	3c	4a	4b	4c
Prob > chi2		0.0000	0.0000	0.0042	0.0000	0.0000	0.0000
Observations		468	463	456	433	428	421
Random Effects Parameters	Year	.2533755	.2874108	.2630611	.2922951	.3200807	.2559458
	Org	.2208452	.1738401	.3193706	.1916949	.1470886	.1625279
	Residual	.2177434	.2131373	.2050402	.2078783	.196644	.1846498

Global BOT (Average)	Org. Time.			5.60* (2.20) .03 (.34)			3.89* (1.69) -1.00* (.40)
Regional BOT (Average)	Org. Time.	5.29** (1.98) -1.99** (.76)			7.57*** (2.09) -1.49 (.80)		
FDI Inflows (Average)	Org. Time.			-8.41* (2.14) .69 (.82)			-7.77* (3.04) 1.71 (.96)
GDP Growth (Average)	Org. Time.	52.01** (16.60) -1.46** (.65)	37.22* (14.65) -.63 (.59)	64.81** (21.99) -.60 (.60)	13.67 (24.06) -1.62* (.71)	13.23 (18.20) -1.21 (.65)	-.55 (20.27) -.98 (.64)
Econ. Openness (Average)	Org. Time.				-1.11*** (.30) 0.42*** (.12)		-1.20** (.37) .51** (.15)
Hegemon					-.03 (.12)	.01 (.10)	-.01 (.18)
Regime Type (Average)	Org. Time.						0.11* (.05) -0.02** (.01)
Intra-Regional Trade (Org. %)	Org. Time.						.06 (.04) -0.02** (.01)
							.07 (.04) 0.01* (.01)
							.45 (1.02) 3.19*** (.52)
							1.69** (.49)
							2.76*** (.51)
US Influence (Average)	Org. Time.						-.06 (.03) -0.01 (.004)
Membership Total	Org. Time.						-0.04*** (.01) -0.04*** (.01)
							-0.04*** (.01) -0.06*** (.01)
Constant							.73 (.63)
							1.02 (.54)
							-.33 (.80)
							.43 (.67)
							1.23* (.53)
							1.25* (.60)

*p<.05 **p<.01 ***p<.001 (standard errors in parentheses)

Just as in the initial variance models, the presence of a hegemon and the level of US influence within an organization did not have a significant impact on cooperation levels. The results for the relationship between organizational growth rates and cooperation were inconclusive with due to variation in the level of statistical significance.

However, it appears that there might be a positive relationship between growth and cooperation between organizations. The average current account and regional trade balances within organizations appear to have a positive impact on cooperation between organizations. However, their impact on cooperation over time within an organization was inconclusive. Interestingly, both the level of FDI inflows and economic openness for an organization had a negative relationship with cooperation between organizations suggesting that integration into the global economy may harm regional cooperation efforts.

The final model tested incorporated significant variables from both the variance and average models above in order to generate a more complete model to explain variation in regional cooperation. Variation in global BOT, FDI inflows, and growth among member-states were included to test the overall impact of economic asymmetry on regional cooperation. In addition, economic conditions of an organization are accounted for with the inclusion of the average growth and economic openness of its members. Finally, the additional explanatory variables from the literature of intra-regional trade levels and similarity of regime type were included while controlling for membership size. Due to issues of multi-collinearity, the variables were tested in three different versions of the model. The results of these final tests are shown below in Table 3.7. All models were statistically significant and, on average, better explain variation in regional cooperation both between organizations and, to a lesser degree, over time than the previous two models discussed above.

Table 3.7
Final Model Regression Results

Model		5a	5b	5c
Prob > chi2		0.0000	0.0000	0.0000
Observations		418	428	481
Random Effects Parameters	Year	.2271622	.2249551	.2558363
	Org	.1354236	.1621173	.1478105
	Residual	.1806619	.2125208	.2103782
Global BOT (Variance)	Org.	-8.32*** (2.34)		
	Time.	-1.68*** (.46)		
FDI Inflows (Variance)	Org.		-26.69*** (3.71)	
	Time.		1.73** (.67)	
GDP Growth (Variance)	Org.			-4.14 (8.20)
	Time.			-1.02 (.80)
GDP Growth (Average)	Org.	-5.69 (18.16)	-32.90 (22.91)	29.87* (13.60)
	Time.	-1.04 (.62)	-.66 (.67)	-1.55* (.63)
Econ. Openness (Average)	Org.			-.84*** (.23)
	Time.			0.44*** (.12)
Regime Type (Variance)	Org.	-.04 (.04)	-0.12* (.05)	
	Time.	-0.03*** (.01)	-0.02* (.01)	
Intra-Regional Trade	Org.	.50 (.85)	-2.75** (.95)	1.08 (.89)
	Time.	3.37*** (.52)	2.13*** (.50)	2.58*** (.46)
Membership Total	Org.	-0.03*** (.01)		-0.03*** (.01)
	Time.	-0.06*** (.01)		-0.03*** (.01)
Constant		2.80*** (.79)	4.33*** (1.00)	1.56* (.63)

*p<.05 **p<.01 ***p<.001 (standard errors in parentheses)

The final model found evidence to support the hypothesis that economic asymmetry has a negative impact on regional cooperation. Figures 3.12 and 3.13A below show the relationship between the indicators of economic asymmetry and regional cooperation found in the model using a 95% confidence interval. Higher variation of the members' current accounts within an organization has a negative impact on cooperation both between the different organizations and over time as expected. Additionally, variance in FDI inflows among member-states of an organization also has a negative relationship with cooperation levels when comparing organizations. In other words, organizations with a higher variance in FDI inflows are expected to have significantly lower levels of cooperation than their counterparts. However, this relationship does not hold up when observing changes within organizations over time. There is an unexpected positive, though less significant, relationship between variation in FDI inflows and cooperation within organizations. Finally, the relationship between variation in growth rates among member-states and cooperation is unclear. While there is some suggestion that this variation might have a negative impact on cooperation over time and possibly between groups, it does not appear to be statistically significant. The strongest relationships between economic asymmetry and regional cooperation are captured through variation in balance of trade and FDI inflows among member-states.

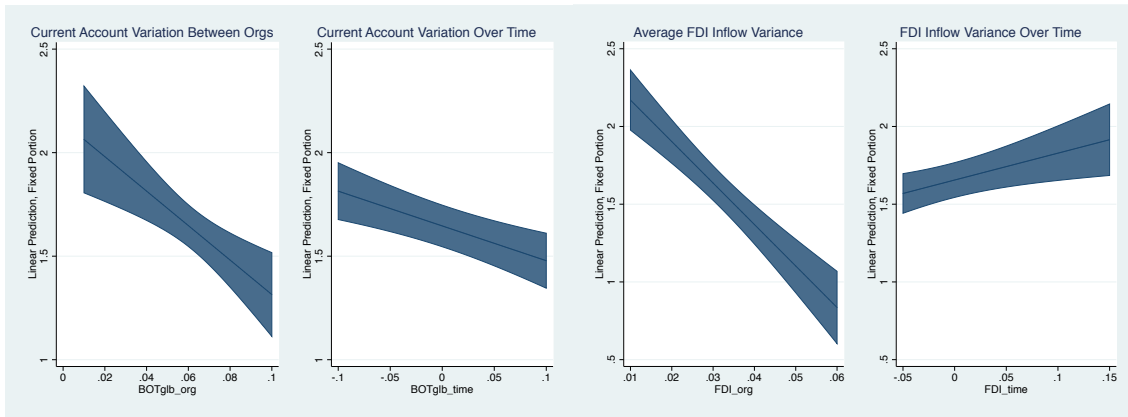


Figure 3.12A.

Figure 3.12B.

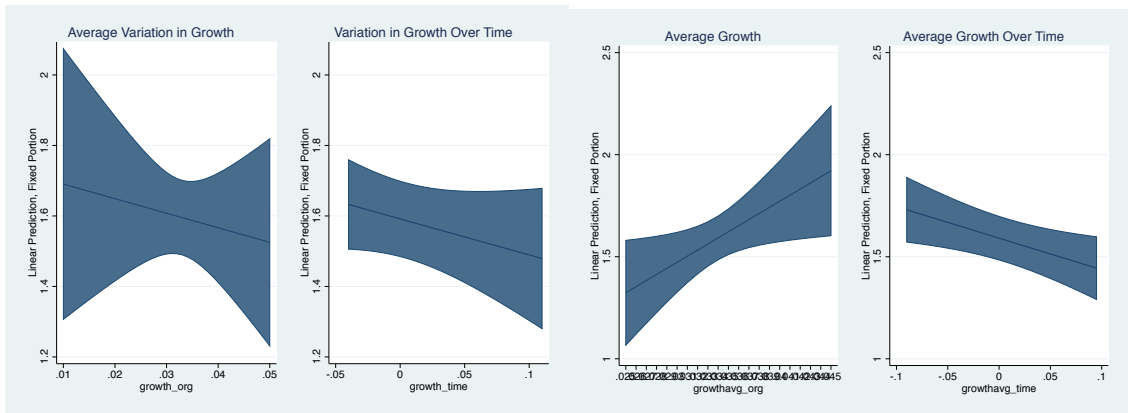


Figure 3.13A.

Figure 3.13B.

The economic conditions of an organization provide additional explanatory power to the model accounting for some of the variation found in regional cooperation. While the relationship between average growth rates and cooperation within an organization shown in Figure 3.13B are inconclusive, an organization’s economic openness and level of intra-regional trade are significant and shown in Figure 3.14. The average level of economic openness within an organization has a positive impact on overall cooperation meaning that those organizations more integrated into the global economy tend to less cooperation among their member-states. In contrast, increasing economic openness over time within an organization has a less impactful but still significant positive relationship

with cooperation. Levels of intra-regional trade do not explain variation in cooperation between organizations as organizations that trade more do not have significantly different levels of cooperation. However, as expected, an increase of intra-regional trade among member-states within an organization over time coincides with higher overall levels of cooperation.

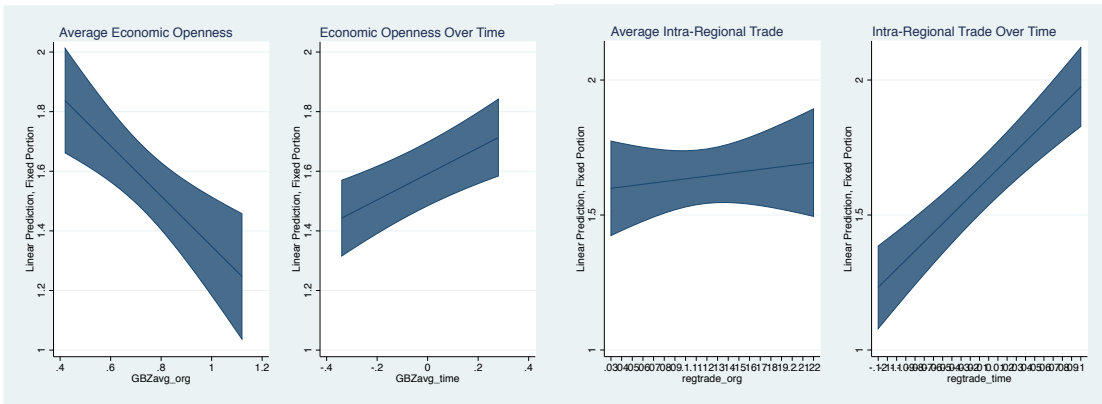


Figure 3.14A.

Figure 3.14B.

Finally, Figure 3.15 shows the relationship between variation in regime type within an organization and regional cooperation as well as the influence of overall membership size. As expected, variation in regime type has a negative relationship with cooperation over time though this impact is quite small. Similarly, a higher variation in regime type potentially also has a negative impact on cooperation between organizations though this relationship is inconclusive in the model. Overall membership levels of an organization have a negative relationship with cooperation both between organizations and over time supporting concerns over collective action problems. Larger organizations tend to have lower levels of cooperation than their smaller counterparts. In addition, an increase of membership over time also has a negative impact on cooperation suggesting

that increasing the size of an organization does not help deepen the cooperation efforts between members despite increasing potential gains.

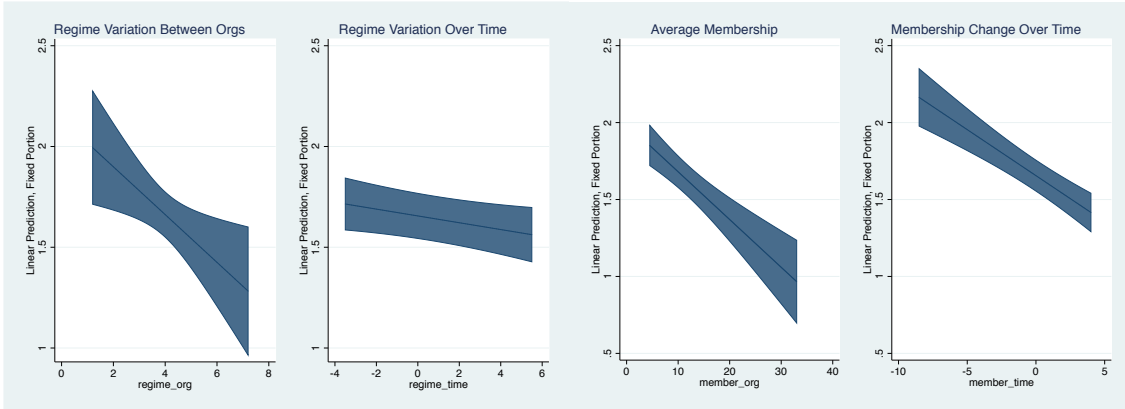


Figure 3.15A.

Figure 3.15B.

Conclusion

Using a cross-classified mixed model, this research found statistical evidence to support the primary hypothesis that economic asymmetry has a negative impact on regional cooperation. However, only two measures of asymmetry stated in H1, balance of trade and FDI inflows, proved significant. Variation in GDP growth rates were not found to be consistently significant. In addition, variation in economic openness among members was not a strong indicator of regional cooperation. However, the overall level of economic openness throughout an organization positively affects regional cooperation levels within each organization over time. No evidence was found to support H2 predicting a lower level of cooperation in organizations with an economic regional hegemon. Instead, the presence of a hegemon appears to be consistently insignificant.

Additional explanatory variables including intra-regional trade levels and similarity of regime type, enhanced the model's prediction of overall levels of cooperation. Both indicators were found to have a positive relationship with regional

cooperation supporting H3. Finally, an increase in membership size leads to a decrease in cooperation over time with larger organizations showing lower levels than their smaller counterparts. This provides support for H4. However, no evidence was found to support the hypothesis (H5) that US influence on member-states significantly impacts regional cooperation either negatively or positively. These findings and their implications are discussed in more detail in the following chapter.

Chapter Four: Data Discussion

Introduction

Gains from regional cooperation are often not distributed equally among states. Through a quantitative analysis of 16 Latin American regional organizations, this research found support for the argument that asymmetrical distribution of economic gains is detrimental to regional cooperation efforts. The less equal these gains are, the more likely members are to defect from cooperation within the organization through either minimizing their political ties to their fellow member-states or participating in inter-state disputes. In particular, unequal distribution of FDI inflows and trade imbalances within a regional organization lower overall cooperation among its member-states. When perceived economic gains from cooperation are distributed relatively unequally among member-states, power dynamics in the region shift, potentially leaving some states feeling threatened or exploited from the regional arrangements and therefore more inclined to defect from cooperation with their fellow member-states. In contrast, when member-states receive relatively equal gains, they are more inclined to continue with existing cooperation efforts and even deepen political ties within the region. In addition to economic asymmetry, factors such as regime type heterogeneity, membership size, and overall levels of intra-regional trade significantly impact the level of political cooperation within regional groupings. These factors have the potential to mitigate the negative impact on cooperation caused by economic asymmetries.

The quantitative analysis presented in the previous chapter tested the relationship between five indicators of economic asymmetry. To control for factors highlighted in existing literature on international and regional cooperation, it also tested the effects of four additional factors: intra-regional trade, regime homogeneity, membership size, and US influence. The quantitative analysis found support for the primary hypothesis that an increase in economic variation between member-states leads to lower levels of cooperation. In addition, the data supported in part the secondary hypotheses outlining the expected relationships between the additional factors listed and regional cooperation. Intra-regional trade and similarity of regime type were found to have a positive relationship with cooperation as expected and membership size had a negative impact. Contrary to the hypotheses presented, neither the presence of a regional hegemon nor the level of US influence was shown to have a significant relationship with regional cooperation levels.

This chapter begins with an overview of the model used in the quantitative analysis and its primary findings. It then provides an in-depth discussion of the relationship found for each variable tested with regional cooperation beginning with indicators of economic asymmetry and then additional control variables. Finally, the chapter concludes with the expected implication of the quantitative findings on in-depth case analysis discussing what steps can be taken through qualitative research to better understand the relationships highlighted in the quantitative findings.

Overview of the Quantitative Model and Findings

The quantitative analysis in this research utilized a cross-classified mixed model in order to simultaneously test for the effects of each variable between organizations on average and within each organization over time. This model was designed to acknowledge that each organization represents a unique combination of member-states and that such different combinations likely impact an organization's overall level of cooperation. Whereas a more common fixed-effects model simply controls for each organization, this mixed model compared the differences among the organizations to see if the indicators account for their different average levels of regional cooperation. In addition, the model looked at changes within each organization over time. No organization maintained a static level of cooperation over the time observed. By accounting for variation over time, the model looked to see how changes for each indicator within an organization help or hinder its cooperation levels.

Due to the mixed nature of the quantitative analysis, each variable was essentially tested twice within the model to see how well it explained changes in cooperation over the time observed as well as different average levels of cooperation for each organization. The model was able to show that the relationships between each variable and regional cooperation were not always consistent, but rather more nuanced in some instances, when accounting for variance among organizations versus over time. The initial analysis looked exclusively at the distribution of the dependent variable, regional cooperation, through running the cross-classified analysis with no independent variables. This null model

showed that, while cooperation levels vary significantly both between organizations and within each one, the variation is highest when comparing organizations to one another²⁹. When analyzing the different independent variables, each test of the model presented in the previous chapter helped explain both variation of cooperation between organizations (why they all have different average levels) and within them (why the level of cooperation changed within an organization over time). While both types of variation were accounted for by the independent variables, the results were consistently stronger in explaining the different levels of cooperation found among the organizations³⁰.

The quantitative analysis found statistical evidence to support the primary hypothesis that economic asymmetry has a negative impact on levels of regional cooperation. While economic asymmetry is a significant indicator of lower levels of cooperation, only two of the measures of asymmetry tested, balance of trade and FDI inflows, proved significant in the model. Variation in economic openness among member-states was tested as a measure of asymmetry; however, it was not found to be significant. In contrast, the average level of economic openness throughout an entire organization was found to significantly impact cooperation levels within an organization

²⁹ Approximately 46% of the variation of cooperation was due to differences in organizations while around 31% was due to changes over time within each organization. This was measured using the intra-class correlation coefficient (ICC). Calculations are provided in Appendix E.

³⁰ On average, the final models presented in the quantitative findings (5a-5c) explained about 2/3 of the variation in cooperation found between organizations and 1/3 of the variation found within organizations over time. This was noted in the reduction of the RE parameters for organization and year in the models from their initial values in the Null Model.

over time. An additional economic indicator and measure of economic interdependence, intra-regional trade levels, significantly relates to overall levels of regional cooperation as well.

The model also tested the impact of non-economic indicators to see if they had a significant relationship with regional cooperation. In particular, higher variation of regime type and overall membership size (number of member-states) both had negative effects on cooperation levels when looking at the differences between organizations and within organizations over time. The addition of these variables to the indicators of economic asymmetry increased the explanatory power of the model allowing it to better account for variation in levels of regional cooperation.

Figure 4.1 provides a visualization of the expected relationships generated from the quantitative findings. As the model captured both levels of cooperation between the different organizations and changes in cooperation over time within each organization itself, the figure highlights these simultaneous forces at play by mimicking the design of a race track. On the race track, organizations can head either toward defection or full cooperation over time. Variables that explain changes in cooperation over time within organizations impact which direction an organization is heading and at what speed. Variables marked in red indicate that increased levels would slow down cooperation or lead to defection within organizations. In contrast, those in green indicate variables that have a positive relationship with cooperation. The font size is relative to the overall coefficient to demonstrate the degree of the impact from each variable on an organization's regional cooperation levels.

While the variables highlighting variation over time explain organizations moving towards either defection or cooperation, those that account for variation between organizations help determine which “lane” an organization starts in. The closer an organization starts to the “inside lane”, the higher the level of cooperation that it is expected to have as it has less distance to travel. In other words, it starts at a higher expected level of cooperation than those in the “outside lane”. This represents the differences found between organizations as those with lower average levels of these variables have, on average, higher levels of cooperation. All the variables impacting the lane of an organization are marked in red as they all push an organization towards the outer lane leading to decreased expected levels of cooperation. In addition, the size of the font indicates the degree of impact the variable has on average cooperation levels with larger font size indicating a larger coefficient.

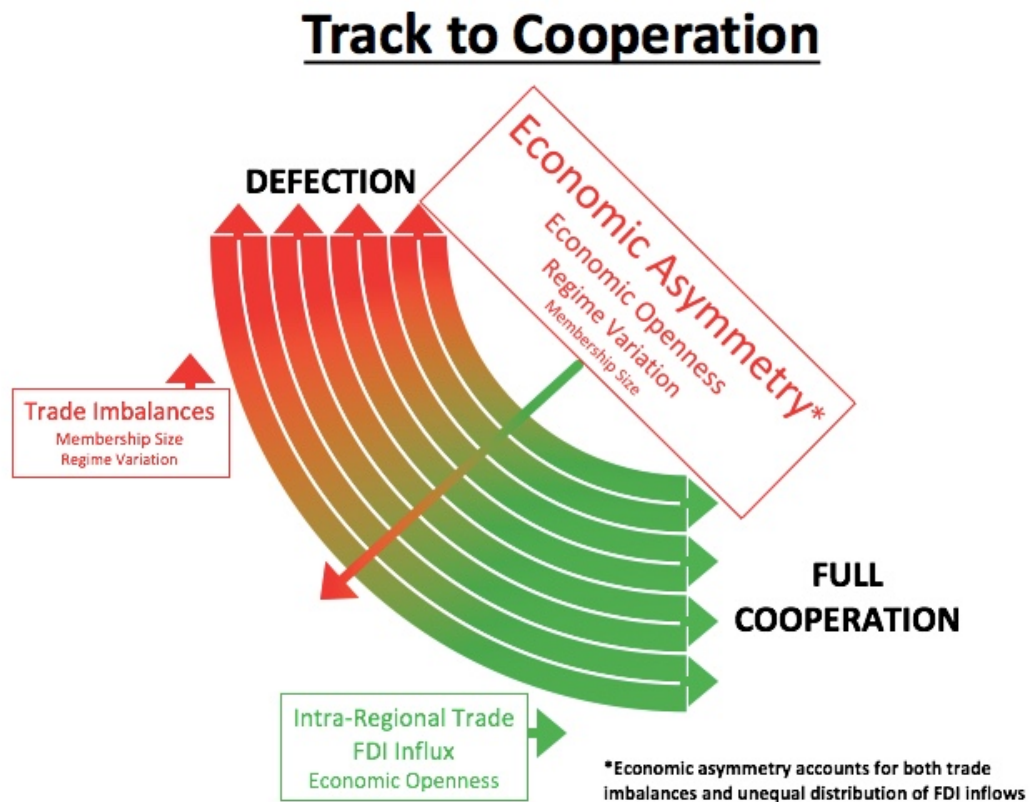


Figure 4.1. Visualization of Quantitative Findings

Overall, the research here found that levels of regional cooperation vary significantly both between organizations and within them over time. Not only do different organizations start at various levels of cooperation when they form, their levels do not necessarily steadily increase over time. Instead, they can move both forward and backward on their track to cooperation and experience periods of defection among their members. While multiple factors contribute to this variation found in regional cooperation, the findings support the hypothesis that indicators of economic asymmetry have a significant negative impact on an organization's cooperation levels.

Economic Indicators of Regional Cooperation

In order to capture economic asymmetry within a region, I looked at five distinct indicators. The indicators capture the relationship among member-states of an organization both to each other and the global economy (including their balance of trade, economic openness, and the presence of a hegemon) as well as their relative gains in the economic goals sought by regional cooperation efforts (such as GDP growth and FDI inflows). Out of these five indicators, two had strong statistically significant relationships with regional cooperation levels: balance of trade and FDI inflows. The other indicators were either insignificant in the model or had inconsistent results. These results suggest that economic asymmetry plays an important role in states' ability to cooperate at a regional level though likely in a more specific and targeted way than initially expected.

Variation in balance of trade levels among member-states of an organization was one of the strongest indicators of regional cooperation levels found in the statistical analysis. This measure looked at the balance of trade for each member-state as a percentage of GDP. The standard deviation was calculated to capture the variance between states within each organization. This variation does not capture whether a region as a whole is maintaining a deficit, surplus, or trade balance. Instead, the measure captures the differences in current account balances among the different member-states with variation increasing as some members have a growing surplus and others a growing deficit. States in Latin America often join regional organizations in order to assist with economic development and become more competitive in the global economy. In general,

states with deficits are likely to feel this goal is not being met³¹. If there is variation within the region and some member-states are gaining surpluses, the deficit state(s) are likely to feel disadvantaged by the existing arrangements. This dissatisfaction is reflected in the data. When comparing organizations, those with lower levels of variation on average had significantly higher overall levels of cooperation than their counterparts. In addition, an increase in variation of members' balance of trade within an organization over time led to decreased levels of cooperation.

Member-states running a deficit are often less economically competitive than their surplus holding neighbors and therefore more concerned with implementing protectionist measures to boost their domestic market. Meanwhile, states running a surplus will push for decreased barriers in order to export more efficiently to their neighbors. This variation in current account balances over time leads to conflicting interests with regard to regional policies among member-states therefore complicating cooperation efforts. In addition, deficit states may feel disadvantaged by regional agreements as they struggle in comparison to their fellow member-states. Deficit states may therefore be inclined to pull back from existing arrangements that are less beneficial to them in order to protect their domestic industries from imported goods and boost their relative competitiveness. In contrast, as member-states become more homogenous in terms of current account balances, interests are more likely to align and agreements are seen as equitable rather than unfairly benefitting certain members over others. The effect of the variation of

³¹ The data from models 3c and 4c does support the notion that organizations running more of a deficit on average in global trade levels have lower levels of cooperation.

member-states' balance of trade is even stronger between organizations than within them³². This suggests that regions with continuously high variation in their global trade balances are less likely to pursue deeper cooperation agreements to begin with likely due to initial concerns of an unequal arrangement and competing interest among members.

Attracting FDI to the region is another often cited goal of regional organizations in Latin America in order to assist their member-states with development. Interestingly however, an increase in average FDI inflows to a regional grouping was not found to significantly increase its overall levels of cooperation suggesting that cooperation is not dependent on the organization's success in its mission to attract FDI. To the contrary, the data found some evidence that organizations with lower average FDI inflows actually have higher levels of cooperation than their counterparts. This relationship may reflect those groups with low levels of FDI more actively cooperating in order to attract the FDI their counterparts have been receiving or it may signal that reliance on FDI from extra-regional actors is detrimental to regional cooperation efforts. More research is needed to develop a clearer picture of this relationship.

Whatever the level of FDI inflows to a region, the distribution of these inflows among member-states, when controlling for GDP, strongly affects overall cooperation levels giving support to the primary hypothesis that economic asymmetry is harmful to regional efforts. When looking at variation in cooperation between organizations, distribution of FDI inflows has the largest overall effect of any variable observed. Those

³² In analyzing cooperation levels both between organizations and within them over time, variation in balance of trade is the second strongest indicator of regional cooperation levels.

organizations with higher average variation in FDI distribution have dramatically lower levels of cooperation among member-states. This suggests that regions that see FDI inflows concentrate among only a few members rather than spread out evenly among the group have a much more difficult time cooperating. In other words, they start on the “outside lane”. In particular in Latin America and other emerging regions where attracting FDI is often a goal of members in regional organizations, high variation in FDI inflows is problematic. Those states receiving less FDI relative to their economic size have little incentive to continue cooperation and are may even be actively discouraged seeing their fellow member-states as competition rather than partners for the FDI. In addition, those states receiving a high level of FDI might be more inclined to further extra-regional relationships rather than deepen cooperation efforts with their neighbors.

Interestingly, while variation in FDI inflows among member-states has a large negative effect on cooperation levels *between* organizations, it appears to have a significant, though smaller, positive effect on cooperation levels *within* organizations. As FDI inflows within an organization are distributed less evenly over time, cooperation is expected to go up. This is contrary to expectations and will be further analyzed in the two case studies presented in the following chapters. This inverse relationship may relate to an organization’s growth rates or overall increase in FDI to the region as states might continue to pursue cooperation efforts while the region as a whole is benefitting economically. However, neither GDP growth rates nor average FDI inflows were significant in the quantitative analysis.

The results for the relationship between GDP growth rates and regional cooperation were inconclusive. While a high level of variation in GDP growth rates among member-states may have a negative effect on cooperation levels within organizations as expected, the results were not consistently significant when additional factors were accounted for³³. In addition, no consistent relationship was determined between an organization's average growth rates and cooperation. These results were unexpected as GDP growth rates are a major indicator of economic health that often finds its way into political rhetoric and therefore was expected to be a key indicator of economic asymmetry influencing a state's decision-making process when cooperating with its neighbors. However, this does not appear to be the case.

While the GDP growth rate is often an important indicator of a state's economic health, it highlights internal production capacity and is not necessarily indicative of a particular foreign policy or relationship. This may be the reason that it is not a consistently significant indicator of regional cooperation levels. In contrast to GDP growth rates, balance of trade and FDI inflows are indicators that highlight the external economic relationships of a state on both regional and global levels. A state's balance of trade captures its interactions with its trading partners and is a sign of how it is integrating into the international market. Large deficits suggest a need for the state to alter its relationship with other players. Similarly, FDI inflows are, by definition, brought in from sources outside the state. Unlike GDP measures, FDI inflows are a signal of

³³ Models 1b and 2b found variation in GDP growth rates to have a significant negative relationship with regional cooperation within groups. However, the relationship was insignificant in model 5c.

growth that is directly relatable to a state's external relationships and therefore more likely to affect the foreign policy decisions involved in regional cooperation.

The final measure of economic asymmetry was the presence of a regional hegemon within an organization. No evidence was found to support a lower level of cooperation in organizations with an economic regional hegemon. Instead, the presence of a hegemon appears to be insignificant suggesting that the relative economic size of members (as measured by GDP) is not a determinant of cooperation. This measure only captured differences between organizations rather than within them. There was no variation of the presence of a hegemon within organizations over time as no state became grew to/fell from hegemon size during the period observed and no hegemonic states entered/exited an organization.

The lack of relationship between a regional hegemon and cooperation levels is contrary to the expectations set up in the literature. While there is an ongoing debate on the necessity of a regional hegemon in cooperation efforts, hegemonic stability theorists argue it is necessary to provide enforcement and public goods within the region. Others such as Krapohl and Fink (2013) argue that, particularly in emerging regions like Latin America, hegemons are detrimental to cooperation efforts. This research does not find support for either argument. The lack of significance of a regional hegemon with regard to cooperation levels may indicate that its presence is irrelevant to cooperation efforts or that both of the expected effects are occurring throughout the period observed at different times or within different organizations therefore cancelling each other out. In other words, a hegemon in one organization or at one point in time may assist cooperation

whereas another may harm cooperation efforts. This null finding supports the idea that, at the very least, hegemons can have varying impacts on cooperation; regional organizations without a hegemon can be as likely to succeed as their counterparts.

Two additional economic factors, economic openness and intra-regional trade, have significant relationships with regional cooperation though they do not capture economic asymmetry. Economic openness or global integration was measured by calculating the level of global trade as a percentage of GDP. Variations in levels of economic openness among member-states were expected to have an impact on regional cooperation levels but the results were inconclusive. However, the *average* level of economic openness of an organization significantly affected cooperation levels both between organizations and within them over time. When comparing organizations, those with a higher average level of economic openness have a slightly lower level of cooperation. This suggests that less liberalized organizations are better able to deepen their internal connections whereas groups that are more incorporated into the global economy are not as inclined to rely on each other. As average levels of economic openness increase within an organization, there is a positive effect on cooperation indicating that the group deepens internal ties as it liberalizes. While these two findings may seem contradictory, they are capturing two separate processes. Less liberalized organizations have an increased incentive to cooperate in order to better their position as they integrate into the global economy. As they cooperate, they are likely to liberalize at least among each other. Such liberalization is included in the measure of economic openness that looks at the total trade to GDP.

Intra-regional trade levels are often used as a proxy measure for regional cooperation. However, this research looked at their relationship to the political indicators comprising the measurement of regional cooperation as the dependent variable. Intra-regional trade captures the percentage of total trade that took place among member-states of an organization in a given year. As expected, higher levels of intra-regional trade had a positive relationship with cooperation levels within organizations; they are the strongest indicator identified of varying cooperation within an organization over time. When member-states increase their mutual trade, they are more likely to deepen regional ties. Increased trade creates a degree of economic interdependence within an organization increasing the benefits of cooperation and the costs of defection.

Unexpectedly, intra-regional trade is not a significant predictor of varying cooperation levels between organizations. While increasing trade over time helps deepen cooperation efforts, organizations that start with a higher level of trade are no more likely to cooperate than those with low levels. This finding might be unique to Latin America as a region with particularly low levels of intra-regional trade. Cooperation efforts throughout Latin America are often meant to spark coordinated development and integration into the global economy rather than make existing trade more efficient as we might see in organizations like the EU or NAFTA. Though it is often expected that higher levels of trade are necessary precursors to cooperation efforts, the data here do not support this.

Economic indicators of asymmetry and openness have a significant effect on a region's political indicators of cooperation. In particular, unequal distribution of

economic gains from trade and foreign investment negatively impact the overall cooperation levels among member-states of an organization. This supports the argument that absolute gains for a region are insufficient on their own. If these gains are not distributed relatively equally among members, cooperation efforts will suffer.

Additional Influences on Regional Cooperation

While the economic factors discussed above play a key role in regional cooperation efforts, they do not fully explain the variation seen among the organizations in Latin America. In addition to these economic indicators, three non-economic variables were tested for significant relationships to regional cooperation levels: regime type, membership size, and US influence. The inclusion of these variables helped control for additional non-economic factors at play and expanded the explanatory power of the model.

The first additional variable observed were the regime types of member-states within the region. Past work has found that increased heterogeneity of domestic institutions is detrimental to regional efforts (Feng & Genna, 2003). This research supported those findings. As expected, variation in regime type among member-states had a negative impact on regional cooperation levels both between organizations and, to a slightly lesser degree, within them over time. More homogenous regimes suggest more similar values among member-states as well as the use of more common institutions. Both of these factors are beneficial to maintaining or deepening cooperation efforts. In addition, similar regimes (typically democracies) can be a prerequisite for membership in regional organizations like the EU. While such policies are not as strictly enforced in

Latin America, some organizations such as Mercosur actively promote democratic values among their members encouraging regime homogeneity over time. While the effect of regime heterogeneity was significant, it was notably smaller than any of the economic indicators observed suggesting that it is less of a primary concern.

The overall membership size of an organization (total number of member-states) had a significant negative relationship with cooperation in all tests both between and within organizations. Though the coefficient for membership size is significantly smaller than many other factors, it still accounts for a significant amount of variation between small sub-regional and large pan-regional groupings. For example, a small organization such as the PA with four members is expected to have significantly higher levels of cooperation than a more all-encompassing organization like CELAC with 33 members. These findings are consistent with the literature on collective action that expect larger groups to have an increased difficulty with free-riders and defectors. Despite larger organizations offering the potential for greater benefits, smaller organizations appear better able to coordinate action among their members and prevent defection.

The impact of membership size is slightly larger on variation of cooperation within organizations than between them. This suggests that as members are added to an organization, there will be a slight decrease, perhaps only temporarily, in overall cooperation levels. The addition of a member in many ways is a boost to cooperation therefore making these findings somewhat counterintuitive. Adding member-states shows that an organization is desirable and that the new member has a desire to deepen its ties of cooperation within the region. However, the results of this research highlight the

struggle of incorporating new members into existing groups. These members much adjust to pre-existing arrangements and likely experience a delay in doing so. This suggests that states do not necessarily join regional arrangements because of their high pre-existing ties but rather increase their ties to the other members after joining. Additionally, these findings expect to see a slight benefit to cooperation when a member leaves an organization. While the exit itself is clearly an indicator of defection, states may be able to better cooperate after the problematic member has left. Membership exit has only happened twice in the period observed; both exits took place in CAN. The impact of these exits will be explored further in the next chapter.

The final variable tested for a significant relationship with regional cooperation levels was US influence. This measurement captured the relationship between member-states and the US by observing the FDI, economic aid, and military aid received from the US, as well as exports sent to the US and shared UNGA votes. Neither the average level of US influence nor variation in US influence among member-states had a significant relationship with regional cooperation in any of the tests. Given the regional rhetoric in Latin America around US hegemony, this finding is a bit surprising. It may be the case that US influence benefits some organizations while deterring others therefore cancelling out the impact on regional cooperation, or it may simply be an insignificant factor. The role of US influence and its impact on regional cooperation will be explored further in the next chapter on CAN particularly when analyzing the exit of Venezuela in 2006.

Moving into Qualitative Analysis

The quantitative analysis presented in this research provides strong evidence in support of the primary hypothesis that, in general, economic asymmetry has a negative impact on regional cooperation levels. Though these results are consistent throughout the region, further testing is needed to determine the applicability of these findings to regions outside Latin America. The statistical analysis most strongly emphasizes the different levels of cooperation found between organizations within the region. These findings suggest that the overall composition of an organization matters more than the changes made within it after it is formed. In other words, organizations that start in the “outside lane” will always have a further distance to travel to achieve higher levels of cooperation.

While the findings regarding differences between organizations are both significant and consistent with regard to the relationship between certain indicators of economic asymmetry and regional cooperation, this part of the analysis was only able to compare 16 organizations. The relatively small number of organizations in the sample limits the strength of the model’s conclusions and the generalizability of its findings with regard to group comparison. The inclusion of additional organizations will generate more robust and generalizable results in future research. In contrast, the relationships found in the analysis within organizations over time are more robust as they utilize a significantly larger variation among the sample. These results are therefore expected to be more consistent through in-depth case analysis.

The quantitative analysis highlights general relationships between the indicators observed and regional cooperation. However, in order to better understand how these

variables interact with one another and why economic asymmetry in particular significantly impacts overall levels of cooperation, a more in-depth qualitative analysis is necessary. Analyzing periods of cooperation and defection within specific regional organizations can help illustrate the relationships illuminated in the statistical analysis. In addition, further analysis will help fine tune our understanding of how these factors impact regional cooperation. Finally, the statistical model does not explain as much of the variation in levels of cooperation *within* organizations as well as it does between them. By further observing specific cases using historical analysis, we can better see the process occurring between key variables as cooperation levels change within an organization over time.

The remainder of this research looks at two regional organizations in Latin American, CAN and Mercosur. In many ways, CAN is a “most likely” case in that it frequently behaved as expected by the statistical model in comparison to other organizations. Mercosur on the other hand frequently exhibited higher overall cooperation than expected by the indicators tested. In addition, these two organizations have a unique relationship with each other due to the shift of Venezuela from CAN to Mercosur as well as their formation of the joint South American organization, UNASUR. CAN and Mercosur are analyzed using historical explanation in order to help highlight and refine our understanding of the relationship between economic asymmetry and regional cooperation. These two organizations are not presented as a case comparison but rather a preliminary look within the cases themselves to better understand the findings discovered in the broader quantitative analysis of the region.

When looking at these cases, particular attention is paid to critical junctures in cooperation within each organization, in particular periods of defection among member-states. Both CAN and Mercosur have clear periods of defection throughout their history with member-state exits in the former and multiple WTO disputes in the latter. The case analysis utilized both data from the quantitative analysis as well as more specific country-level data to better understand the organizational aggregates that were analyzed in the statistical model and the historical trend between these variables and cooperation over time. By de-aggregating the organizational data, we can see more clearly see the dynamics at play within the region. In addition, news articles from the periods of defection and previous scholarly work help explain the political motivation behind periods of defection through including statements from the member-states and organizations involved. Through an in-depth look at both CAN and Mercosur, I hope to provide a clearer picture of what rhetoric was used by the states and organizations during periods of defection and show how the significant variables found in the quantitative analysis behaved in the period leading up to and right after defection.

The quantitative work presented here sets up expectations for the relationships found between key variables and the cases observed in the next two chapter. Particular focus will be given to the relationships found within organizations over time rather than between them. In observing both CAN and Mercosur, three variables are expected to have a positive relationship with levels of regional cooperation: intra-regional trade, economic openness of the group, and variation in FDI inflows. As such, these indicators are expected to decrease around the periods of defection found in each organization. In

contrast, three variables are expected to have a negative relationship with cooperation levels: variation in member-states' current account balances, membership size, and variation in members' regime types. These indicators are expected to increase around the periods of defection. The analysis will pay particular attention to variation in FDI inflows among member-states to help illuminate why this has an unexpected positive effect on regional cooperation. In addition, analyzing CAN allows us to better understand the impact of losing a member-state on future cooperation within the group.

The quantitative analysis has shown support for the argument that economic asymmetry is a hindrance to regional cooperation. However, economic asymmetry alone does not explain the variation with other factors such as intra-regional trade and regime type playing a key role. The remainder of the study will highlight the intricacies of the relationships found in the statistical analysis through analyzing cooperation within the organizations of CAN and Mercosur. This analysis will aim to help clarify some confusing or inconclusive findings presented here. In addition, an in-depth look at these two organizations will better our understanding of the rhetoric of member-states participating in periods of defection to see how well their proclaimed motives connect to the indicators discussed in the quantitative data.

Chapter Five: The Andean Community – a Tale of Two Exits

Introduction

Formed in 1969, the Andean Community (CAN) was part of the original wave of regionalism in Latin America post-WWII. Over its 48 years, CAN has experienced many waves of cooperation and defection among its member-states. Perhaps the most unique aspect of CAN is that it is the only organization in this analysis to have had a member-state exit; Chile exited the group in 1976 and Venezuela followed in 2006. Exits from regional organizations are particularly rare, having happened only a handful of times³⁴. Such exits are a clear indicator of defection as a state actively chooses to separate itself and its policies from the group. A further look at CAN will further illuminate what conditions pushed these states to defect from the group and exit.

This chapter provides an in-depth look at these unique periods of defection within CAN in order to gain further insight into the factors involved in regional cooperation. Specifically, the analysis focuses on the key factors identified by the quantitative analysis as having a significant impact on cooperation levels, seeking to better understand the nuanced relationship. In looking at periods of defection, the analysis focuses on the conditions around the two instances of member-state exits as well as Peru's declared intention to exit in 1997. How did indicators of economic asymmetry, particularly

³⁴ Other notable instances of member-state exiting a regional organization include Tanzania's exit from COMESA and the U.K. beginning exit talks with the EU

variation in current account balances and FDI inflows, impact the region at the time of the exits and play into the rhetoric of the member-states involved? Did additional factors such as economic openness, levels of intra-regional trade, and regime type variation shift within the region during these periods as expected by the quantitative analysis? Finally, what impact did the loss of each member have on cooperation levels in CAN as it moved forward? Did the decrease of membership size assist the organization or did the exit discourage members from moving forward?

In order to address these questions, I analyzed two main sources of data. The first source involved disaggregating the data utilized for the quantitative analysis to get a country-specific view of the indicators over time. By looking not only at the organizational aggregates such as the variation or average of variables, the reasons behind and the states involved in any shift in regional variation or averages were highlighted. This allowed for a clearer picture of the inter-state dynamics within the organization around the time of defection. In addition to the quantitative data, the analysis looked at news articles covering the exits as well as experts reporting on these critical junctures and previous academic research to understand the rhetoric and reasons given for the exits by the states involved.

Ultimately, analysis of the periods of defection within CAN show that economic asymmetry within the region contributed to the exits of both Chile and Venezuela as well as the period of defection by Peru. Despite these struggles, CAN continued to gradually increase its overall cooperation levels. In many ways, the organization even benefitted from the exits as it removed the more incompatible members and allowed the other states

to deepen ties. In the case of Peru where the exit was not completed, cooperation and concessions from economically stronger member-states allowed for Peru's membership to continue, suggesting strong political will within the region to maintain cooperation.

This chapter will first give an overview of CAN's history and brief comparison to the other groups analyzed in the quantitative analysis. It will then look at the periods surrounding Chile's exit, Peru's exit threat, and the most recent exit of Venezuela. The discussion for each exit will provide context for this defection within the organization. In particular, it will dive into how each of the critical factors previously identified in the quantitative analysis behave and the political rhetoric of the states involved to see their interpretation of the issue. This will help us better understand the relationships previously identified in the statistical models as well as potentially identify additional factors at play in order to further refine our understanding of regional cooperation.

An Overview of CAN

CAN initially began as the Andean Pact in 1969 with the ratification of the Cartagena Agreement by Bolivia, Chile, Colombia, Ecuador, and Peru. During this time, regional organizations were gaining popularity around the world and within Latin America; with the Pact's formation, regional organizations spanned Central America and the Caribbean as well. The organization's membership has varied slightly throughout its lifespan with Venezuela joining in 1973, Chile leaving in 1976, and Venezuela leaving in 2006. When the Andean Pact was created, dependency theory and anti-US imperialist sentiment were prevalent throughout Latin America and shaped the sentiments of the organization as it adopted an inward orientation and policies such as import-substitution

industrialization (ISI) to encourage development. The Pact was formed in response to concerns with global asymmetry from a powerful US as well as growing regional asymmetry in Latin America. The members of the Andean Pact wanted to balance themselves against big states in the region such as Mexico, Brazil, and Argentina by deepening their economic and political ties to one another (Dabene, 2009, p. 18). After a long period of regional stagnation and debt crises in the 1980s, the Andean Pact shifted away from its inward orientation and reinvented itself in 1996 as the more economically liberal Andean Community (Mouline, 2013).

When the Andean Pact initially formed, the group was concerned with minimizing economic asymmetry among themselves. The Cartagena Agreement stated the goal of “balanced and harmonious development of the member countries under equitable conditions” and to “reduce existing differences in levels of development among the Member Countries” (Dabene, 2009, p. 181). Determined to foster equality among all member-states, the Andean Pact allowed for the special treatment of Bolivia and Ecuador, the least economically developed members, by allowing them exemptions and extended timelines for adjusting to the group’s policies (Vargas-Hidalgo, 1979, pp. 214-215). In addition, Bolivia and Ecuador were given exclusive rights to sectors that had no production in the region allowing them the opportunity to grow their markets without regional competition (Ocampo & Ros, 2011, p. 6).

The first few years of the Andean Pact were successful in fostering cooperation levels among the member-states. The organization adopted a diverse platform looking past purely economic issues to social and political issues such as a common migratory

document, confronting the cholera epidemic, and combatting drug trafficking (Dabene, 2009, pp. 122-124). Venezuela was initially hesitant to join the Pact when it formed. However, it decided to do so in 1973 after the Pact's initial success. Unfortunately, this initial success was not long-lived. Less than ten years after the Cartagena Agreement was signed, conflict grew among the member-states and the group lost its first member when Chile exited in 1976. Due to rampant debt crises in region and the onset of ongoing territorial disputes between Peru and Ecuador, the 1980s were a period of stagnation for the group both in terms of member-states' development and deepening cooperation within the organization. However, the Andean Pact remained intact.

In the 1990s, the Andean Pact attempted to break the period of stagnation and debt suffered the previous decade and revamp itself during the wave of "new regionalism" in Latin America. Contrary to the prevalent ideologies in Latin America during the Andean Pact's formation, "New Regionalism" focused on economic liberalization and influenced the founding of new organizations like Mercosur in the region. In an attempt to modernize, the Andean states shifted their focus. "CAN's objectives have changed over the years, and rather than a model of inward-looking integration it is now seen as a vehicle for driving the Andean region's integration into the global economy" (Anonymous, 2006). The group moved away from the isolationist ISI policies of the past and rebranded themselves as a more liberal Andean Community in 1996. In addition to a shift of economic policies, the group refocused its efforts on solving the internal disputes that were highlighted by the Peruvian exit threat of 1997. In particular, CAN became more involved in the ongoing territorial dispute between Peru

and Ecuador and reignited its efforts to provide support for its less economically vibrant members.

The new-found momentum of the 1990s increased regional cooperation levels and CAN continued to institutionalize. CAN has developed into a well-institutionalized organization with institutions such as an Andean parliament and a dispute resolution mechanism allowing it to make joint decisions more efficiently among its member-states on regional policy issues (Phelan, 2015, p. 842). Today,

The Andean Community is one of the most institutionally advanced sub-regional integration schemes among developing countries. Inspired by the integration process in Europe, it has several elements in common such as its supranational character (i.e., Andean laws stand above national laws) and its integration efforts that go far beyond trade (Duran et al., 2008, p. 5).

Overall, CAN has the highest level of cooperation in the region with deep political interconnections between members and has even adopted a common passport. However, the organization continues to suffer from internal divides and conflicts among member-states that threaten its effectiveness.

CAN suffers from the general problems of other regional organizations in developing regions, particularly concerning members' desire to benefit at least as much as their neighbors. "The unequal distribution of costs and benefits is the root cause of all major conflicts experienced by developing countries within integration systems" and CAN is not immune (Vargas-Hidalgo, 1979, p. 213). In addition, the organization is suffering from ideological divisions that can be seen with Colombia and Peru joining the economically liberal PA while Bolivia and Ecuador participate in the socialist-oriented ALBA. Finally, CAN faces competition for membership within the region from Mercosur. Venezuela left CAN and joined Mercosur in 2006 in part to pursue stronger

economic connections with Brazil and Argentina. Bolivia joined in 2015 though it maintained its membership in CAN. Both Mercosur and CAN are seeking to bridge the gap between them and minimize membership conflicts as they pursue a more continental organization, UNASUR.

Table 5.1

<u>Andean Community: Timeline</u>	
1969	• Cartagena Agreement creates the Andean Pact
1973	• Venezuela joins the Andean Pact as full member
1976	• <i>Chile exits</i>
1979	• Creation of Andean Council of Foreign Ministers, Andean Court of Justice (went into effect 1983), and Andean Parliament
1990	• Creation of Andean Presidential Council
1992	• Temporary suspension by Peru of its obligations to the Liberalization Program
1993	• FTA established among all members except Peru
1995	• Goals set for CET among members except Peru • Peru and Ecuador have large scale militarized border dispute
1996	• The Andean Pact is renamed the Andean Community (CAN)
1997	• <i>Peru declares it is exiting CAN.</i> • Agreement is reached among members to prevent Peru's exit and incorporate Peru into the FTA gradually. • Andean General Secretariat is created
1998	• Peace treaty signed between Ecuador and Peru to end border dispute
1999	• Agreement reached for Common Foreign Policy guidelines
2000	• Common regime on industrial property approved • Commitment to Democracy approved
2006	• Peru is fully incorporated into the FTA • <i>Venezuela exits</i>
2010	• Andean passport is put into effect

Information Source: www.comunidadandina.org

CAN consists of the poorest states in South America with the exception of Paraguay and is one of the least economically developed organizations in Latin America based on its average GDP per capita. It has low levels of intra-regional trade even for Latin America – the third lowest level of intra-regional trade just shy of the 6.7%

average. Despite these lower levels of economic development, CAN has the third highest level of cooperation over its lifespan when compared to its fellow Latin American organizations. However, these levels of cooperation vary significantly over time with most periods of defection involving inter-state conflicts. Where does CAN stand in relation to its fellow Latin American organizations with regard to the factors identified in quantitative analysis as significant indicators for variation in cooperation between organizations? In other words, what “lane” does CAN start in?

With its high average level of cooperation, CAN should have relatively lower levels of economic asymmetry. In terms of overall variation of economic size, CAN began as one of the most symmetrical organizations in Latin America. While the region as a whole had a ratio of 50:1 between smaller and bigger economies, this ratio was only 19:1 in the Andean Pact (Ocampo & Ros, 2011, p. 5). The findings from the quantitative analysis suggest this asymmetry should also be low with regard to variation in current account balances and FDI inflows among its member-states. As expected with its relatively high levels of cooperation, CAN has the fourth lowest level of current account variation among member-states and the third lowest variation in FDI inflows.

In addition to economic asymmetry, the quantitative analysis found low economic openness, small membership size, and low levels of regime variation to indicate an organization will have higher overall levels of cooperation. As expected with CAN’s relatively high average levels of cooperation, CAN is the least economically open organization in Latin America with very low levels of international trade. In addition, it has the third smallest membership of any Latin American organization with an average

number of 4.89 members. With regard to variation in regime type however, the organization cooperates more than expected given its relatively large differences in member-state regimes and lower overall levels of democratization.

With the exception of regime variation, CAN behaves as expected by the quantitative model when compared to the other Latin American organizations. This supports the quantitative findings regarding indicators that influence the variation in cooperation found *between* the different organizations. However, the analysis of periods of defection within CAN will look at the factors from the quantitative analysis that are significant to the variation of cooperation levels *within* organizations over time. In particular, the remainder of this chapter will describe how these factors changed within CAN in the time period surrounding the member-state exits. Table 5.2 outlines the significant factors for regional cooperation within organizations that were significant in the quantitative analysis. In looking at the member-states' exits, particular focus is given to understanding the role of economic asymmetry, both actual and perceived by leaders at the time.

Table 5.2

Significant Indicators for Variation in Cooperation WITHIN an Organization	
<i>Positive</i>	<i>Negative</i>
<ul style="list-style-type: none"> ● Intra-Regional Trade ● Variation in FDI Inflows ● Level of Economic Openness 	<ul style="list-style-type: none"> ● Variation in Current Account Balances ● Membership Size ● Variation in Regime Type

The First Exit: Chile

CAN experienced its first major instance of defection when Chile exited the organization on October 30, 1976. Initially, the organization focused on internal development and reducing dependency on extra-regional actors. While it worked to

minimize reliance on the global economy, CAN encouraged liberalization within the organization to assist states with development. In its first few years of operation, CAN was successful in deepening economic ties and cooperation among its member-states. By 1976, the pact had “been successful in reducing duties and other restrictions on trade among the members” (de Onis, 1976a). In addition, the group had begun negotiations on a common external tariff (CET) and dramatically increased intra-regional trade. From its founding in 1969 to 1976, trade more than quintupled among the members of CAN (de Onis, 1976c).

In 1973, three years prior to its exit, Chile experienced a sharp regime change via the military coup that put Augusto Pinochet in power. The coup occurred after a severe economic downturn in which Chile suffered high inflation, prolonged recession, and increasing unemployment (Gott, 1977). Chile’s change in regime led to a dramatic shift in policies and began the regional crisis that led to Chile’s exit (Gutierrez, 1997). The Pinochet government had inherited significant debt from the previous administration and sought to implement more liberal economic policies. “[The Pinochet government] has been seeking foreign loans and investments with an open-door policy to foreign banks, mining companies and almost anyone offering to buy state enterprises” (de Onis, 1976a). This shift in economic policies generated tensions within the region. Pinochet’s military government had overthrown the left-wing government of Presidente Allende Gossens whose policies had been more socialist and therefore compatible in nature with the founding ideology of CAN (de Onis, 1976c). Under the new regime, Chile became increasingly dissatisfied with the status quo in the region and its position in CAN.

While Chile experienced a military coup, CAN was attempting to deepen cooperation within the group through establishing a CET (Vargas-Hidalgo, 1979, p. 222) and Venezuela joined the group as its sixth member. The addition of Venezuela quickly proved problematic as it threw off the existing balance of the group and increased concerns over the distribution of benefits (Vargas-Hidalgo, 1979, p. 216). The presence of a new and economically powerful state increased competition within the region and Chile's dissatisfaction with its position. "The root of the crisis seems to have been that Chile felt it was at a disadvantage in obtaining capital to carry out its development within the region in comparison with Venezuela and Colombia" (de Onis, 1976c). In addition, the inclusion of Venezuela deepened the ideological divide among member-states. With its inward economic focus, Venezuela strengthened the position of Bolivia and Ecuador within CAN while isolating the more economically liberal Chile and Colombia (Puyana, 1982, p. 9).

We can see this regional tension reflected in a downturn in the cooperation index scores for CAN at the time. Figure 5.1 shows the cooperation levels for the region from the group's founding until a year after the Chilean exit. Cooperation levels within the region had been going up from the beginning of the organization in 1969. However, they stalled out around 1974. "In this period [from 1973-1975] there appeared unequivocal signs that the phase of easy and rapid advance was over...In general the period was marked by stagnation" (Puyana, 1982, p. 9). Finally, there was a steep decline in cooperation between 1975 and 1976 immediately preceding Chile's exit. What caused this reversal? What specific tensions were occurring between the members in the lead up

to Chile's exit and, more specifically, what role, if any, did economic asymmetry within the region have in motivating the exit?

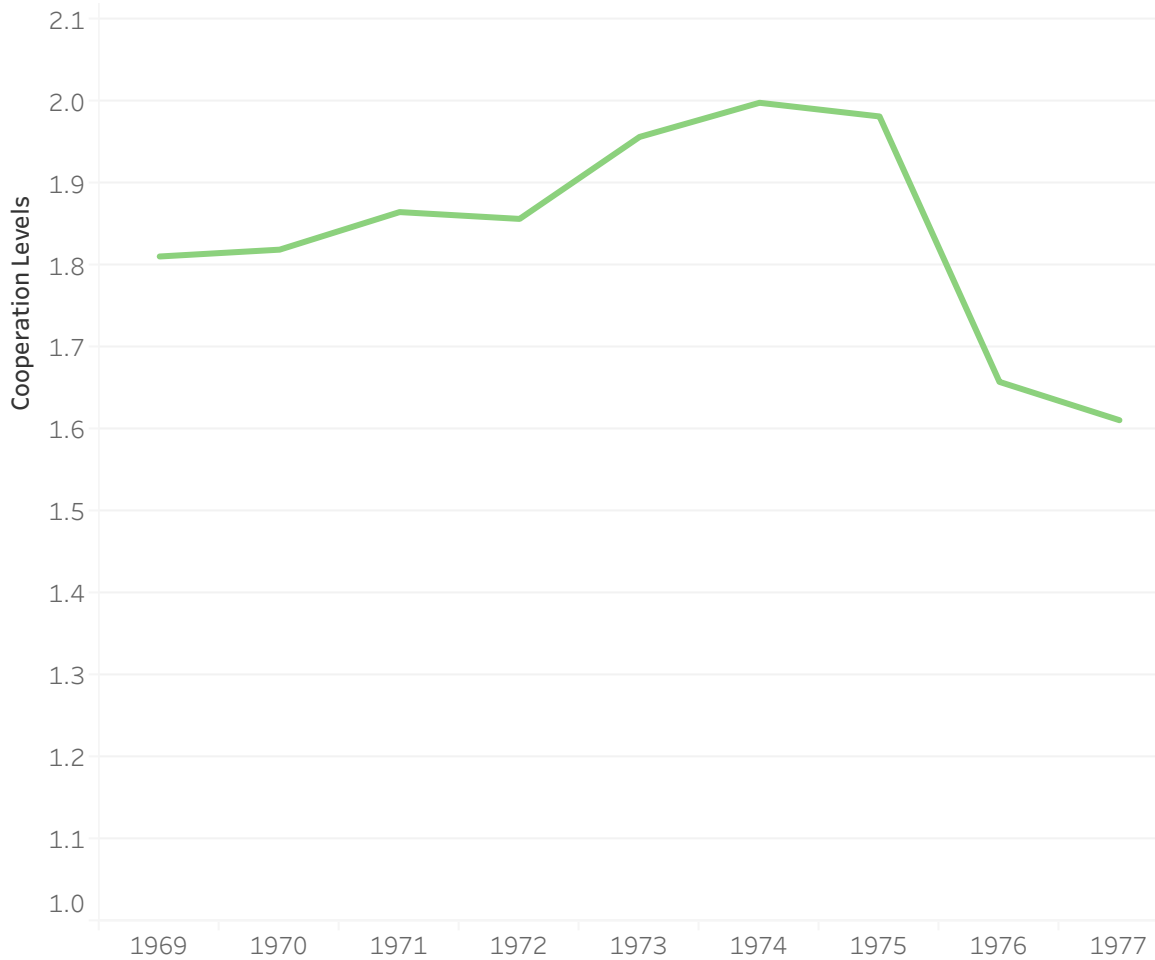


Figure 5.1. Level of cooperation within CAN during Chile's exit, 1969-1977

Chile's change in regime was triggered by a severe economic crisis in the country that had made Chile less competitive relative to its fellow CAN states, especially Venezuela. "Chile in the period of 1972-1974 suffered the worst political economic crisis of its history, while in that same period Venezuela began to enjoy the economic advantages of being an oil exporting country" (Vargas-Hidalgo, 1979, p. 216). Rather than quickly resolving the crisis, the military coup added political turmoil to the mix

further threatening the economic health of the country. The new regime led to a dramatic shift not only in political policies but also in economic policies as the Pinochet government attempted to reignite growth. Inspired by liberal economist Milton Friedman, Chile began denationalizing the economy and deregulating internally after the military coup (Gott, 1977). This shift in policies increased tensions with Chile's Andean neighbors who were less favorable to economic liberalization.

The Chilean military coup created an authoritarian regime within the state and further polarized the region in terms of political ideology. Chile's shift to authoritarianism, led to an increase in the variation of regime types CAN and highlighted a stark division between the more democratic Colombia and Venezuela and the more authoritarian Bolivia, Ecuador, and Peru. As expected by the quantitative findings, the region saw the regime variation increase around the time of the downturn in cooperation. In fact, this period leading up to Chile's exit exhibited the highest variation in regime type than any other period in CANs history.

Even among the dictatorships within the region, there was conflicting ideology between the left-wing Velasco government of Peru and right-wing Pinochet regime in Chile. Tensions between these two states rose in the 1970s particularly after Chile's coup, leading military observers throughout the US and Latin America to predict a major military conflict between Peru and Chile before the end of the decade (Masterson & Ortiz, 2006, p. 47). Chile harbored growing suspicions when Peru militarized via the Soviet Union though Peru accused the US of fear mongering and exaggerating the tensions (Novitski, 1975). The conflict between these two CAN members culminated in

minor militarized border disputes and shows of force in 1975 and 1976, about a month before Chile's exit (The Correlates of War Project, 2014). Tensions began to lessen after Peru experienced a regime change. "The ouster of General Velasco in August 1975 and the more moderate policies of his successor General Francisco Morales Bermudez (1976-1980) soon reduced diplomatic tensions [within the region] except with the lingering problems with Ecuador" (Masterson & Ortiz, 2006, p. 47).

Chile's military coup did not only represent a shift in political ideologies for the state; Pinochet's regime led to a dramatic change in economic policies that were ultimately incompatible with the rest of the region. Since its formation, CAN had remained relatively closed to extra-regional economic relationships and adopted protectionist policies. However, heavily influenced by the "Chicago boys", the Pinochet government thought economic liberalism was a necessary step for economic recovery and growth (Dabene, 2009, p. 92). Chile's new regime wanted to open the state up to the global economy in attempt to reverse the economic crisis it suffered the first half of the decade under the previous government. The Pinochet government disagreed with the ISI policies encouraged by CAN (C5) and complained that the CET the group was working on was far too high. In addition, Chile was unhappy about limits placed on capital flows by the group. The junta argued that "the foreign investment rules of the Andean Pact were prejudicial to Chile's development" (Gott, 1977) and "favored lower taxes on imports and liberal conditions for foreign investors to attract foreign capital and technology" ("Chile Refuses to Reverse," 1976). This clash of economic ideologies between CAN and Chile as the latter attempted to reverse policies that had led it into

crisis in the early 70s caused Chile to reject regional policies and push for change. As a result of disagreement in the region, CAN's attempt at a CET missed its first implementation deadline of December 31, 1975 with Chile arguing that the CET on extra-regional products was too high ("Chile Cuts Ties," 1977).

The average level of economic openness (measured here by total trade as a percent of GDP) was initially quite low for CAN as a region. However, these levels began to increase from the group's formation into the 1970s, coinciding with increasing levels of cooperation as expected by the quantitative findings. This increase did not happen uniformly among the member-states. Figure 5.2 shows the level of economic openness within CAN by state in the years leading up to the Chilean exit. Economic openness continued to increase until 1974 when member-states diverged with Chile's continuing to increase economic openness while the other members pulled back. Though Chile's levels took a dip in the years of the political crisis preceding the coup, they then increased at a higher rate than other CAN states before decreasing again between 1975 and 1976. The organization experienced lower levels of cooperation as its average economic openness also decline beginning in 1975.

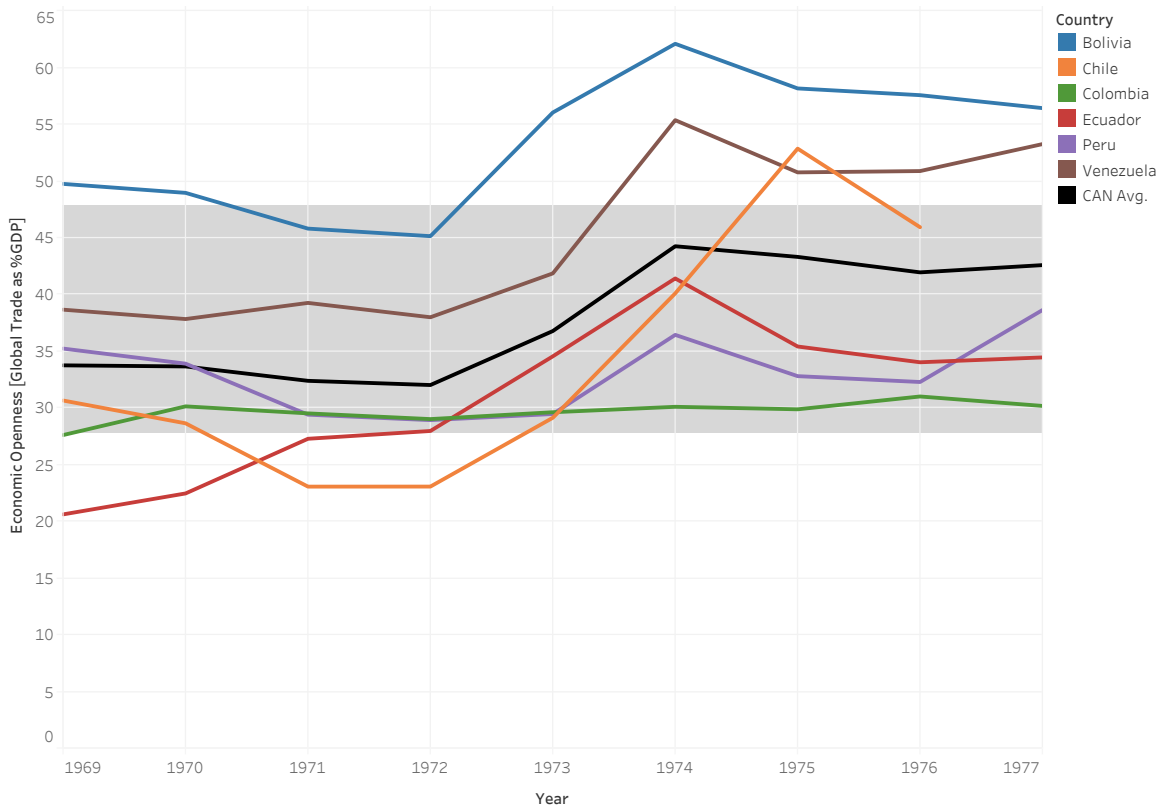


Figure 5.2. Level of economic openness in CAN by state, 1969-1977

At the same time that Chile found itself with high levels of debt and pursuing economic liberalization to correct a major economic crisis and was opening up to fix the problem, both Venezuela and Colombia, major exporters in the region, were adopting greater economic protectionism. Venezuela had begun nationalizing its primary exports of oil and iron. Meanwhile, Colombia had been enjoying high coffee prices and started demanding foreign banks to give up at least 51 percent of control to Colombians (de Onis, 1976a). This economic ideological clash within the region increased tensions as Chile pushed to change CAN's policies to allow it to liberalize. While other members were willing to compromise in the short-run, they did not want to reorient the organization's economic policies. According to a high-level Colombian official at the

time, “We are prepared to be flexible because of special circumstances, but we cannot allow Chile to introduce a new ideology into the pact” (de Onis, 1976a). The low levels of economic openness, a desire to integrate into the global economy, and the unwillingness of CAN to change its policies contributed to Chile’s decision to exit the group in 1976.

Despite the debate over economic liberalization with extra-regional actors, CAN significantly liberalized policies among its member-states by the mid-70s bringing the average tariff within the group down by a third (Ocampo & Ros, 2011, p. 6). As a result, intra-regional trade within CAN increased significantly from the formation of the organization up until Chile’s exit. During this time, Chile in particular increased its trade reliance on its fellow member-states due to a slight increase in exports to the region and its economic crisis making extra-regional imports less affordable. However, this increase in intra-regional trade also brought an increase in economic asymmetry in the region particularly with regard to member-states’ current account balances. After the CAN’s initial phase of internal liberalization, tensions over perceived imbalances within the group made some members more inclined towards protectionism (Ocampo & Ros, 2011, p. 6). Levels of intra-regional trade dropped after Chile’s exit as there was now one less market within the region. Intra-regional trade remained volatile along with overall cooperation levels after the exit and throughout the 1980s.

Variation in current account balances within CAN spiked to their highest levels in 1974³⁵ The years leading up to this spike saw an improvement in the terms of trade throughout the region which initially helped states to overcome balance of payment problems (Puyana, 1982, p. 54). However, not all states were benefitting equally as they increased both global and regional trade. While Venezuela and Ecuador (and to some degree Colombia) improved their current account balances and were able to finance the expansion of their economies, Peru, Bolivia, and Chile continued to suffer from chronic deficits. In particular, Peru and Chile had built up large current account deficits putting pressure on their economies whereas “the other countries [had] managed to reduce their deficits, with an occasional surplus, which has allowed some degree of investment promotion” (Puyana, 1982, p. 55). Chile was the largest importer in the region and had fallen far behind its neighbors by its exit in 1976 (Puyana, 1982, p. 100). Its adoption of strict monetarist and laissez-faire policies were an attempt to control this balance of payments issue as well as increase the confidence of international lenders (Salcedo & Akoorie, 2013, p. 120). As an organization, CAN attempted to equalize the region in mid-1976 by creating a stabilization fund to assist states incurring balance-of-payments deficits with intra-regional trade.

To shore up the wavering unity of the pact, Venezuela and Colombia have agreed to finance most of a \$300 million Andean stabilization fund that could be drawn upon by other members incurring balance-of-payments deficits in their trade within the Andean region. This would favor Chile

³⁵ Variation in current account balances in CAN reached their highest levels of the 20th century in 1974. While the variation in 1995 was at similar levels, the organization did not surpass the variation seen in 1974 until 2001 where it had a 5-year high.

and Peru particularly, since they are both heavily in debt outside the region and run deficits in the region (de Onis, 1976a).

Unfortunately, the fund did not come to fruition before Chile exited later that year.

Finally, private FDI flows within CAN were very volatile during the 1970s. This foreign investment was of major concern to Chile as it struggled to recover from economic crisis early on in the decade. In the first few years of CAN, Chile had adopted very nationalistic policies leading to very low levels of foreign investment. “As conditions for foreign capital [in Chile] were found to be discouraging, a sharp fall in FDI inflows resulted. The stock of FDI decreased towards the end of 1973 to...one of the lowest in Latin America” (Salcedo & Akoorie, 2013, p. 118). While Chile struggled to attract investment, Venezuela, Peru, and Colombia saw an increase in FDI that same year. The Pinochet government adopted economic liberalism particularly focused on attracting foreign investment and felt that CAN hindered its development through restricting foreign investment from outside the region (de Onis, 1976c).

The coup blamed Chile’s economic struggles on the nationalistic policies of the previous regime and sought to liberalize in order to attract investors. However, Chile struggled initially to attract FDI due to the legacy left over from the Popular Unity government from 1971-1973 and the violence associated with the post-coup repression (Salcedo & Akoorie, 2013, p. 119). Chile’s internal struggles meant that, even after liberalization policies, “foreign capital did not flow into industry, or at least not as much as was expected” (Puyana, 1982, p. 188). Despite Pinochet’s efforts, the state saw a dramatic decrease in private FDI inflows between 1974 and 1975. Venezuela suffered a similar fate at the time (Puyana, 1982, p.187). In contrast, Peru benefitted from steady

increases in FDI from 1972-1977 with a particularly large influx of private FDI from 71-75 (Puyana, 1982, pp. 187-189). This variation in FDI inflows within the region, notably between Chile and Peru, potentially exacerbated already existing tensions between the states.

While the quantitative analysis found a positive relationship between variation in FDI inflows and regional cooperation, this variation appeared to increase regional tensions for Chile shortly before it exited CAN. These contradictory findings are likely due to both a time lag issue and a matter of data availability³⁶. The variation in FDI inflows went up in CAN as the group strengthened ties and before there was a dip in cooperation. However, between 1975 and 1976, variation continued to rise and cooperation levels dropped significantly. By 1976, the variation of FDI inflows within CAN began a three-year decline. This positively correlated with a decrease in cooperation seen immediately after Chile's exit and supports the conclusion that Chile was responsible for a large part of the FDI variation seen throughout the 1970s.

Though Chile exited CAN in October 1976, withdrawing from the organization was not the state's first choice. For three years prior to the exit, the Pinochet government attempted to persuade CAN to change its economic policies. Chile argued that global economic attitudes had changed since the organization's formation and that the rules it was enforcing had been developed in a time of more radical and nationalist ideals within the region (Gott, 1977). In particular, the Pinochet government attempted to change the

³⁶ The quantitative data does not include FDI data from Chile until 1975. Data used here for FDI inflows during this period in CAN came from Puyana (1982).

rules of CAN regarding foreign investment and lower the CET. Chile had the primary goal of opening up in order to attract foreign capital and felt the pact was preventing this through such policies. CAN did attempt to compromise with Chile by “raising the annual authorized margin to remittable profits from 14 percent to 20 percent. But Chile insisted on no limitations, which the other members rejected” (de Onis, 1976b). When an agreement ultimately could not be reached, the Pinochet government took unilateral action and attempted to attract foreign capital. “In April 1976, the Chilean regime...[eliminated] all limits on the repatriation of capital for foreign investments, when the Andean area as a whole only allows 20 percent of the annual profits [annual remittances of profits for foreign investors].” This action was met with strong disapproval of the fellow member-states (Gutierrez, 1997) and Chile withdrew from CAN.

Chile’s economic situation improved immediately following its exit from CAN. From 1977-1979, FDI inflows increased, inflation slowed, and the state maintained a balance of payments surplus (Salcedo & Akoorie, 2013, p. 121). In contrast continuing members of CAN initially struggled. Bolivia and Ecuador lost a large percentage of their intra-regional exports with Chile’s exit and their levels of intra-regional trade dropped to approximately those they had at the formation of the organization. Cooperation levels within the region continued to decline for two years. Despite having decreased in membership size, it took until 1979 for CAN to get back to pre-exit levels of cooperation and, even then cooperation levels were volatile with overall stagnation throughout the 1980s. Much of the volatility was due to continuing territorial battles between Peru and Ecuador. While economic asymmetry was a significant factor in Chile’s decision to exit

CAN, decreased asymmetry after its exit was not enough to repair the damage within the region as it attempted to move on during the crises of the 1980s.

The Peruvian Exit Threat

Overall, the 1990s saw a large increase in cooperation for CAN and a boost in trade for its member-states both intra-regionally and globally (Rodriguez, 1998). After the economic stagnation of the 1980s, CAN worked on revamping itself as a more economically liberal group in order to integrate into the global economy. Despite these gains, the decade was characterized by an ongoing struggle with Peruvian membership as it dealt with an economic crisis in the early 1990s. This struggle led to CAN's second major period of defection when Peru threatened to leave the organization. "Peru formally announced on April 23 [1997] that it would leave the Andean Community" (Hall, 1997, para. 11). However, the exit was never finalized. CAN and Peru were able negotiate Peru's continued membership in the organization and the state has since continued with full membership.

Cooperation levels within CAN vacillated during the 1980s as the group struggled to recover from the Chilean exit and was dealing with debt crisis throughout the region. However, by 1989, cooperation had increased to the organization's highest level since its formation. Figure 5.3 shows the level of cooperation within CAN throughout the 1980s and 1990s. Much of the volatility during this period was due to sporadic militarized inter-state disputes between Peru and Ecuador over a continuing border conflict. In particular, outbreak of a large military conflict between Peru and Ecuador in 1995 brought the organization to its lowest levels of cooperation in more than a decade. After this conflict,

the region recovered quickly beginning an upward trend in cooperation for the rest of the decade that dipped only momentarily in 1997 around Peru's exit threat.

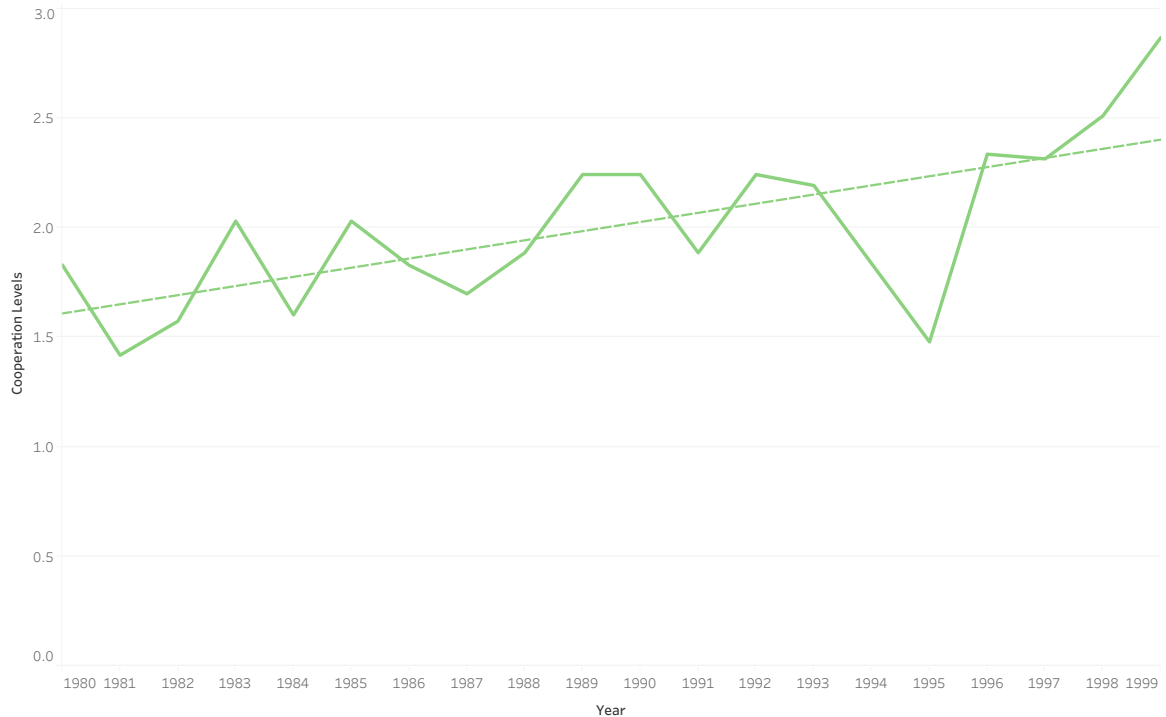


Figure 5.3. Cooperation levels in CAN, 1980-1999

There were significant political tensions within Peru as well as between Peru and its neighbors throughout the 1990s. Regionally, the ongoing territorial dispute between Peru and Ecuador culminated in a deadly two-month battle between the two states. Though the major direct engagement ended after this time, tensions were still high between the Peru and Ecuador as Peru declared its exit from CAN in 1997. The conflict remained unresolved until 1998 with both states continuing to engage in militarized aggression. Internally, Peru was dealing with a political crisis beginning in 1991 as it experienced an “authoritarian drift” during a self-coup under then-President Alberto Fujimori (Dabene, 2009, p. 4). As CAN attempted to revamp itself and made efforts to deepen cooperation in the 1990s the “Peruvian crisis paralyzed the integration process”

(Dabene, 2009, p. 93). Regime variation between the member-states of CAN had been low (and relatively un-democratic) throughout the 1980s. However, with Peru's shift towards authoritarianism, the variation within the region dramatically increased as shown in Figure 5.4. This increase in overall variation of regime type is consistent with expectations of decreasing cooperation from the quantitative findings as Peru was then further isolated from the group.

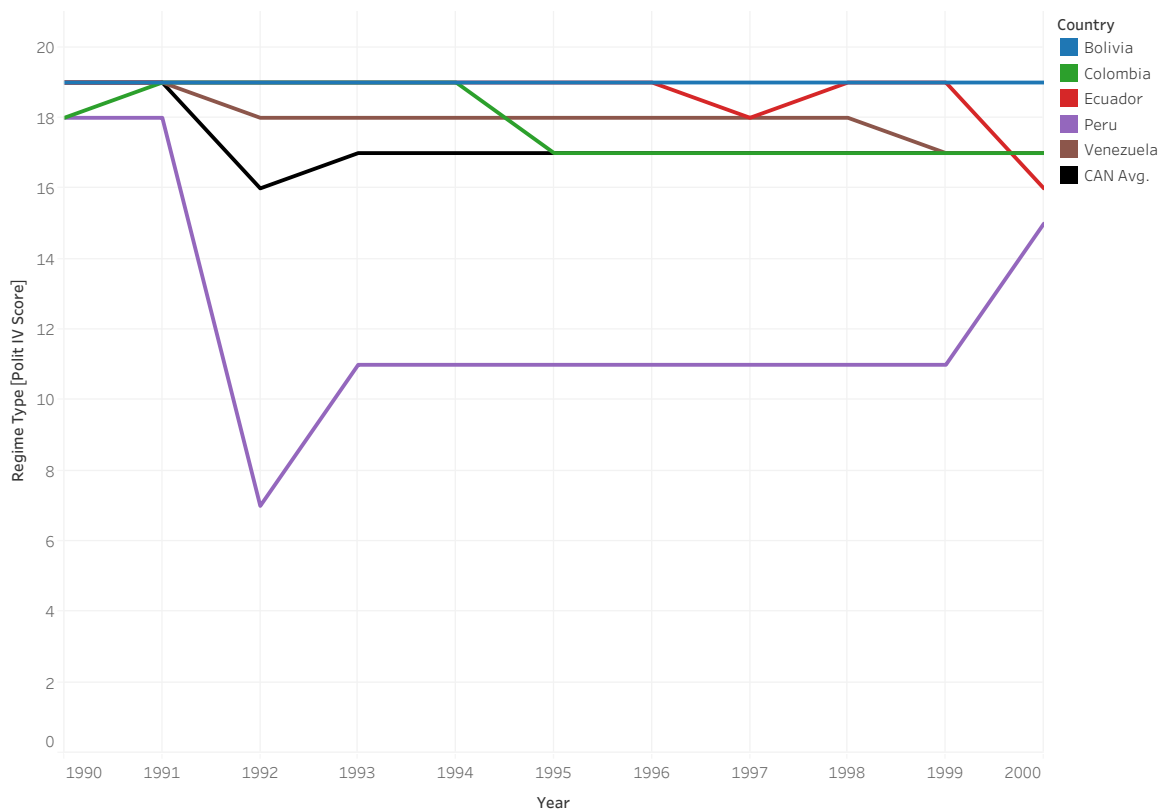


Figure 5.4. Variation in regime type within CAN, 1990-2000

Despite these clear political issues, there was an economic undertone to much of the conflict within the region surrounding Peru's declaration that it was exiting CAN. While Peru's military conflicts were exclusively with Ecuador over their border, the state was dissatisfied with its relative economic position among the group's larger members.

Peru was much more likely to initiate trade disputes using the complex dispute settlement procedure in CAN against the bigger states like Colombia and Venezuela rather than its smaller neighbors Ecuador and Bolivia (Gomez-Mera & Molinari, 2014, p. 272). This suggests that the relative economic positions within the group were of concern.

By the early 1990s, as CAN began revamping itself, intra-regional trade had been largely liberalized in the group. While CAN was liberalizing internally, Peru had been declining in terms of its share of GDP per capita within the group since 1975 as its neighbors developed more quickly by this measure (Duran et al., 2008, p. 5). In particular, Peru's GDP per capita sharply contracted hitting its lowest levels between 1990-1993. After this contraction began, Peru refused to join CAN's FTA cut itself off from trade commitments in the region in August 1992 (Gutierrez, 1997). Meanwhile, negotiations on a CET for CAN reignited between 1992-1993 with all members except Peru adopting the CET system by 1995 (Duran et al., 2008, pp. 10-11). Rather than participating in regional efforts, "[Peru] negotiated bilateral trade arrangements with each of its Andean counterparts that helped to partially liberalize their reciprocal trade flows" (Rodriguez, 1998, p.6).

Initially after the onset of Peru's economic downturn, the state received preferential treatment from CAN exempting it from joining the CET and liberalizing internal trade to the same degree as other members. However, by the mid-1990s the organization began to pressure Peru to conform by joining the FTA and implementing the CET. Peru resisted arguing that such policies were unfair to its still weak economy and that it was not properly prepared to adopt these measures. This pressure from CAN to

shorten the timeline for Peru's integration into the free trade zone in particular led Peru to declare its exit (Gutierrez, 1997). "The break up happened when the other four Andean countries rejected the Peruvian proposal to extend the period for the total removal of tariffs in the sub regional free trade zone until the year 2004, instead setting a cutoff date of Dec. 31, 1999" (Abraham, 1997, para. 2). Dissatisfied with its economic standing, Peru decided that it would be more beneficial to sever ties with CAN than to force economic liberalization in accordance with its neighbors.

Unlike the Chilean exit, the rhetoric surrounding the Peruvian exit was primarily about intra-regional liberalization rather than economic openness to extra-regional partners. While overall levels of openness in the region increased in late 1980s, they stayed relatively stagnant during the 1990s, even declining slightly as expected right before Peru's 1997's exit threat. Beginning in 1980, Peru was significantly less integrated than its peers with the global economy. However, integration had been increasing very gradually up until 1997. This potentially explains Peru's hesitancy to adopt new economic policies that may have altered this trend and its willingness to walk away from CAN as it slowly grew its extra-regional relationships.

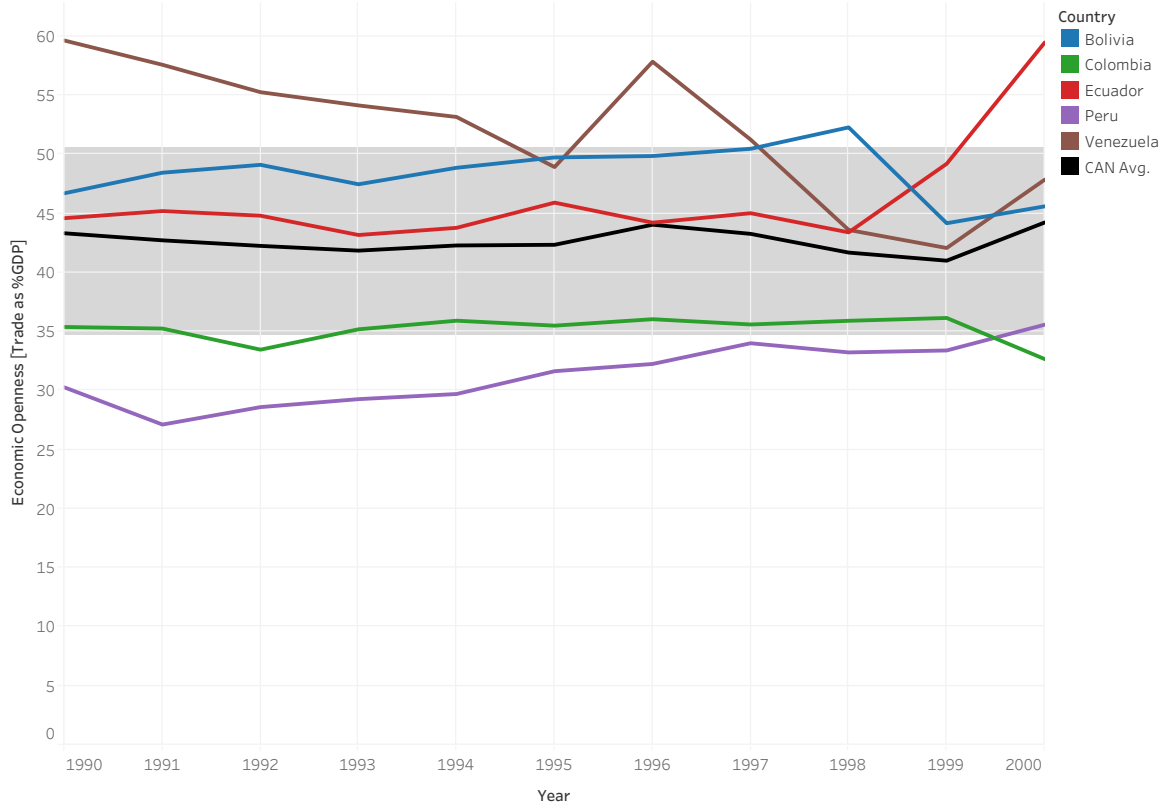


Figure 5.5. Level of economic openness in CAN by state, 1990-2000

CAN suffered from especially low levels of intra-regional trade after Chile’s exit all the way through the 1980s. However, between 1990 and 1995 as the group re-vitalized its cooperation efforts and established a CET, intra-regional trade rapidly increased to approximately 12.3% (almost double that of the previous peak in 1976 of 6.5%). From 1996-1997 Peru’s intra-regional trade levels increased particularly with Ecuador and with CAN as a whole. This increase in intra-regional trade coincided with an increase in variation between member-state’s current account balances including a significant spike within the region in 1996. This spike in member-state’s current account balance variation was primarily due to a large surplus at the time in Venezuela while Peru, Bolivia, and Colombia maintained large deficits. In the years leading up to the potential exit Peru was

consistently behind its neighbors, running a large current account deficit. In contrast, Ecuador's deficit had shown some signs of improvement and was almost eliminated in 1996. Peru's deficit was in part due to its imbalance of trade within the region as it maintained low levels of intra-regional exports but relatively high level of regional imports in the years leading up to the crisis.

These trade imbalances within CAN added pressure to the negotiations around Peru's adoption of the CET and incorporation into the FTA. As a consistent deficit country, Peru wanted to maintain its preferential treatment, fearing the imbalance would worsen if it were forced to liberalize further. Peru argued that it should be allowed leniency not only because of its deficit but also the gains its imports from other member-states gave to the region. In particular, Venezuela and Colombia benefited from their trade balances with Peru.

'I do not understand why Colombia and Venezuela – which benefit from their trade balance with Peru – have toughened up their position so much,' said [Eduardo] Farrah [president of the National Society of Industries working to solve the Peruvian crisis]. 'Even if Peru is not in the free trade zone, the other Andean countries share a balance of more than a billion dollars in surplus in trade with [Peru]' (Abraham, 1997).

As predicted by the quantitative findings, variation in current account balances created significant tension within the region during this period of defection. As a regional importer, Peru was simultaneously relatively more reliant on its neighbors and performing more poorly economically at a time when it was still in a political conflict with Ecuador increasing tensions within the region. These imbalances impacted Peru's policy decisions and increased its resistance to further economic integration with its fellow member-states in CAN.

In addition to trade imbalances within CAN, variation in FDI inflows among member-states potentially contributed to Peru's defection. From 1993 to 1999 variation in FDI inflows increased in the region dipping only slightly between 1994 and 1996. This period also saw an average increase in cooperation levels, meaning that the two indicators had a positive correlation as expected from the quantitative findings. However, the relationship is more complex when looking at country-specific data as it highlights disparities between Peru and the rest of the member-states. The regional variation was primarily caused by an increase in FDI into Peru at the beginning of this period (1993-1994) followed by Bolivia (1995-1999). FDI into Peru declined after 1994, most steeply between 1996 and 1997, though averages for CAN continued to rise. Through the turn of the century, Peru saw a long and steep decline in FDI inflows while overall inflows for the region peaked during the same time period. Peru was losing out on FDI inflows relative to its neighbors adding to its dissatisfaction with regional agreements.

Ultimately, Peru's exit was never finalized and it decided to maintain its full membership status within CAN. This decision was at least in part due to organizational negotiations to satisfy Peru's requests. Other member-states were willing to make concessions in order to prevent further fractioning within the region. "We all need each other mutually in order to enter the year 2000, and we cannot advance isolated in the world of today, separated from the integrated regional scene," explained Andean diplomats in Caracas" (Gutierrez, 1997). In 1997, CAN agreed to extend Peru's special status with regard to the FTA and CET though Peru would be required to gradually adopt these policies by 2005 (Rodriguez, 1998, pp. 6-8). In addition, the militarized border

disputes between Peru and Ecuador were resolved with a new peace agreement signed in 1998.

Venezuela Jumps Ship

In April 2006, Venezuela became the second and most recent member to exit CAN as it began the process of joining neighboring Mercosur. Unlike the previous junctures observed here, this exit did not come after a period of economic crisis for the exiting state. The main reason given by Venezuela for the withdrawal was essentially a clash over economic and political ideologies within the region. In particular, Venezuela was concerned with member-states within the region increasing their relationships with the US.

Venezuela justified its intention to withdraw on the grounds that Peru and Colombia had undermined CAN's tenets by signing separate bilateral trade agreements in the US. Venezuela, which has hostile relations with Washington, has argued that the free-trade agreements with the US will prompt an 'invasion' of US products in the Andean region (Anonymous, 2006).

In this case, the exiting state appeared more concerned with relative gains among extra-regional partners than within the organization itself. Was this the sole reason for Venezuela's exit? What role did factors such as regional economic asymmetry play, if any?

Cooperation levels within CAN (see Figure 5.6) reflect the tension seen within the region around the time of Venezuela's withdrawal from the organization. After turn of the century, the region experienced the highest levels cooperation in CAN's history. The few dips in cooperation during this time were due to minor militarized disputes between Colombia and Venezuela in 2000 and 2003. Overall cooperation levels began to decline

in 2005 and 2006 leading up to the exit. However, these levels recovered to their previously high levels and stabilized by 2010.

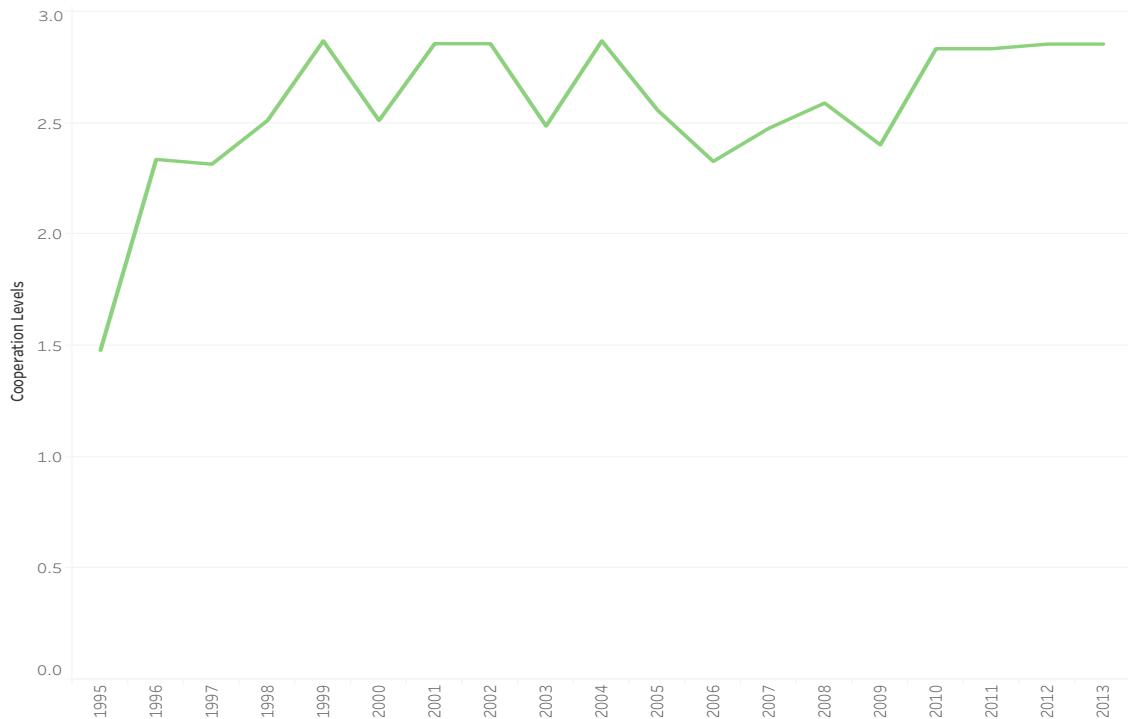


Figure 5.6. Level of cooperation within CAN during Venezuela’s exit, 1995-2013

In the time leading up to the exit, tensions grew between Venezuela and the US under the increasingly authoritarian Chavez government. At the same time Venezuela sought to minimize its connections to the US it called for deeper cooperation within Latin America. Not all members of CAN agreed with this anti-US sentiment. In particular, Peru and Colombia pursued bilateral agreements with the US in hopes of increasing global trade. Venezuela condemned these agreements citing a fear of flooding the Andean market with US goods and increasing dependence on extra-regional actors. According to analysts at the time, “a steep rise in imports from the United States will affect negatively some sectors in Colombia and Peru, and this will have some knock-on negative effect on

the Venezuelan economy” (“Latin America: Andean Community,” 2006, para. 7).

Though Venezuela might have benefitted in the long run, it feared allowing US competition freely into the Andean states.

Venezuela’s exit was motivated at least in part by its anti-US sentiment and an attempt to resist US economic and political influence. Measurements of US influence spiked notably throughout CAN right after the turn of the century reaching levels not seen in the region since the 1960s. This spike was primarily due to an increase in economic aid from the US. This influence remained relatively high through 2006 in comparison to other Latin American organizations as shown in Figure 5.7. In contrast, Mercosur consistently showed the lowest levels of US influence in all of Latin America. Figure 5.8 breaks down US influence within CAN by state. Venezuela maintained exceptionally low levels of influence compared to its fellow member-states whereas US influence in Colombia had been rising in the years leading up to the exit as it pursued bilateral agreements. Somewhat ironically, Chavez’s commitment to Latin American cooperation weakened the organization through separating Venezuela from those that sought deeper extra-regional ties with the US.

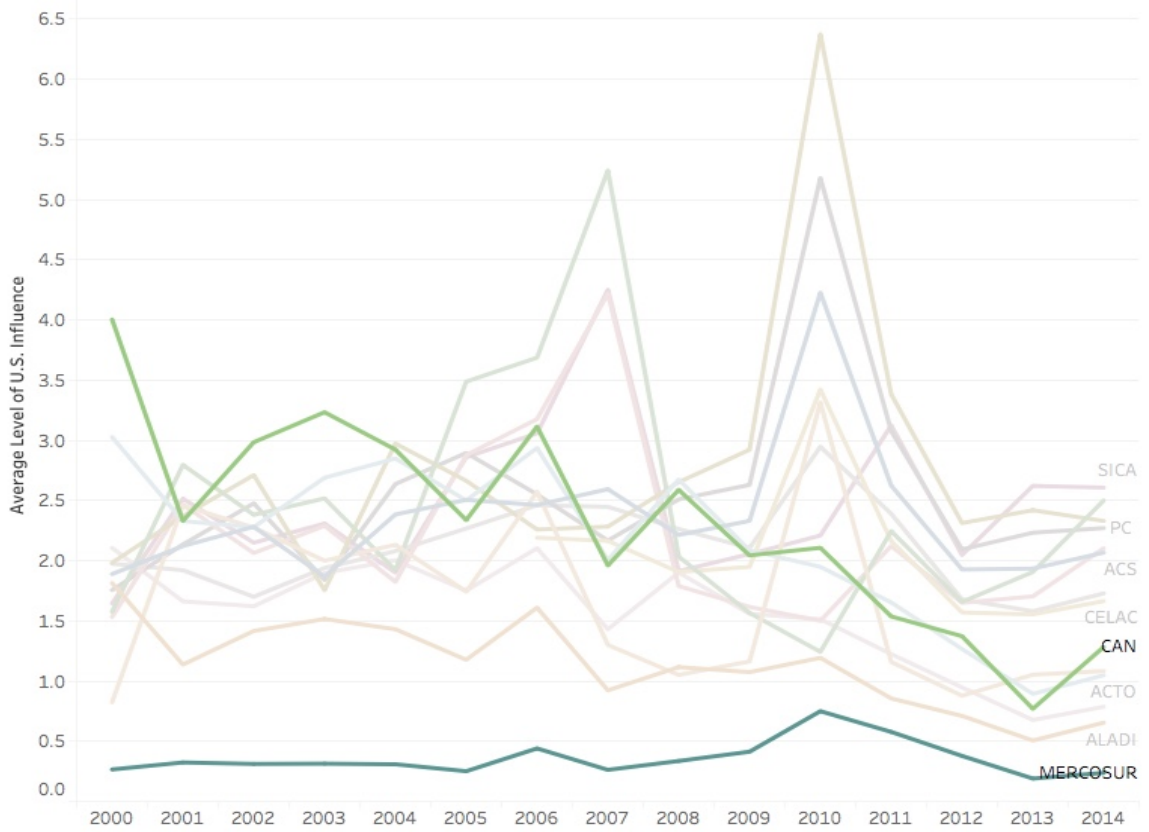


Figure 5.7. Level of US influence by organization, 2000-2014

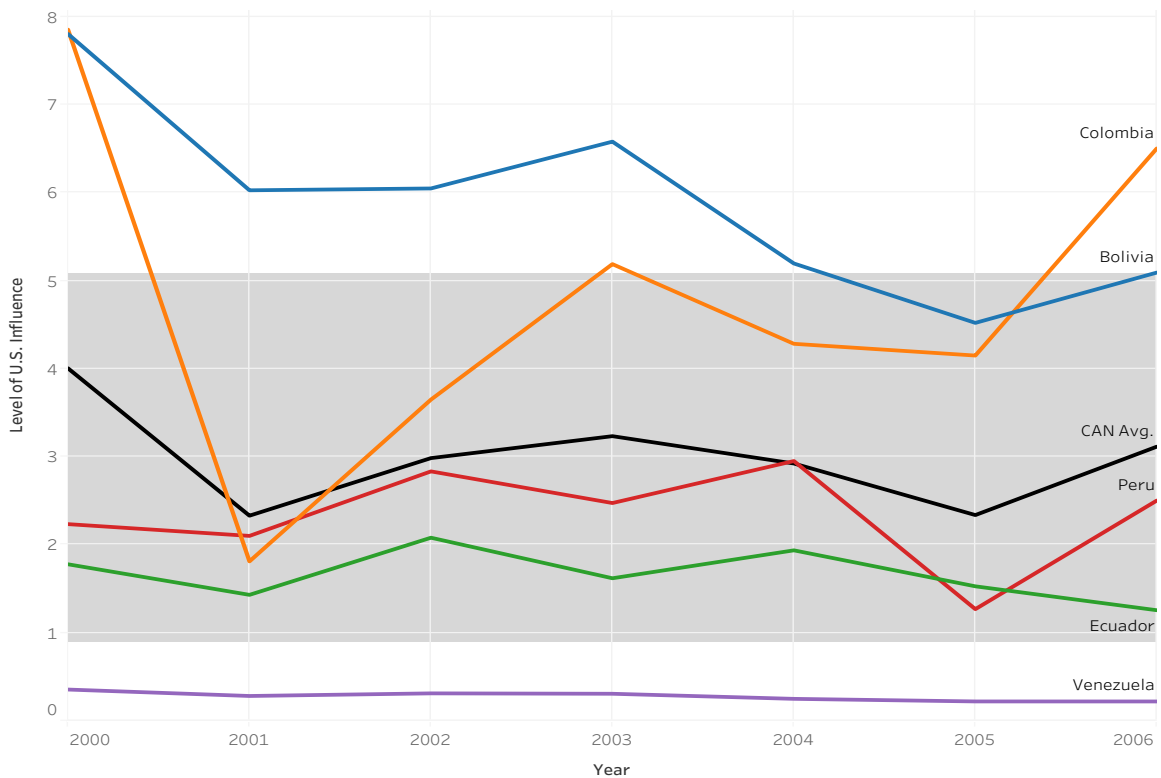


Figure 5.8. Level of US influence by state, 2000-2006

While US influence was not found to be a significant indicator of regional cooperation in the quantitative analysis, it did appear to play a strong role in the decrease in CAN's cooperation in 2006 as Venezuela exited the organization. In addition, levels of US influence help explain in part why Venezuela turned to Mercosur upon its withdrawal. While Venezuela disagreed with CAN members' increasing relationships with Washington, Mercosur maintained a low level of US influence and was therefore more compatible with Venezuelan sentiment. However, this was not the only factor drawing the state away from CAN towards Mercosur. Mercosur represented a significantly larger market for the exporting-market of Venezuela with access to both Brazil and Argentina. Despite having lower levels of trade with Mercosur states leading up to 2006, the potential for growth within Mercosur was greater. Due to both

organizations having differing CETs and FTAs, simultaneous commitments to both CAN and Mercosur was considered incompatible. Therefore, when faced with a choice, Venezuela chose Mercosur (Del Castillo et al., 2006).

Despite the large role of US influence in Venezuela's decision, other internal issues within CAN, particularly those highlighted in the quantitative analysis, played a significant role. Similar to other two exits observed, variation in regime type within CAN increased as cooperation decreased with the exiting state adopting a more authoritarian government. Under the Chavez government, Venezuela had grown increasingly more authoritarian creating larger variation within the organization and straining cooperation. In addition, beginning in the mid-1990s, Venezuela and Colombia had increasingly tense relationships and experienced numerous small-scale militarized inter-state disputes. However, Colombia remained economically reliant on the Venezuelan market. In 2006, "Venezuela [was] Colombia's second biggest trading partner – absorbing 10% of all exports – after the United States" ("Latin America: Andean Community," 2006, para. 18). Colombia responded to Venezuelan critiques of its bilateral negotiations by defending its relationship with the US and its desire for an FTA ("Week's Top Story - Colombian," 2006). This argument only furthered aggravated already tense relations between the two states as militarized inter-state disputes continued.

Contrary to expectations around a period of defection, CAN's average economic openness continued to rise significantly after the turn of the century through 2006³⁷. This

³⁷ Levels of economic openness reached an organizational peak in 2008 before beginning a downward trend for the rest of the period observed.

rise in overall openness did coincide with increasing variation among states. While most members contributed to the rising average, Colombia's levels stayed relatively stagnant and Venezuela decreased between 2005 and 2006 right before it left CAN. This notable increase in economic openness among CAN's members did not correlate with increased cooperation as the organization's levels declined in the years leading up to Venezuela's exit. While contrary to the expectations of the quantitative analysis, this finding highlights Venezuela's dissatisfaction with increased global integration, primarily with the US and Europe. Whereas many of the organizations observed seek to increase global trade through cooperation, disagreement around this goal created tension within CAN prior to the exit.

Economic asymmetry, specifically variation in current account balances, was on the rise in CAN at the same time its levels of economic openness were growing likely counteracting any benefits to cooperation this openness gave. Internal variation in current account balances started to rise in 1998 and peaked to their highest levels of this century in 2005. Unlike the previous exits observed, the defecting state boasted a growing surplus during this period. This increasing variation among CAN's members was due to Venezuela and Bolivia running large surpluses while Colombia maintained a persistent and slowly increasing deficit from 2000 to the exit and beyond. These disparate balances of Venezuela and Colombia in the years before the exit is highlighted in Figure 5.9. Venezuela was a notably stronger trading partner than its fellow CAN members due to its large oil reserves. As this asymmetry grew, rather than being frustrated with a persistent

deficit like defectors in past exits, Venezuela sought deeper relations with the larger markets in Mercosur.

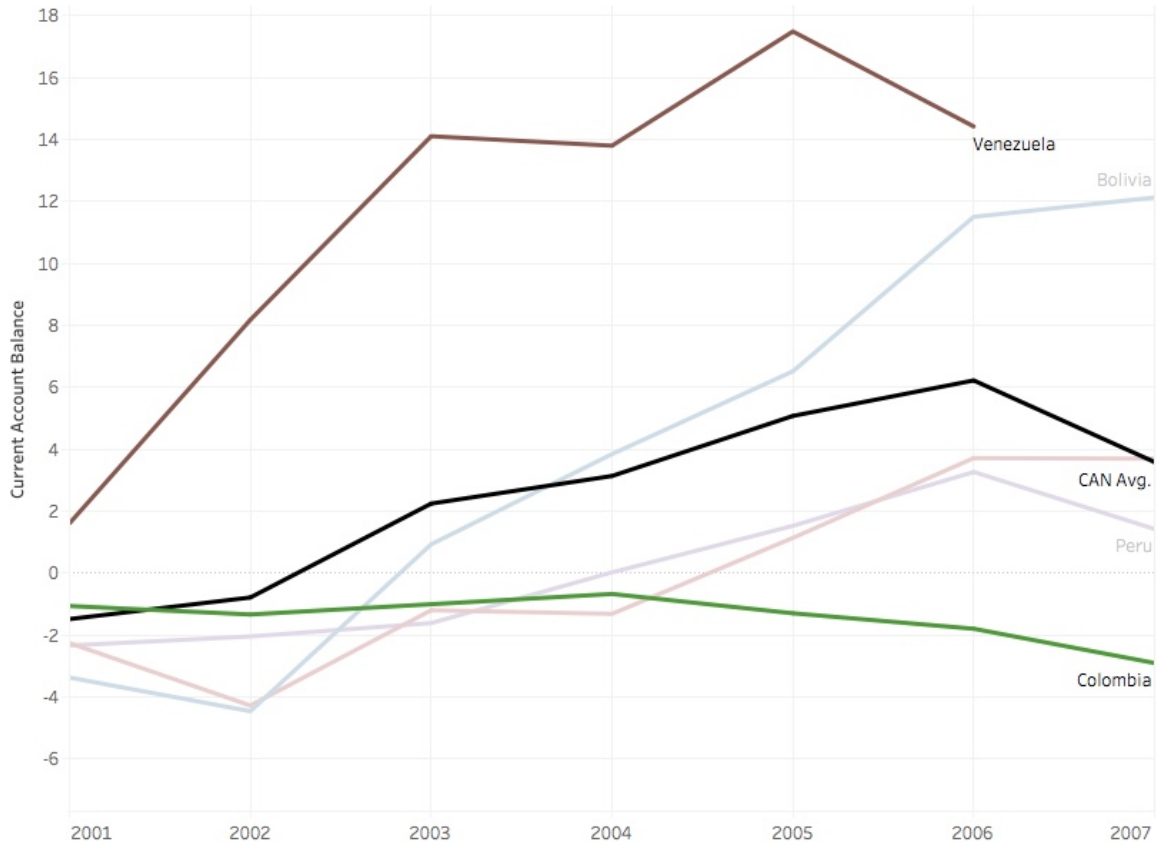


Figure 5.9. Current account balance by state, 2001-2007

Trade throughout the region slightly declined in the two years leading up to the exit as expected around a period of defection. Throughout its membership in CAN, Venezuela maintained a low level of intra-regional trade relative to the other member-states. This was primarily due to the state's extra-regional relationships through its oil exports. Venezuela's trade with CAN peaked in 1995 and then maintained a downward trend through its exit as it decreased its exports to the region. While Venezuela's imports from the region had been increasing, CAN members made up a declining amount of the state's export market beginning at the turn of the century and with notable declines

between 2004 and 2006. This decrease in intra-regional exports made Venezuela less reliant on its agreements with CAN. Interestingly, though Venezuela turned immediately toward Mercosur, it had consistently had higher trade levels with the Andean states from the 1980s through 2010³⁸ suggesting that it was seeking to gain new markets rather than liberalize existing trade relations. This supports the notion that regional arrangements play more of a signaling role than one of efficiency for developing states likely in part due to low overall levels of economic interdependence.

Finally, variation in FDI inflows to CAN members declined at the turn of the century and spiked in 2005, one year prior to Venezuela's withdrawal. This spike was not caused by any major shifts in Venezuela but rather due to a significant increase in FDI for Colombia while Bolivia was suffering a severe decline. Variation in FDI inflows dropped between 2005 and 2006 coinciding with a decrease in cooperation levels before the exit. After the turn of the century, both Colombia and Peru (the two states pursuing bilateral agreements with the US) saw gains in their overall FDI inflows while Bolivia, Ecuador, and Venezuela saw varying degrees of declining FDI. While FDI inflows did not appear to play a role in the rhetoric around the Venezuelan exit, they do highlight the growing divide within the region between those seeking extra-regional relations and those pushing to strengthen Andean ties. This schism, presented as a debate of CAN/US relations, was a major contributor to Venezuela's decision to leave the organization.

³⁸ In 2010 Venezuelan trade in general began to significantly drop off though disproportionately more with CAN members than Mercosur (International Monetary Fund, 2017a).

As tensions grew within the region, Venezuela maintained a close relationship with its fellow CAN member Bolivia. Under newly elected President Morales, Bolivia worked to salvage Andean relations and keep Venezuela in the organization by calling a meeting of CAN shortly after Venezuela declared its intent to exit. Venezuela was open to the negotiation saying that it preferred to remain in the group but continued to insist Colombia and Peru abandon their bilateral deals with the US. Bolivia sided with Venezuela in the talks explaining that it too was concerned about increasing US influence in the region. “Bolivia warned it would also exit the Andean Community if Peru, Colombia and Ecuador do not shelve the free-trade deals with the US” (“Week’s Top Story - Colombian,” 2006). However, the differences appeared to be un-resolvable with Venezuela claiming it could not get past its differences in approaches towards the US with Colombia and Peru. “Chavez says free-trade deals with the US benefit big international companies at the expense of the region’s poor...One-on-one trade deals with the US undermine continental unity” (“Week’s Top Story - Venezuela,” 2006). By the end of the meeting, Chavez declared that CAN was “dead” due to American Imperialism (Lucas, 2006).

Venezuela’s exit increased concerns that Bolivia would be next and halted CAN’s negotiations with the EU (Lucas, 2006). The exit highlighted a deep schism within the organization between those states pursuing economic liberalization and those preferring protectionist measures for the region.

Peru’s foreign trade minister at the time [of Venezuela’s exit], Mercedes Araoz, commented that even without Venezuela, the Andean Community consisted of ‘two countries with leftist tendency – Ecuador and Bolivia – and two more open countries, Colombia and Peru’” (Gray, 2013, p. 153).

Bolivia and Ecuador remained in CAN but echoed Venezuelan concerns over Peru and Colombia's flirtation with the US. This divide proved problematic as the group continued negotiations with the EU to establish an inter-regional trade deal ("Latin America: Andean," 2009). During the negotiations, Bolivia was highly skeptical of trade liberalization while Ecuador maintained a more moderate position. In addition, Bolivia complicated the negotiations through its "continuing investments disputes with individual EU member-states" ("Latin America: Andean," 2008, para. 16). While Ecuador was more willing to negotiate in talks with the EU, it insisted negotiations be done as a block rather than the bilateral agreements sought by Peru and Colombia are seeking. Despite this rhetoric, Ecuador did eventually complete bilateral negotiations with EU in January 2017 ("Ecuador Joins EU-Colombia," 2016). The internal divide continued beyond CAN's negotiations with the EU and was further exemplified by Ecuador and Bolivia joining the socialist Latin American organization ALBA while Colombia and Peru formed the economically liberal PA with Mexico and Chile.

Despite the ongoing ideological schisms within CAN, Venezuela's exit was ultimately a boost for the region's cooperation levels. Unlike after the Chilean exit, the organization was quick to recover. After the decrease in membership in 2006, CAN's cooperation levels immediately went up, supporting the quantitative findings on internal changes in membership size. With the exception of a slight dip in 2009, cooperation has continued on an upward trend within the organization through the period observed with CAN surpassing Mercosur in 2010 with the highest levels of regional cooperation in Latin America.

Conclusion

Upon Venezuela's exit, Chavez exclaimed that "North American imperialism killed the CAN" (Lucas, 2006, para. 10) and concerns rose around the future of the organization. However, CAN has endured and even thrived since losing its second member in 2006. The organization has had increasing levels of cooperation and member-states have continued to express the desire to further integrate. Bolivia did not leave CAN as feared though it did join Venezuela in Mercosur in 2015. Rather than a departure from its Andean neighbors, Bolivian membership in Mercosur has been seen as an attempt to bridge the gap between the two organizations ("Bolivian President Favours," 2012). In addition, CAN and Mercosur continue to merge their policies through the development of UNASUR further preventing the need for member-states to choose between the organizations.

Though CAN has continued to grow as an organization, it has not be without its issues in recent years. After an economic downturn, Ecuador put up protectionist barriers within the region and began to discuss its potential exit ("Latin America: Andean," 2009). The current situation mimics much of what was seen with the Peruvian crisis in the 1990s. Similar to Peru, Ecuador cited concerns with the organization's policies regarding its continuing large trade deficit (Tassano, 2016). Tensions grew as CAN pushed Ecuador to remove the preferential treatment it has been granted within the region (Scherffius, 2015). However, despite the mention of an exit, Ecuador has not taken any steps to sever ties with the group and continues negotiations with CAN to find mutually agreeable solution to its economic downturn.

The analysis of these three periods of defection within CAN support the argument that economic asymmetry within a region is detrimental to cooperation levels. In each period observed, economic asymmetry, particularly current account variation among members, magnified the situation. For Chile and Peru, the asymmetry within CAN left them feeling particularly disadvantaged by their status in CAN and sparked exit talks. For Venezuela, the concern appeared to be much more about global asymmetry and levels of US influence within the region despite that being an insignificant factor in the larger quantitative analysis. However, economic asymmetry within the organization also contributed to the state's defection. Venezuela's unique size and strength within CAN incentivized it to seek larger markets in Mercosur. In addition, an asymmetry of economic policies and investment in region furthered divide among member-states and minimized Venezuela's incentive to continue cooperation within the group.

Each period of defection within CAN had its own unique context. However, they all involved increased economic asymmetry, decreased intra-regional trade, and increased variation in regime type among member-states supporting these findings from the quantitative analysis. Despite these exit struggles throughout its history, CAN continued to gradually increase its overall cooperation levels. In many ways, the organization even benefitted from the exits as it removed the more incompatible members and allowed the remaining states to deepen their regional ties. When economic asymmetry was met with concessions by other larger members that benefitted from existing regional arrangements, as was the case with Peru, the exit was preventable. Member-states participating in such

negotiations suggests a strong political will within the region to maintain cooperation within CAN for the long-run.

Chapter Six: Mercosur – The Declining Star

Introduction

Mercosur was formed in 1991 with the Treaty of Asuncion between Argentina, Brazil, Paraguay, and Uruguay with the initial goal of opening a customs union between its members. Its formation was part of a new wave of regionalism within Latin American as states refocused their development efforts towards economic liberalism and global integration (Ocampo & Ros, 2011, p. 7). The organization was a quick success as it rapidly liberalized trade among its members and broadened its cooperation efforts past economic coordination to include social and political goals. “Mercosur has been quite a successful regional integration effort, developing a sense of community among its members, promoting democracy in the sub-region and projecting itself as an important actor in the international arena” (Carranza, 2007, p. 320). Mercosur was in many ways the “golden child” of new regionalism in Latin America attracting new membership from Venezuela and Bolivia as it grew. However, despite its rapid initial success, cooperation within Mercosur began to decline around the turn of the century with its member-states falling into numerous disputes with one another. What caused this shift towards defection within Mercosur? What role did economic asymmetry, particularly the distribution of gains in trade and investment seen in the first few years of the organization, play in the inter-member-state disputes that developed later on?

This chapter looks at periods of defection within Mercosur to better understand the relationship between economic asymmetry and regional cooperation. In the previous case of CAN, economic asymmetry within the organization led to dissatisfaction among members and the eventual exit of both Chile and Venezuela. While these exits were tumultuous, they ultimately left the remaining members more strongly bound through higher levels of cooperation. Unlike CAN, no member-states have exited Mercosur thus far. However, economic asymmetry has played a key role in inter-state disputes within the organization as well as declining levels of cooperation. Mercosur is significantly more asymmetrical than CAN in terms of the overall size of its member-states; Brazil is the clear regional hegemon with a significantly larger economy, population, and geographical size than its neighbors. This size variation within the organization has inhibited Mercosur's ability to pursue supranational institutions as Brazil hesitates to cede power to its smaller neighbors (Blyde & Fernandez-Arias, 2008, p. 36). Though there is a clear asymmetry in terms of size, how have the gains from economic cooperation been distributed throughout Mercosur? Many of the states within Mercosur share similar factor endowments and technology exacerbating trade competition and minimizing intra-regional trade more generally (Blyde et al., 2012, p. 8). This competition likely increases concerns over relative gains as states compete within the same export markets and for similar investment opportunities. As members of Mercosur deepen their connections, do larger states such as Brazil and Argentina gain more than their proportional share in terms of trade and investment? Finally, how has this

distribution contributed to intra-regional disputes and the decline of cooperation levels within Mercosur?

As an organization, Mercosur's cooperation levels continued to climb from its founding until 2005, with the exception of a dip in overall levels between 1999 and 2002. This chapter focuses on the temporary dip in cooperation levels at the turn of the century and the beginning of Mercosur's steady decline starting around 2005 to better understand the role of the indicators identified in the quantitative analysis. The type of defection observed in Mercosur looks slightly different than what was seen in CAN. Since its formation, Mercosur has not experienced either the membership exits or the militarized inter-state disputes that have riddled CAN's history. Instead, Mercosur has dealt with formalized economic disputes between its members, in many cases utilizing extra-regional organizations such as the WTO and International Court of Justice (ICJ) to mediate the conflict. To understand the relationship between economic asymmetry and cooperation within Mercosur, this analysis looks at country-level data of the variables utilized for the quantitative analysis to get a country-specific view of the indicators over time. This shows not only how the group as a whole was doing during these periods of defection but also gives a clearer picture of the inter-state dynamics within the organization during member-state disputes. News articles covering the regional disputes as well as studies on these critical junctures were also analyzed to further understand the inter-state dynamics and rhetoric from the members as cooperation levels declined within Mercosur.

This chapter will first give an overview of Mercosur's history and brief comparison to the other groups analyzed in the quantitative analysis. It will then look at the disputes between Brazil and Argentina at the turn of the century when Mercosur first dipped in overall cooperation levels. Finally, it looks at the inter-state disputes between Uruguay and Argentina that coincided with the beginning of the period of decline seen within Mercosur since 2005. The discussion for each dispute period will provide context for this defection within the organization as well as discuss how each of the critical factors previously identified in the quantitative analysis contributed to the political rhetoric of the states involved in the conflict.

An Overview of Mercosur

After the economic stagnation of the 1980s, Latin American regionalism was reborn with efforts to “cure Latin America of its ‘bad habits’ of protectionism” (Theodore, 2015, pp. 6-7). Mercosur embodied this new wave of regionalism through its focus on economic liberalization among its member-states as they jointly opened up to the global economy. Rather than the protectionist policies of the 1960s and 1970s when Latin American organizations attempted to insulate themselves from the forces of the international market, Mercosur focused on promoting development via global integration. “Regional integration presented itself as a mechanism to reach out for economic globalization to participate in this new era of the world economy in a more positive way, leading to national development” (Soreanu Pecequilo & Alves do Carmo, 2013, p. 58). Mercosur led the wave of new regionalism within Latin America as it sought to help its member-states cooperate with each other in order to be more competitive as they opened

to the global economy. Regional integration was as a stepping stone to globalization rather than a fortress against it.

In contrast to the more holistic approach taken by CAN, Mercosur's initial goals were primarily economic in nature as it sought to liberalize trade internally and attract extra-regional trade and investment.

The agreement was established under the following four core objectives: (1) the free movements of goods, services, and factors of production among countries, (2) the establishment of a common external tariff and the adoption of a common commercial policy, (3) the coordination of macroeconomic and sectoral policies between the parties, and (4) the harmonization of laws in order to strengthen the integration process (Blyde et al., 2012, p. 197).

Mercosur made quick progress on many of these goals after its 1991 formation.

Internally, the group rapidly liberalized the majority of trade between its members within the first few years. Externally, Mercosur had established a CET that covered about 85% of the goods traded extra-regionally by its member-states by 1995 (Carranza, 2007, p. 325). However, Mercosur struggled to coordinate member-states' macroeconomic policies which would prove detrimental to regional cooperation when crisis hit in 1999.

In addition to its economic goals, Mercosur brought together Argentina and Brazil in attempt to smooth regional relations and quell their longstanding rivalry (Heine, 2012, p. 211). The historic mistrust between the two largest states within the region had been detrimental to economic development and cooperation within the region.

Argentine Foreign Minister Dante Caputo... stated that 'regional economic cooperation is the first step toward ending decades of misperceptions between Argentina and Brazil. The development and prosperity of the two have suffered as a result of regional distrust' (Kaltenthaler & Mora, 2002, p. 83).

The negotiations for the formation of Mercosur aimed to rebuild relationship in order to help the group move forward. According to Alcides Costa Vaz, an advisor to the Brazilian government during the negotiations leading up to the Treaty of Asuncion, political goals and minimizing rivalry within the Southern Cone were key to the region's development. Vaz stated that cooperation efforts between the two states expressed “the necessity of confronting domestically any military threat or influence that could be associated to or justified by the existence of a strategic competition/rivalry in the Southern Cone” (Kaltenthaler & Mora, 2002, pp. 81-82). By rebuilding trust between the two states, smoothing internal relations, and increasing political stability, the region would become more economically attractive to external trade and investment. While both states shared these political goals, Argentina was more interested in the group's economic objectives than Brazil and was encouraged to deepen cooperation when the early period of Mercosur saw a reduction in Argentina's trade deficit.

When Mercosur was formed, member-states expressed concerns about economic asymmetries in the region. Out of the four states in the organization, Brazil was the clear regional hegemon. Table 6.1 shows the distribution of Mercosur's total population, territory, and GDP as well as each member's GDP per capita when the organization was formed in 1991. The smaller members worried that deepening regional ties with Brazil would exacerbate already unbalanced economic size and trade within the group. In particular, Argentina was concerned about its terms as it primarily exported agro-based goods while Brazil was exporting more expensive manufactured goods (Carranza, 2008, pp. 78-79). These concerns from the smaller members of Mercosur can be seen in

expectations from producers throughout the region. “Eighty-two percent of Brazilian firms surveyed expected to gain from Mercosur, as opposed to 45 percent of Argentine producers, 41 percent of Paraguayan firms, and only 19 percent of Uruguayan firms” (Jenkins, 1999, p. 42). Brazilian firms were less intimidated by the idea of regional integration with their neighbors. In addition, member-states of Mercosur were concerned Brazil might have disproportionate influence over the group’s agreements due to its hegemonic status. These concerns were not unfounded.

Several studies show that the CET approved in Ouro Preto [by Mercosur in 1994] was more consistent with Brazil’s interests than those of the other members...The small countries tried to protect their interests by means of exceptions that delayed the full enforcement of the CET (Laens & Terra, 2008, p. 81).

Agreements disproportionately benefitting Brazil increased incentive for the smaller members to defect from regional coordination.

Table 6.1

1991 population income and territory distribution at founding of Mercosur				
Country	Population	GDP	GDP/Capita (2011 US \$)	Territory*
Argentina	17.15%	15.67%	\$7,688.15	23.41%
Brazil	79.00%	81.97%	\$8,730.23	71.68%
Paraguay	2.23%	0.86%	\$3,231.25	3.42%
Uruguay	1.62%	1.50%	\$7,822.36	1.48%

*from Amoroso Botelho (2014, p. 46)

Disagreements between the two larger states, Brazil and Argentina, were dominated by concerns about disparities between them. In contrast, the smaller members, Uruguay and Paraguay, expressed concerns about disparities between them and their larger counterparts leading them to ask for funds from the larger members or exemptions to regional agreements (Flores Jr., 2008, p. 255). With such extreme variation in the size of the organization’s member-states creating tensions, Mercosur needed to focus on

establishing a degree of equilibrium within the region that would allow all members to gain from its agreements. In order to assist with this, Mercosur granted special treatment to the smaller states allowing them differential practices such as exemptions for the CET (Giordano et al., 2008, p. 19). However, concerns about disparities within the group persisted.

As an organization, Mercosur is less institutionalized than its counterpart CAN. However, the economic integration of the first few years of the organization went hand in hand with political cooperation on policy issues such as drug trafficking and transparency in arms acquisitions (Kaltenthaler & Mora, 2002, p. 83). Mercosur also deepened its political ties through the creation of a dispute settlement mechanism and regional parliament to assist with cooperation efforts. The states of Mercosur further aligned politically when they declared their commitment to democratic values in 1998 through the “Compromiso Democrático”. Having relatively recently democratized, Brazil and Argentina hoped that the promotion of democratic values through Mercosur would both ensure their democratic consolidation as well as further regional cooperation efforts (Dabene, 2009, p. 73).³⁹ In addition to this policy coordination, Mercosur was able to act as a group to assist with diffusing the 1996 coup attempt in Paraguay (Carranza, 2007, p. 325). Despite this political cooperation, Brazil opposes the creation supranational institutions within the region. The large asymmetries within the region made a slower and

³⁹ Mercosur’s commitment to democratic values was the reason given for Paraguay’s suspension from the group in 2012. However, at this same time, Venezuela was granted full membership despite its slide into authoritarianism under the Chavez regime (Farnsworth, 2013). Venezuela was later suspended for violating democratic principles in 2016.

more intergovernmental approach to integration more compatible with Brazil's interests (Dabene, 2009, p. 94).

Table 6.2

<u>Mercosur: Timeline</u>	
1991	<ul style="list-style-type: none"> • Treaty of Asuncion creates Mercosur
1994	<ul style="list-style-type: none"> • Ouro Preto Protocol creates institutional structure and begins steps towards establishing a customs union and common external tariff
1998	<ul style="list-style-type: none"> • The Ushuaia Protocol on Democratic Commitment is established declaring Mercosur's focus on establishing and maintaining democratic values among its members
1999	<ul style="list-style-type: none"> • <i>Currency crisis begins within the region. Brazil devalues its currency unilaterally</i>
2000	<ul style="list-style-type: none"> • <i>Brazil takes Argentina to the WTO over protectionist measures</i>
2001	<ul style="list-style-type: none"> • <i>Brazil takes Argentina to the WTO over protectionist measures</i>
2002	<ul style="list-style-type: none"> • Mercosur dispute settlement mechanism is established (put into force in 2004) • Argentina defaults and floats its currency breaking its peg with the dollar
2005	<ul style="list-style-type: none"> • FOCEM created in attempt to reduce regional asymmetries • Parlasur (Mercosur Parliament) created
2006	<ul style="list-style-type: none"> • <i>Disputes between Argentina and Uruguay over development of a pulp mill begin. Argentina takes Uruguay to the ICJ while Uruguay takes Argentina to Mercosur Dispute Settlement</i> • <i>Venezuela begins membership process but it blocked by Paraguay</i> • <i>Argentina takes Brazil to the WTO over protectionist measures</i>
2007	<ul style="list-style-type: none"> • The Social Institute of Mercosur is established
2012	<ul style="list-style-type: none"> • Paraguay is temporarily suspended for violating democratic principles of Mercosur • Venezuela is voted in as full member
2015	<ul style="list-style-type: none"> • Bolivia becomes full member
2016	<ul style="list-style-type: none"> • Venezuela is temporarily suspended for violating democratic principles of Mercosur. Venezuela was suspended again in August 2017 and remains so at time of writing.

Although struggling with internal asymmetries, Mercosur is considered to be one of Latin America's most successful attempts at regional integration. It is the world's second largest customs union after the EU and an important actor on the international stage (Carranza, 2007, p. 325). The early success of Mercosur increased its attractiveness

to other states in the region. Both Venezuela and Bolivia (members of CAN) joined Mercosur in the past decade due to the organization's strong reputation and its relatively large markets. While a sign of Mercosur's strength, this increase in membership has put additional strain on the organization as it incorporates the new states into existing agreements and must contend with more divergent opinions in group negotiations. In addition to expanding its membership, Mercosur has also partaken in negotiations with CAN to harmonize South American policies as the two groups joined to form UNASUR in 2004⁴⁰. While the formation of UNASUR complicates obligations for Mercosur states as they adapt to new pan-continental policies, it is also a sign of political will for increased levels of regional cooperation.

As a group, Mercosur has the highest average levels of cooperation within Latin America as well as the highest recorded levels observed in Latin America between 2004 and 2005. Figure 6.1 shows the levels of cooperation within Mercosur from the years leading up to the Treaty of Asuncion. The organization began with the highest levels of cooperation in the region when it was first fully formed in 1991 and maintained this status through 2009 with the exception of a brief dip in 1999-2002. However, cooperation levels in Mercosur began to decline after 2005. By the end of the period observed here, Mercosur had dropped to the third highest level of cooperation in the region and was still declining reaching levels lower than seen at its formation in 1991 by 2013.

⁴⁰ UNASURs membership also includes Chile, Guyana, and Suriname that are not members of either CAN or Mercosur in order to create a fully South American group.

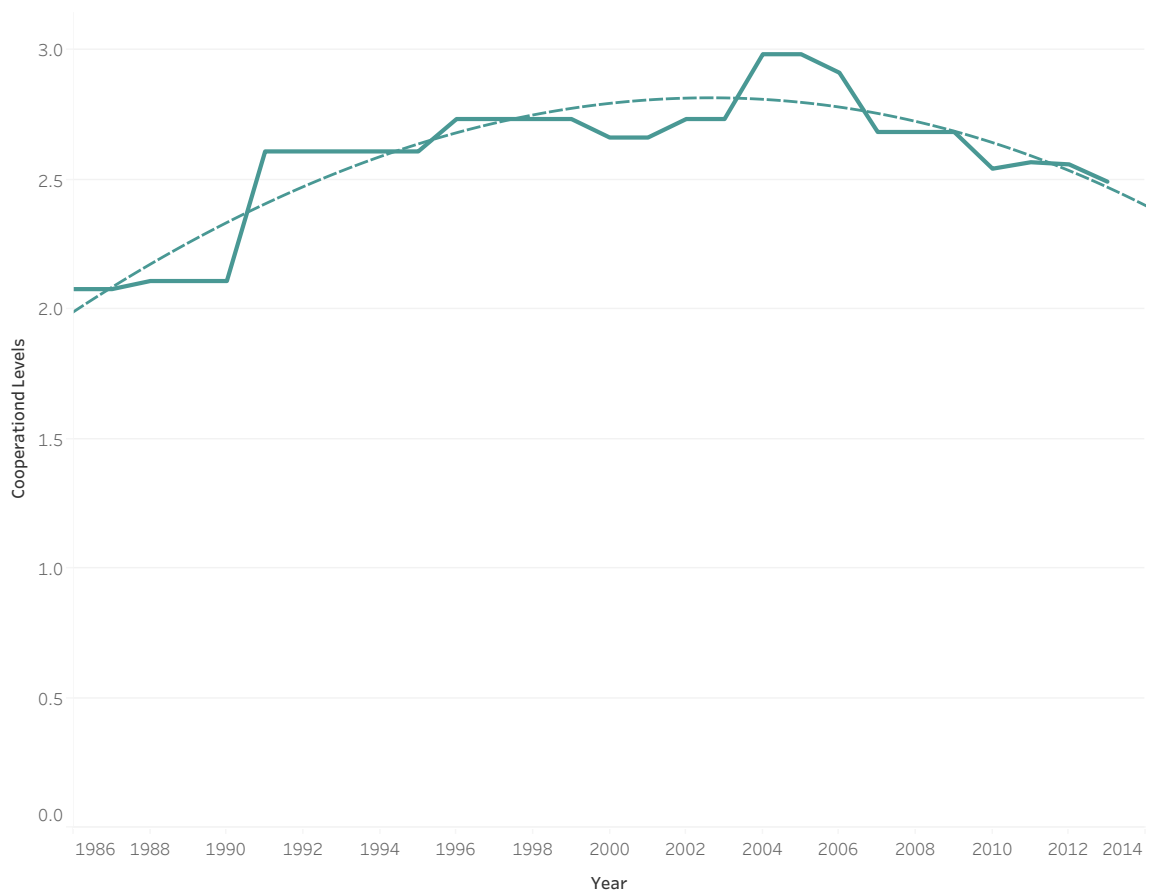


Figure 6.1. Cooperation levels among members of Mercosur, 1986-2013

With the exception of Paraguay, Mercosur’s member-states boast higher GDP per capita levels than their CAN counterparts. It is the second smallest organization in Latin America next to the PA in terms of membership size with an average of 4.2 members. Despite Mercosur’s small size, it has the third highest level of intra-regional trade with an average of just under 16%. However, the organization is relatively economically closed compared to its Latin American counterparts and has higher levels of asymmetry with regard to current account balance variation, FDI inflow distribution, and regime type. In this sense, Mercosur is an over achiever in terms of cooperation with a higher level than expected from the quantitative analysis having started in an “outer lane” on the

cooperation track. This trend of over-achieving appears to be dwindling in recent years as levels of cooperation within the group decline. High levels of asymmetry and the political tensions they have created are in part to blame for this decline.

The next two sections of this chapter look specifically at the periods of declining cooperation within Mercosur starting with the first dip between 1999 and 2002. These periods of decline include disputes between member-states that ultimately went to multilateral institutions such as the WTO and ICJ. What did the economic asymmetry and other critical factors from the quantitative analysis look like around these periods of decline? What did the individual states have to say about the conditions that caused the disputes? The analysis focuses specifically on factors identified as significant in explaining the variation within organizations over time. Intra-regional trade, variation in FDI inflows, and levels of economic openness are expected to decrease as cooperation declines. In contrast, the variation in current account balances among members, overall membership size, and variation in regime types within the region are expected to increase within Mercosur during these periods of defection.

Mercosur's First Downturn: The Brazil/Argentina Crisis, 1999-2002

Mercosur's first few years were marked by a rapid liberalization among its member-states and increasing levels of intra-regional trade as the region recovered from the economic crises of the 1980s. Much of this trade was driven by the removal of trade barriers within the region. Approximately 95% of tariffs among Mercosur states were liberalized in its first four years (Ocampo & Ros, 2011, p. 11). The GDP for the region as a whole grew at an average of 4.7% between 1991 and 1997 with Argentina leading the

pack by growing at an average annual rate of more than 7% in the first few years of Mercosur (Carranza, 2008, p. 68). Regardless of this growth and increasing liberalization within the group, Mercosur had huge asymmetries in market sizes and trade flows among its member-states. Brazil in particular maintained its primary trading relationships with extra-regional partners including the EU and US minimizing its incentive to coordinate with its South American neighbors (Krapohl et al., 2014, p. 884). With the external focus, Mercosur's growth and coordination began to lose momentum by the latter part of the decade. "In the second half of the 1990s the grouping has experienced increasing difficulties, intra-group trade has stagnated, and the common external tariff (CET) has become largely symbolic" (Carranza, 2007, p. 320). By the turn of the century, Mercosur was in need of a revival to overcome the impasse it had reached.

Shortly after intra-regional trade and growth stagnated in the late 1990s, economic crises reemerged in Mercosur, straining relationships among member-states. Triggered by the recessionary impact of the Mexican peso crisis, the first notable dispute within the group occurred in 1995 between Brazil and Argentina after Brazil implemented a temporary quota on automobile imports to combat its persistent trade deficit. While this crisis was resolved through presidential negotiations between the two states, crisis hit again shortly. Between 1999 and 2002, the Mercosur states suffered financial crises due to contagion from the Asian Financial crisis. In spite of global efforts to contain the crisis to Southeast Asian state, Latin America felt the effects by the beginning of 1999 with Brazil and Argentina hit particularly hard (Carranza, 2008, pp. 80-81). Though extra-regional factors played a key role in igniting the regional crisis, internal disputes quickly

arose as states figured out their best course of action. Brazil and Argentina had differing opinions on how Mercosur as a group should handle the financial crisis. As the two largest states in the organization, this debate on how to handle such a crisis highlighted a power struggle for leadership and influence. Argentina wanted to strike a deal with the US and use dollarization but Brazil found this plan unacceptable (Carranza, 2008, p. 85). An impending dispute lingered as it became clear that the divergent policies of Argentina and Brazil would prevent Mercosur from acting in unison against the financial crisis. This was the first clear failure of Mercosur to act as an organization leading to a downturn in regional cooperation levels. “In the second half of the 1990s divergent macroeconomic policies between Argentina and Brazil became a serious *political* problem for Mercosur” (Carranza, 2007, p. 325; emphasis in original). Mercosur was designed in part to minimize the rivalry between Argentina and Brazil but had been unable to do so at this critical time.

Brazil acted unilaterally and devalued the real while Argentina maintained its peso’s peg to the US dollar. This devaluation immediately assisted Brazil by increasing the competitiveness of its exports both intra- and extra-regionally. Brazil’s unilateral action in a time of crisis was not unexpected given its unique power position within Mercosur.

In developing regions...member states not only compete with other world regions for extra-regional investment and export shares, but they also compete with their neighbors. With such an intra-regional competition, regional powers may face incentives to forgo the gains of regional integration and to act unilaterally in order to maintain or improve competitive advantages (Krapohl et al., 2014, p. 880).

This is especially true in times of economic downturn and exactly what Brazil did in 1999. The decision to devalue the real unilaterally (and in secret) was a regional defection on Brazil's part. By the end of 1999 the real had devalued more than 30% (Krapohl et al., 2014, p. 887).

Brazil's devaluation helped its economy recover but also started off a series of bitter trade disputes with Argentina. "Brazil's Real devaluation led Argentina and Mercosur to one of their worst crisis since its launch in 1991 and the arrangement was questioned in its survival" (Soreanu Pecequilo & Alves do Carmo, 2013, p. 60). As the real depreciated, Brazilian exports around 40% cheaper in dollar-terms (Sissell, 1999). Intra-regional exports to Brazil plummeted and its exports flooded its fellow Mercosur states. Though economic conditions improved for Brazil, they worsened for Argentina leading it to put up trade barriers and accuse Brazil of abusing its neighbors. Argentina implemented tariffs against Brazilian sugar, protectionist measures against Brazilian steel, and imposed labeling requirements on shoe imports in order to counter rising Brazilian imports (Anonymous, 1999). In addition, Argentina accused Brazil of intentional dumping practices, claiming to have proof that Brazil was selling chicken to its neighbors at artificially low prices (Colitt, 2000). In mid-2001, the tensions between Argentina and Brazil were clear and the continuation of Mercosur was in question.

Economy Minister Cavallo [of Argentina] accused Brazil of deliberately devaluing its currency while 'betting on the collapse of Argentina's currency board system'...Brazilian president Cardoso replied that Cavallo's comments had gone 'beyond the limit' and, in protest, cancelled a visit to Argentina (Carranza, 2008, p. 85).

Initially, Brazil ignored the complaints of Mercosur's smaller members. However, it ultimately reacted against Argentina's protectionist measures by implementing

protectionist measures of its own against Argentina. While some disputes were settled through bilateral negotiations as they had been in the past, this method of resolution no longer proved sufficient as Brazil threatened to end Mercosur. Instead, Brazil ended up taking its complaint about Argentinian protectionist measures to the WTO in 2000. The organization found in favor of Brazil but the crisis continued into a second round of formal disputes between the states the following year (Carranza, 2008, pp. 82-84). Though unsuccessful, Argentina justified the protectionist measures by citing WTO rules allowing states to introduce safeguards when their economy is in danger of being harmed by surging imports (Dyer, 2000). This period of crisis from 1999-2002 is reflected in Mercosur's cooperation levels seen in Figure 6.1. Though they had been increasing since the organization formed, they dipped during this period. The ongoing dispute between Mercosur's two largest members led to concerns that Mercosur would not survive. The indicators from quantitative analysis supported this decline within the group, though not all of them behaved in a way that is detrimental to cooperation levels.

In the period of increasing cooperation leading up to the 1999 crisis, regime variation decreased throughout the region with Paraguay's democratization. Though Paraguay's regime backslid slightly in 1998, Mercosur had reached its highest levels to that point of regime homogeneity during the crisis. However, during this same period Argentina had a presidential election that increased tensions within the group as the campaign highlighted political tensions within the group. During his campaign in 1999, then-candidate President Fernando de la Rúa expressed concerns that Brazil's industrial might in comparison might undermine Argentina's development and leave the country

stuck as a provider of raw materials and primary products (Dyer & Warn, 1999). The election of de la Rúa spurred further aggressive rhetoric within the region as the crisis developed.

From Mercosur's formation in 1991 until 1997 intra-regional trade increased approximately fourfold (Carranza, 2007, p. 325). The smaller members of Mercosur particularly benefitted from Brazil's regional liberalization as it was the main destination for their exports. This period was accompanied by high levels of GDP growth. However, from 1998 to 2002 Mercosur's overall growth rates slowed as the region was hit harder by the financial crisis than rest of Latin America. This decline in growth was not uniform among the members. While growth rates in Brazil and Paraguay declined, they remained positive. In contrast, Uruguay and Argentina saw approximately -5% growth during the same period (European Commission, 2007, p. 9) increasing their dissatisfaction and concern with regional economic arrangements. The crisis led to a decrease in intra-regional trade beginning in 1998. By 2002, Mercosur's intra-regional trade levels had declined to approximately their 1991 undoing the progress of the past decade.

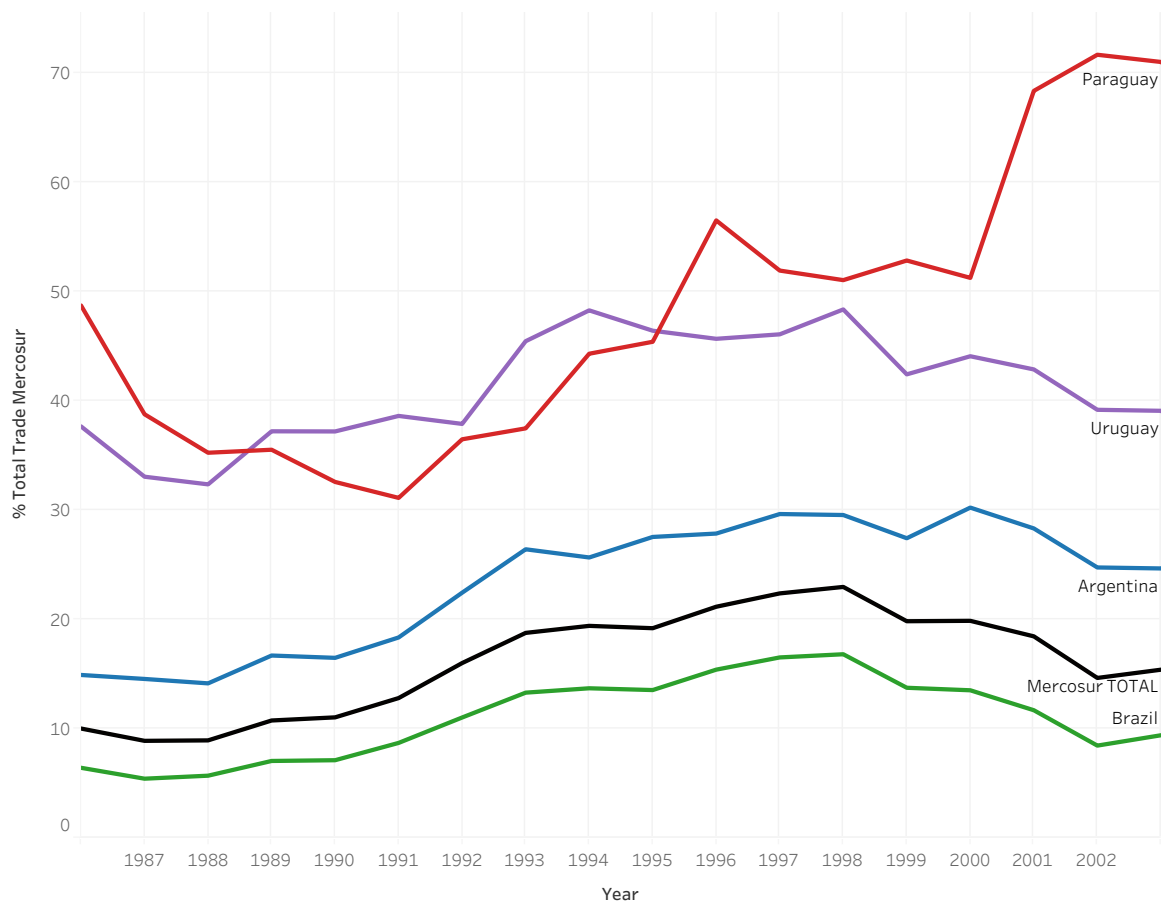


Figure 6.2. Intra-regional trade in Mercosur by member-state, 1986-2003

The decline in intra-regional trade coincided with a decline in cooperation levels as expected. Brazil and Uruguay were the major drivers of the decreased trade as they turned to extra-regional partners, while Argentina and Paraguay did not decrease trade with their Mercosur partners between 1999 and 2001. Brazil and Argentina increased bilateral trade specifically as intra-regional levels rose in the 1990s; Argentina gained an increasingly large share of Brazil’s market. However, when the crisis hit this relationship quickly unraveled to the disadvantage of Argentina.

While total bilateral trade between Argentina and Brazil declined sharply between 1998 and 2002...the share of Argentine goods in Brazilian imports fell substantially, while Brazil took a much larger share of the Argentine imports, reaching over 33 percent in 2003 (Heymann & Ramos, 2008, p.289).

The decrease in trade was primarily a result of Argentinian products losing competitiveness.

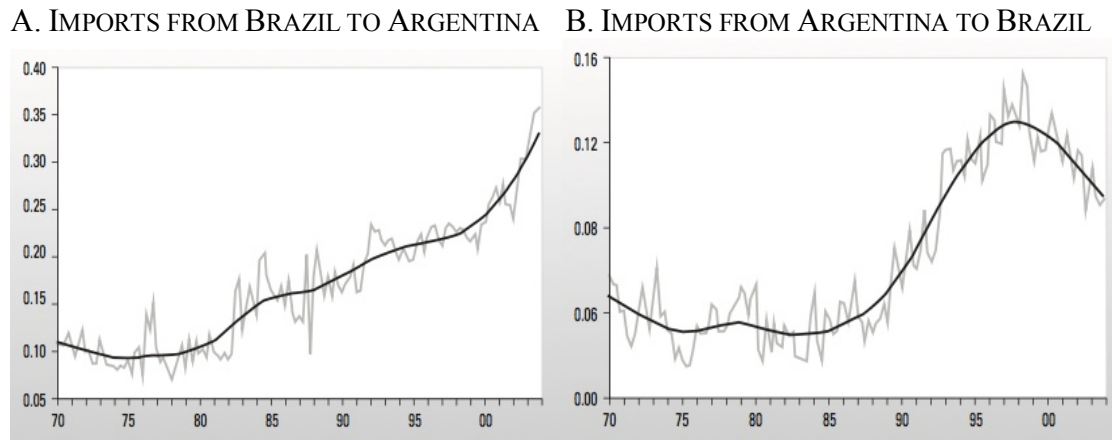


Figure 6.3. Argentina-Brazil Imports as a Share of Total Imports and Trend (Ventura, 2008, pp. 388-389)

Trade relations within Mercosur reflected the size differential between Brazil and the other member-states. In 1998, Brazil got only 11% of its export earnings from Argentina, whereas Argentina sold 30% of its exports to Brazil. Uruguay and Paraguay had similar relationships selling approximately 35% and 40% of exports respectively to Brazil (Carranza, 2008, pp. 82-83). Figure 6.3 shows import levels between Brazil and Argentina from 1970 to 2004. Argentinian exports to Brazil rose significantly after the formation of Mercosur but dropped dramatically after the economic crisis. In contrast, Brazilian exports to Argentina were not negatively impacted and actually grew. These trade imbalances in the region were reflected in the variation in member-states' current account balances. This variation rose significantly between 2000 and 2002 as expected with declining cooperation levels. Argentina in particular developed a significant deficit as it decreased exports within Mercosur while increasing imports. Argentina reacted to

these imbalances by moving to ‘managed trade’ on many products sparking the disputes with Brazil (European Commission, 2007, p. 11)

FDI inflows to member-states increased significantly after the formation of Mercosur in 1991. This increase was accompanied by a rise in the number of MNCs investing in the region over the decade and triggered by increased confidence in the region with the success of Mercosur (Dyer & Warn, 1999).

‘Most of the big foreign investments in the region over the last few years [prior to 1999] have not been based on the market in Brazil or Argentina, but on Mercosur,’ said Jose Roberto Mendonca de Barros, a former economics secretary at the Brazilian finance ministry (Dyer & Warn, 1999, para. 3).

Though Mercosur was the driving force for the increased investment and all states benefitted to a certain degree, Brazil received the overwhelming majority of the total inflows.

At least partly due to the creation of Mercosur, investment inflows increased from 0.56 per cent of the regional GDP in 1991 to a maximum of 5.88 per cent in 1999...The main profiteer of this development was Brazil, which received more than 70 per cent of the investment inflows [and] contributed almost 70 per cent to the intra-regional exports (Krapohl et al., 2014, p. 886).

Brazil’s disproportionate FDI inflows compared to its neighbors disappears when controlling for the members’ GDP size. When FDI is considered as a percent of total GDP, Brazil only led the region during the crisis from 2000 to 2002. Though the whole region saw a decrease in FDI during this period, the decrease was less extreme for Brazil than for Argentina at a time when Argentina desperately needed assistance due to Brazil’s unilateral devaluation.

Variation in FDI inflows among member-states during this same time reached their highest levels in 1999 before plummeting again through 2002. This means that

variation in FDI inflows decreased at the same time cooperation decreased within the region following the positive relationship outlined in the quantitative analysis. Argentina was the main reason the spike in variation in 1999 as it received more than three times the amount of FDI it has the previous year before falling back down to less than half its 1998 levels, and the lowest in the region, by 2001. Brazil's FDI inflows peaked in 2000 right as Argentina's began their decline. This variation between the two states, though not reflected in the regional aggregate contributed to their growing tensions during the financial crisis.

Finally, Mercosur as a whole had been increasing its global trade and economic openness through the early 1990s, coinciding as expected with the regions higher levels of cooperation. However, beginning in 1995, economic openness began to decline. The group maintained the downward trend through 1999 and remained stagnant until 2002 when levels began to increase again and cooperation levels recovered. Though Mercosur's levels of economic openness dipped during the downturn in cooperation between 1999 and 2002, Brazil's levels continued to increase throughout the period as it increased extra-regional exports to the US and EU minimizing Brazil's reliance on regional commitments.

After Brazil's unilateral devaluation and the ensuing trade disputes, Argentina's trust in Brazil was damaged and the bond that held Mercosur together appeared weakened. Mercosur's smaller member-states suggested the group abolish the customs union and revert back to a simple FTA (Krapohl et al., 2014, p. 888). However, the group began to recover by 2002 when Argentina finally followed Brazil's lead in devaluing its

currency to combat economic downturn. Once Argentina devalued, there was renewed hope in Mercosur that Argentina and Brazil could repair their relationship (Carranza, 2008, p. 70). While the relationship between the two states improved, underlying tensions remained.

After the crisis, Argentina slowly began to recover but still continued with debt. Its relationship with Brazil had improved but remained fractured as Argentina's devaluation led to a further drop in trade between the two states. "Brazilian exports to Argentina fell by more than 60% in 2002; Brazilian imports from Argentina fell by about 26%" (Carranza, 2007, p. 326). While Brazil recovered from the debt it had incurred, Argentina struggled with repayments and pushed back against Brazilian leadership in the region. Internally, Argentina reacted aggressively towards the new structural convergence fund backed by Brazil. Externally, it refused to support Brazil's bid for a permanent seat on the UN Security Council (Lapper, 2004).

Despite struggles with Argentina, Brazil continued to take a leadership role within the group. However, Mercosur still had a high degree of asymmetry not just in its balance of trade but also in policy orientation, making it harder to work together as Brazil continued to look to extra-regional partners.

Since 1999, Brazil's trade structure has been highly oriented towards world markets (trade with other Mercosur members represented a mere 9.4% of Brazil's trade over the period of 2002-2005)... On the other hand, Argentina, Uruguay and Paraguay show a stronger trade dependence on their partners in Mercosur, notably 25.8% in the case of Argentina, 37.0% for Uruguay and 55.7% for Paraguay (European Commission, 2007, p. 11).

Brazil did continue to increase its exports to the bloc and reorient itself toward regional relationships. In addition, it tried to mitigate protectionist moves from Argentina saying that Brazil would prefer to avoid increased protectionism within the group and help Argentine companies compete with their more efficient Brazilian rivals through continued convergence efforts (Lapper, 2004). While the crisis of 1999 led to a period of defection within the group, it ended with an increased role for Brazilian leadership and renewed political will as the group chose to remain intact. “The absence of US leadership to deal with the crisis strengthened political solidarity among the Mercosur partners” (Carranza, 2007, p. 326). The organization negotiated as a group with international financial institutions to assist Argentina as it struggled to recover. In addition, Mercosur further institutionalized with the creation of a regional dispute mechanism, the Mercosur parliament, and a convergence fund.

The Beginning of Mercosur’s Decline: The Argentina/Uruguay Crisis of 2006

Like Argentina, Uruguay was hit particularly hard by the financial crisis in 1999. With a heavy reliance on the Argentine market, Uruguay’s economy suffered a three-year recession during this period incurring debt and losing its investment grade rating (“Latin America: US,” 2002). The entire Mercosur region suffered a spike in public debt around 2001 though this debt was most significant for Uruguay and Argentina hitting a peak of approximately 75% and 90% of GDP respectively (Moccerro & Winegrad, 2008, p. 331). By 2003 however, the Mercosur states were recovering from this downturn. Argentina and Uruguay led the group in GDP growth while Mercosur sped past the rest of Latin America with the higher than average growth rates for the region (European Commission,

2007, p. 9). By 2005, Uruguay's economy was doing well with a GDP growth of 6.6%, decreasing inflation, increased exports earnings of 16%, and an increase in investment of over 20% and show no signs of slowing down ("Uruguay: Economic Success," 2006). Argentina on the other hand continued to present slowed growth with high levels of debt, inflation, increased imports, and continued high unemployment ("Argentina: Structural Issues," 2005). Finally, by 2006, Argentina's growth appeared to be back on track though the state remained cut off from foreign capital due to its prior debt default (European Commission, 2007, pp. 9-10). Though both member-states had dealt with extreme economic turmoil at the turn of the century, Uruguay was recovering more quickly than Argentina in part due to its pivot away from the Argentine market and growing reliance on extra-regional partners.

Even with Argentina's slow recovery, tensions within Mercosur had calmed after the Argentine devaluation of 2002. However, regional asymmetries continued to generate conflict as the organization moved forward. At a 2006 Mercosur summit in Sao Paulo, Paraguay and Uruguay expressed concern that they had been ill-served by Mercosur's arrangements with group decisions exclusively focusing on the two larger states ("Mercosur/Venezuela: Regional," 2006). This complaint reflected on-going tensions within the group, particularly after the 1999 financial crisis that led the organization to take action in order to assist its smaller members and encourage economic convergence.

Under the leadership of the Paraguayan presidency in 2003, Mercosur took action in attempt to correct regional asymmetries. After more than two years of negotiations, the Mercosur Structural Convergence Fund (FOCEM) was created. Under FOCEM, regional

funds were earmarked to develop Mercosur institutions, create a structural convergence program to build regional infrastructure, establish a competition program to integrate production chains, and create a social cohesion program to reduce poverty (Vaillant, 2008, p. 133). The financial structure of FOCEM is designed to essentially transfer funds from Brazil and Argentina to Mercosur's smaller members, Paraguay and Uruguay as the former contribute far more while the latter are the primary recipients.

The amount yearly designated to FOCEM is US\$ 100 millions, with 70% coming from Brazil, 27% coming from Argentina, 2% coming from Uruguay and 1% coming from Paraguay. In the yearly distribution of resources for three of the four existing programs, to which one adds the non-allocated resources in previous years, Paraguay has the right to 48%, Uruguay to 32% and Argentina and Brazil to 10% each. The fund may also receive spontaneous contributions from member states, non-member states and international organizations (Amoroso Botelho, 2014, p. 48).

The fund became operational in 2006 right as tensions within Mercosur began to resurface led by a dispute between Argentina and Uruguay.

Argentina and Uruguay share strong social, cultural, and economic ties leading to a traditionally amicable relationship. "Relations between Argentina and Uruguay have proven to be highly amicable and have cultivated a climate of cooperation between their governments" (Pavon Piscitello & Andres, 2007, p. 161). To help manage their shared border along the Uruguay river, the states signed a treaty in 1961 and made agreements in 1975 to establish rules for its joint use. However, this shared border became the center of a dispute between the states in 2006. At the time of FOCEM's adoption, both Argentina and Uruguay were recovering economically though the latter was doing so more rapidly. Regardless of its slower growth, Argentina was required to make more of a contribution

and receive fewer funds from FOCEM than Uruguay. This imbalance did little to quell the growing tensions between the states that had previously been quite closely aligned.

During Uruguay's economic recovery, FDI came into the state to support the development of pulp mills along the Uruguay river border with Argentina. Two pulp mills were approved for production by Uruguay in 2003 and 2005 (Pavon Piscitello & Andres, 2007, p. 162) as the state received a significant amount of funds for the projects. Both Argentina and Uruguay had paper mills already in place at the time though Argentina was the larger producer in the sector having already developed more advanced technology for its production facilities. "Argentina already has a dozen paper mills in the region that use the same technology as the factories being built in Uruguay, but Uruguay's far larger plants will equal Argentine production" (Mander, 2006, para. 3). Uruguay's newly approved paper mills put them in direct competition with Argentine production at a time when Uruguay's economy was growing more rapidly.

The production of Uruguay's first paper mill represented the largest private capital investment in Uruguay and would help transform the state into a "global hub" of paper production. "Uruguay's economy stands to gain a vigorous boost from investment, which represents more than 10 per cent of gross domestic product and could create as many as 3000 jobs" (Mander, 2006, para. 14). Argentina expressed concern over the mills' production claiming fear of decreased tourism and increased pollution. The state argued that Uruguay's paper mill along the river could have a significant environmental impact on the area leading to economic consequences from possible real estate devaluation and loss of income from the tourism and fishing industries. By the end of

2005 through early of 2006 protesters in Argentina blocked border crossings to combat the mill's construction (Pavon Piscitello & Andres, 2007, p. 163).

After the Argentine blockade, Uruguay grew concerned about its economy. The blocked border threatened both tourism and its relationship with Argentina. Uruguayan tourism minister Hector Lescano said that the roadblocks from Argentine protestors were responsible for a drastic drop in Argentinian tourists to Uruguay and a loss of between \$70-90 million (Montero & Lacunza, 2007). In total, Uruguay, which relied heavily on trade with its neighbor, claimed it suffered losses of approximately \$400 million during the Argentinian protestors' blockade of the border (Pavon Piscitello & Andres, 2007, p. 163). Though Uruguay continued to express concerns over economic damage done by the blockade, the Argentina did not intervene with then-president Nestor Kirchner initially supporting the protestors (Valente, 2010).

The conflict between Uruguay and Argentina over the pulp mill's construction eventually went to the ICJ with Argentina arguing that Uruguay had violated its 1975 agreement on the use of the shared portion of the Uruguay River. Uruguay responded by bringing a complaint against Argentina to the Mercosur dispute system arguing that Argentina had violated regional policies regarding the movement of goods and people (Pavon Piscitello & Andres, 2007, p. 160). At the same time this dispute escalated, the conflict between Brazil and Argentina reignited after a period of cooperation between the two states. In 2006, Argentina took Brazil to WTO regarding unfair Brazilian protectionist measures against Argentine resin (World Trade Organization, 2007). These increasing disputes within Mercosur are reflected in the group's overall cooperation

levels at the time. Though cooperation levels peaked within the region in 2004 and 2005 they began a downward trend by 2006 that continued through the period observed. The indicators from quantitative analysis supported this decline within the group as they all behaved in a way that determined to be detrimental to cooperation levels.

Between 2003 and 2006, regime variation among member-states in Mercosur reached the lowest levels in the organization's history coinciding with a peak in regional cooperation levels. After 2006, the variation increased as cooperation declined. This variation was due to the addition of Venezuela to the organization's measurements as it began the process of gaining full membership that was completed in 2012. In addition to a shift in regional regimes with the addition of Venezuela, political will for Mercosur declined beginning around 2005. Member-state's immediate goals of economic stabilization within their own territories led to conflicts of interest among the group inhibiting deeper cooperation efforts (Rezende, 2008, p. 219).

Intra-regional trade within Mercosur peaked in 1998 with the member-states conducting almost 23% of total trade with each other. The crisis of 1999-2002 decreased trade dramatically hitting a low of 14.6% in 2002. Though the member-states of Mercosur began to recover economically after the crisis, intra-regional trade did not rebound maintaining an average of approximately 15.5% between 2002 and 2015⁴¹.

Figure 6.4 shows the relatively stagnant levels of intra-regional trade during this period

⁴¹ The slight dip in intra-regional trade was due to the addition of Venezuela to the group aggregate in 2007 whereas Bolivia's addition in 2010 led to the slight peak in intra-regional trade that year. However, in both cases trade leveled out to the previous levels within two years.

along with the variation by member-state. After the crisis at the turn of the century, intra-regional trade levels do not appear to have an effect on regional cooperation within Mercosur; they did not rise during the peak of cooperation in 2004-2005 nor did they fall as cooperation declined afterwards. However, in looking specifically at Uruguay and Argentina's intra-regional trade, Uruguay's levels declined in the years leading up to the pulp mill dispute. By 2005, Uruguay had lower levels of intra-regional trade than it had at Mercosur's formation in 1991 while Argentina's levels had been gradually increasing as its economy recovered.

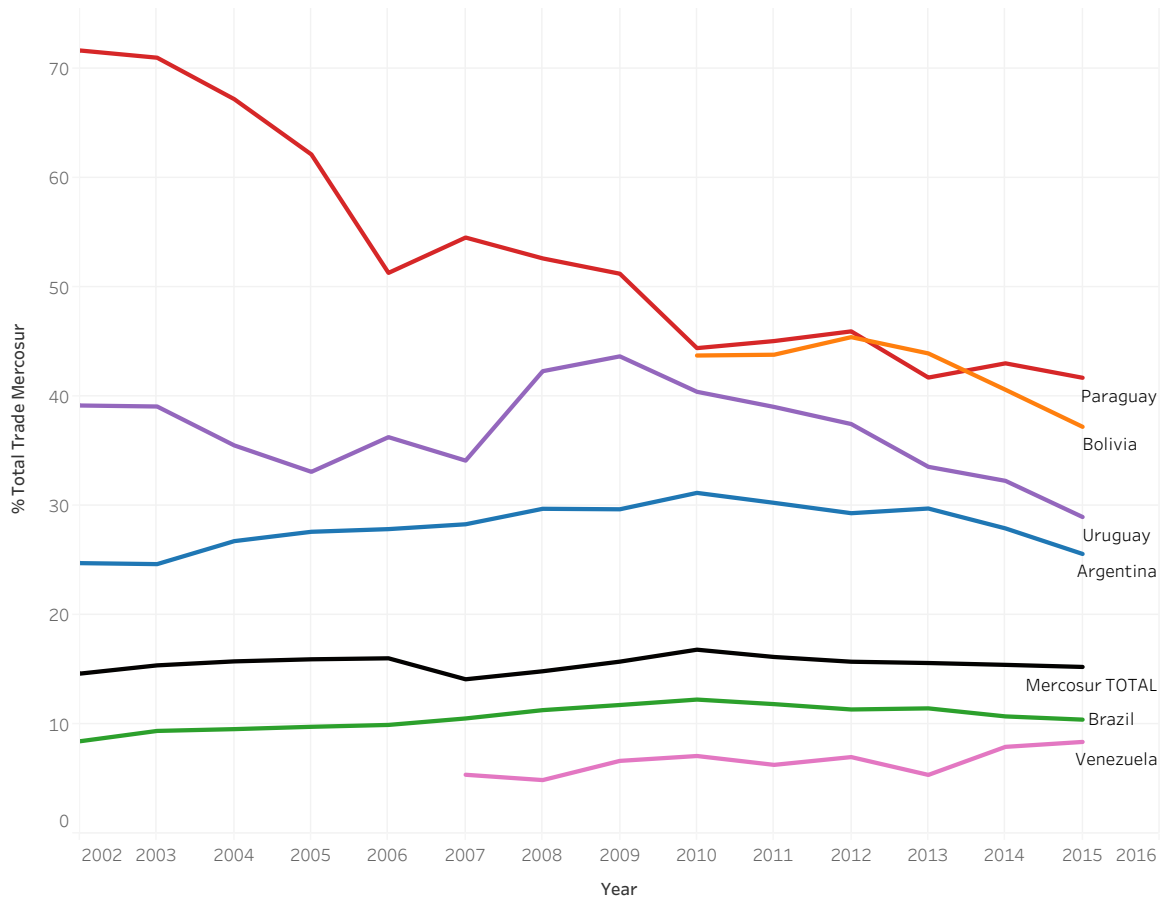


Figure 6.4. Intra-regional trade in Mercosur by member-state, 2002-2015

FDI inflows to Mercosur states reached their highest levels since the 1999 financial crisis in 2006. This coincided with an increase in the variation of inflows among the members. Figure 6.5 shows the FDI inflows to Mercosur by state from 2000 to 2010 highlighting Uruguay and Argentina. The peak in variation in 2006 was driven primarily by increasing FDI to Uruguay assisted by the pulp mill construction. While the rest of the region had relatively volatile levels of FDI during this period, Uruguay gradually increased its FDI inflows since 1997 most rapidly between 2002 and 2006. On average, Uruguay had the highest levels of FDI in Mercosur from 2005 to 2014. This trend was driven by the creation of the disputed pulp mills with the approved mills representing a major boom in FDI and about a 2% boost to Uruguay's GDP (Pavon Piscitello & Andres, 2007, p. 162). During this same period, Argentina averaged lower levels of FDI inflows than either Uruguay or Brazil. After peaking in 2006, variation in FDI inflows within Mercosur followed a downward trend coinciding with decreased levels of cooperation though Uruguay continued to receive higher levels than Argentina.

This asymmetry of FDI inflows between Uruguay and Argentina was particularly contentious due to its primary recipient industry. FDI flowed into Uruguay at record levels to accommodate the building of the new pulp mills which put Uruguay in direct competition with Argentina in an industry previously dominated by the latter in the region. With the two states competing for the same resources including FDI for a shared industry, distribution of these resources was of particular importance. Additionally, this loss of relative FDI in a key industry occurred while Argentina was still recovering from

a severe economic downturn exacerbated by another Mercosur member, Brazil. Thus, Argentina was left in a particularly dissatisfactory position with the group.

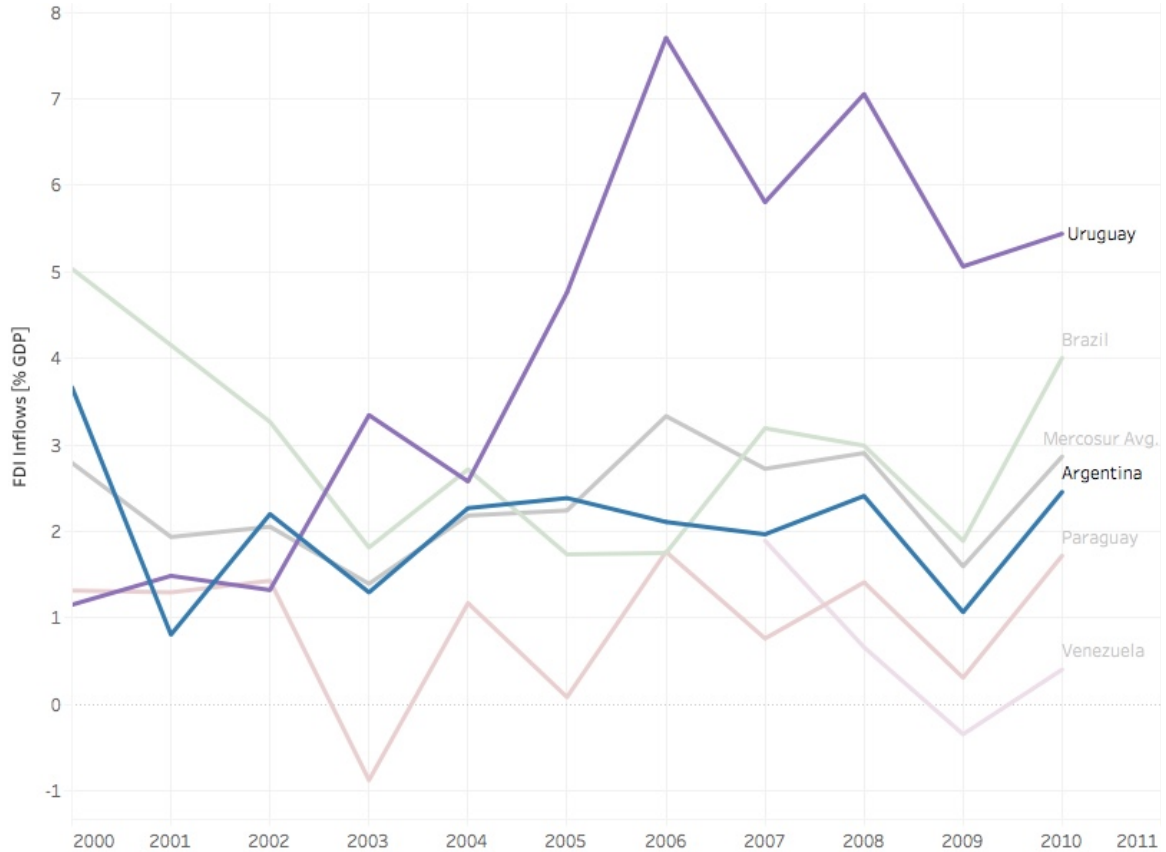


Figure 6.5. FDI inflows for Mercosur by state, 2000-2010

Though Uruguay saw an influx of FDI over this period, particularly compared to its neighbors, it continued to struggle with a trade deficit. Variation in the current account balances of Mercosur member-states peaked in 2002 at the end of the Brazil/Argentina crisis. As expected, this variation dropped dramatically by 2004 at the height of regional cooperation levels and began to rise again leading up to the Uruguay/Argentina pulp mill dispute through 2008. Much of this variation within Mercosur was caused by differences between Argentina and Uruguay. While Argentina maintained or increased its surplus from 2004 to 2008, Uruguay’s deficit grew. Variation between the two states peaking in

2006. The states were aware of this increasing deficit and the benefit Argentina received in intra-regional trade with Mercosur's smaller member-states. "Argentine consultants admit 'a priori that the mere size difference makes the bilateral relation with Uruguay and Paraguay, clearly favorable for Argentina'" ("Uruguay President Says," 2014, para. 9). While asymmetry in the benefits of regional cooperation through signaling for FDI put Argentina at a disadvantage, asymmetry in the benefits of increased ties through intra-regional trade made Uruguay more vulnerable through running a high trade deficit.

Finally, Mercosur as a whole saw a steady increase in economic openness from 2001 through 2006, coinciding as expected with increased levels of regional cooperation. After 2006, economic openness within the region remained relatively stagnate with a slight overall decline. During this period, Uruguay and Argentina had divergent trends. Uruguay increased global trade as a percent of its GDP significantly between 2002 and 2004, maintaining these higher levels through 2008. In contrast, Argentina's economic openness peaked in 2002 but gradually declined afterwards. Though Mercosur increased its global trade as it recovered from economic crisis after the turn of the century, these levels decreased slowly at the same time cooperation began to decline within the group.

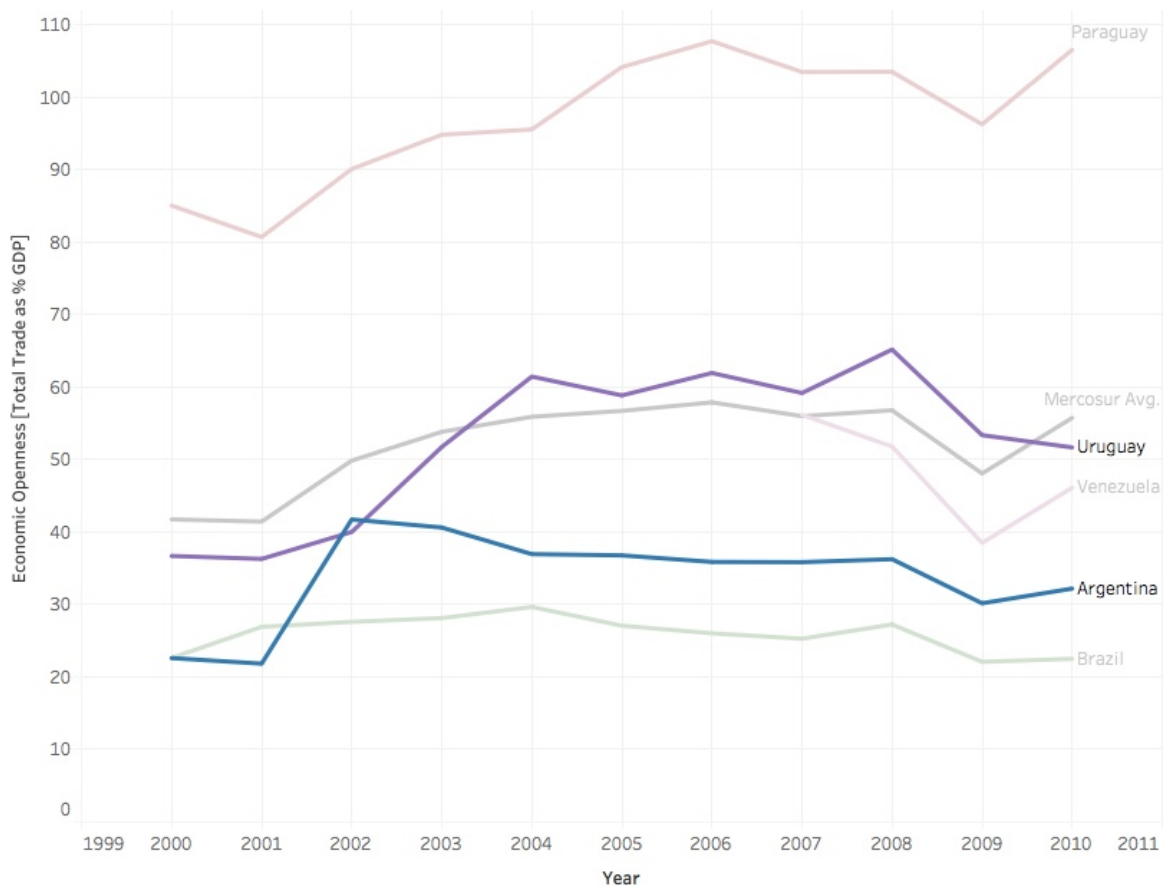


Figure 6.6. Economic openness levels for Mercosur by state, 2000-2011

As cooperation levels in Mercosur declined and the debate over the pulp mills ignited between Argentina and Uruguay, the dispute was taken to both the ICJ and the Mercosur dispute settlement mechanism for resolution. Argentina took Uruguay to the ICJ stating that Uruguay was in violation of the previous agreement they had made over the use of their shared border region. Uruguay simultaneously took its complaint against Argentina's blockade to the Mercosur dispute settlement mechanism claiming that the blockade was in violation of their regional agreement. Initially, the ICJ helped the states reach a compromise where Uruguay agreed to halt construction. Uruguay complied in order to resume trade with Argentina as the ICJ continued to hear the case (Pavon Piscitello & Andres, 2007, p. 166). Both dispute settlement bodies ultimately ruled in

favor of Uruguay with the ICJ approving the construction of mill (“Uruguay Economy: Relations,” 2014). In April 2010 “the ICJ ruled that Uruguay had broken some aspects of the treaty, but that there was no conclusive evidence that the pulp mill – which [had] been in operation for two years – had polluted the river” (Valente, 2010, para. 12). However, the ruling did not force Argentina to put an end to the blockades stating that they had a right to protest (Montero & Lacunza, 2007). Regardless of the ruling, Argentina showed signs of cooperating with Uruguay when then-President Cristina Fernandez agreed to act against the protesters and clear the blockade along the border.

Despite the rulings on the pulp mill by both the ICJ and Mercosur in favor of Uruguay, tensions between the states remained high. Both states compete over shipping business within the region with a strong reliance on their ports. In October 2013, Argentina banned the transshipment of its exports through any Uruguayan ports. “The recent measures have been interpreted as a reprisal for the decision by Uruguayan president, Jose Mujica, in October to authorize the expansion...of the UPM (Finland) cellulose pulp mill” (“Uruguay Economy: Relations,” 2014, para. 4). This move by Argentina hurt the continued development of Uruguay and reignited disputes between the two Mercosur members. After continuous battles against Argentinian protectionist measures, recent developments show Uruguay dropping exports to Argentina, Paraguay, and Brazil as it seeks to distance itself from Mercosur (“Uruguay President Says,” 2014).

Conclusion

Formed in 1991, Mercosur started out as a promising embodiment of the new wave of regionalism in Latin America. However, after an initial period of success the

organization's overall cooperation levels suffered during the financial crisis seen from 1999 to 2002 and have gradually declined since 2005. This decline has coincided with inter-state disputes between Brazil and Argentina as well as Argentina and Uruguay. Economic asymmetry among member-states has been at the center of regional disputes within Mercosur. Despite efforts to ease asymmetry through mechanisms such as FOCEM, members have repeatedly expressed frustration with regional policies as a result of unequal gains.

This frustration with economic asymmetry is potentially exacerbated by the competition over FDI inflows and similar economic profiles among the member-states within the region. The conflicts between Uruguay and Argentina revolve around industries in which both states are invested in and show the tensions caused by intra-regional competition. Developing regions such as Mercosur tend to suffer from higher levels of internal competition with cooperation efforts more geared toward attracting outside investment than margining similar markets. A similarity in market profiles within a region exacerbates member-states concerns with relative distribution because one neighbor's gain is more likely to actually be another's loss. This relationship is particularly evident in the disputes between Argentina and Uruguay with their overlapping economic investment in paper mills and shipping ports at the heart of the conflict. The inability of Mercosur to solve the ongoing dispute between the two states despite their utilization of the regional dispute mechanism demonstrates limits to the organization's effectiveness though the group remains relatively more successful than many of its Latin American counterparts (Shifter, 2012, p. 4).

At the same time Uruguay and Argentina disputed the construction of Uruguay's pulp mills, tensions between Brazil and Argentina reignited via another WTO dispute. Argentina brought Brazil to the WTO in 2006 over protectionist measures placed against resin imports from Argentina. While the case was ultimately dropped by Argentina (World Trade Organization, 2007), tension between the two states remains and persistent disagreements between Argentina and Brazil have hindered deeper cooperation within Mercosur (Soreanu Pecequilo & Alves do Carmo, 2013, p. 62). In addition, the smaller states within the organization remain concerned with Brazilian dominance in the region expressing dissatisfaction over regional asymmetries and access to Brazil's market not being the spring-board for export-led development that they had hoped for (Ocampo & Ros, 2011, p. 21). Further cooperation will only be possible if the other members of Mercosur have some guarantee from Brazil that any steps toward integration will benefit them nationally as well (Soreanu Pecequilo & Alves do Carmo, 2013, p. 64). The dissatisfaction of smaller states and concerns over Brazil's dominance need to be addressed for the organization to move forward and reverse its recent trend of declining regional cooperation.

Chapter Seven: Conclusion

Introduction

Regionalism is an important aspect of international relations for Latin America with every state participating as an active member in a least one regional organization. Through regional cooperation, these states aim to increase their economic development, encourage peaceful relations among neighbors, and collaborate on shared issues such as weak infrastructure and democratic consolidation. In addition, as an emerging region with increasing influence in the global economy, Latin American states stand to benefit from presenting a united force by bargaining as a group with powerful global forces such as the US, the EU, and China. Since the formation of many regional organizations post-WWII, regionalism has shifted focus away from the isolationist policies of the 1960s and 1970s to a more economically liberal approach. However, the continued development of these organizations and the region's political will for Latin American integration shows a strong desire among states to work together in order to better adapt to shifts in the global power structure.

Even with the potential gains Latin American states can achieve through regional cooperation, the path of the regional organizations they have formed has not been straight forward. Instead, there is a wide variation in levels of cooperation both when comparing the different organizations in Latin America to one another and when observing each one over time. While some organizations successfully negotiate and implement regional

agreements, others struggle to build relationships between their member-states leading Latin America as a whole to experience an ebb and flow of regional cooperation levels over time. This research sought to better understand the factors leading to such variation.

Regional cooperation is expected to produce many gains in absolute terms for the states involved. However, such gains are not necessarily distributed equally with some states within a group standing to gain more than others. This research finds evidence to support the argument that the distribution of economic gains and losses impact political indicators of cooperation within a regional organization. The more unequally gains from cooperation such as investment or trade are distributed among members of regional organizations, the more likely states are to defect from the group as those members receiving relatively less than their counterparts will fear being the relative “loser” of the group’s agreements. In addition, member-states gaining far more than their counterparts may seek “greener pastures” in extra-regional agreements feeling they have little more to gain from their current organization thus increasing their likelihood of unilateral action and defection from regional cooperation schemes.

Using both large-N statistical analysis and an in-depth study of two individual organizations within Latin America, this research looked to see which factors have helped and hindered regional cooperation efforts in Latin America since WWII. The quantitative analysis builds off of existing work on international and regional cooperation and found general trends within Latin America that highlight the significant role of unequal gains measured as economic asymmetry. The following two case studies on CAN and Mercosur further illuminated the relationships found in the quantitative section

through analyzing periods of defection within the groups. The cases also highlighted the potential role of economic and political crises within member-states. Overall, the research found economic asymmetry among member-states to be detrimental to total levels of regional cooperation.

Summary of Findings

This research found a wide variation of regional cooperation levels in Latin American regional organizations. While there is variation in cooperation levels within each organization as it grows and changes over time, the variation is greater when comparing them to one another. This suggests that the initial composition of an organization is important and that there may be a degree of path dependency within groups once they are established. Indicators of economic asymmetry along with intra-regional trade levels, overall economic openness of the group, regime homogeneity, and membership size all had a significant impact on political indicators of cooperation within the groups observed. In particular, a large variation in trade balances and unequal distribution of FDI increases tensions among member-states increasing the likelihood of periods of defection.

The initial quantitative analysis built off of existing research with evidence supporting the significance of intra-regional trade levels and homogeneity of regime types within a group. However, it found no evidence to suggest US influence or the presence of a hegemon were significant. The primary focus of the analysis was the role of economic asymmetry among member-states. As expected, it had an overall negative relationship with regional cooperation levels. However, not all indicators were

significant. Variation in FDI distribution and current account balances were important factors while variation in GDP growth levels were not suggesting that the indicators that primarily capture international economic relations rather than domestic well-being are most critical. While variation in FDI distribution was a strong indicator of lower levels of cooperation when comparing organizations, it had a smaller but positive impact on cooperation within organizations over time contrary to expectations. This may be due to the varying importance of attracting investment for member-states. For example, FDI was less important for Venezuela during its exit from CAN due to its large export levels. In addition, short periods of high FDI inflows for one member-state may encourage cooperation in the short-run as others hope for spillover effects within the region. In contrast, a continually high level of variation in FDI inflows within a group suggests ongoing inequality among states in terms of development and economic health, making cooperation more difficult over time. Finally, despite the potential to increase gains, larger membership size including the addition of new members was problematic for overall cooperation levels most likely due to exacerbating problems of collective action.

While the quantitative analysis found general trends between economic asymmetry and regional cooperation, it utilized organizational aggregate data and therefore could not assess the particular behavior of individual states. The preceding case studies provided a more in-depth look at the specific inter-state dynamics within CAN and Mercosur and better highlighted the relationships identified in the statistical model. This analysis observed the internal dynamics within these organizations by disaggregating the data to look at the timeline and state rhetoric specifically around

periods of defection. The findings of the case studies supported the relationships identified in the quantitative analysis regarding the impact of economic asymmetry on regional cooperation efforts.

Through observing periods of defection in both CAN and Mercosur, this research found further evidence that a high degree of economic asymmetry creates tension among member-states; in most cases of defection, it is the state losing out relatively to its fellow members that strays from group agreements. However, this was not always the case. Venezuela's exit from CAN was an interesting exception that shows that it is not necessarily only the relative "loser" of unequal gains that grows unsatisfied with regional agreements. Venezuela left the organization due to not only a clear difference in foreign policy approaches from other members but also in search of market expansion opportunities. States with a disproportionate economic advantage compared to their fellow members may also defect feeling that deepening ties with smaller states minimizes what they can gain from the arrangement and makes cooperation efforts less worth the risk and loss of sovereignty.

In addition to demonstrating the impact of economic asymmetry, the cases of CAN and Mercosur helped to clarify the varying impact of FDI distribution when comparing cooperation between organizations versus observing variation within each one. While variation in FDI among member-states had a positive relationship with cooperation within organizations, the cases found that it often peaked shortly before a period of defection. This suggests that FDI variation may still have a negative impact on cooperation but for some reason has a more delayed effect than other measures such as

variation in current account balances. Finally, the cases illuminated the role of additional variables previously omitted from the quantitative analysis. These include economic and political crises within a state that often coincided with periods of asymmetry as well as the composition of domestic markets as industry similarity exacerbated the conflict between Uruguay and Argentina in Mercosur.

Both the quantitative and qualitative analysis in this research found evidence to support the primary argument that economic asymmetry is detrimental to regional cooperation levels. Additional factors including regime homogeneity, economic openness, and intra-regional trade significantly benefit cooperation efforts though to a lesser degree. The case studies looking at periods of defection within CAN and Mercosur supported the quantitative findings and provided additional insight into Latin American regionalism as both organizations have reacted differently to internal struggles. While CAN suffered membership losses over time, it recovers well each time with more homogeneity among members after an exit. In contrast, Mercosur retains its members but also struggles to move forward after periods of defection particularly with the addition of new member-states. As both of these organizations maintain different trajectories in terms of regional cooperation, a newer organization encompassing all members, UNASUR, is attempting to unite these two blocks yet similarly struggles with asymmetry and lower levels of cooperation.

Future Research Avenues

While the research done here on the relationship between economic asymmetry and regional cooperation supports a strong connection between the two, more work is

needed to fully understand the dynamics at play, seek out potential omitted variables, and test the generalizability of these findings. One avenue for future research includes further investigation of the current variables through more refined measurement techniques. Variation in regime type appears to have a negative effect on regional cooperation. However, the case studies highlighted that shifts in regime type often coincided with a change in economic ideology. Further research looking at economic ideology specifically may better clarify the relationship to regional cooperation. In addition, FDI variation may be better captured if measured as a percentage of total flows into the region or if controlled by population rather than as a percentage of GDP. By measuring FDI as a percentage of GDP, member-state's economic sizes are accounted for. However, the overall percentage of FDI initially increases in times of crisis as GDP drops thus making a state look as if it is gaining relative to its neighbors when it is not actually receiving any additional investment.

Both FDI inflows and economic openness had different interactions with regional cooperation when comparing organizations versus changes within individual organizations over time. While variation in FDI inflows was a strong negative predictor of average cooperation within groups, it positively corresponded with cooperation within organizations over time. Average levels of economic openness behaved similarly though the effect was negative between groups and positive within. These findings require further research in order to clarify the relationships observed. Altering the measurements for FDI as suggested above as well as adjusting economic openness to exclude intra-

regional trade would both provide a robustness check as well as potentially explain the variation observed.

Additionally, re-testing the model using country dyads rather than regional aggregates as a unit of analysis would provide additional insight into the relationship between asymmetry and cooperation. As highlighted by the case studies, there is often one state in particular that is causing most of the asymmetry and defection. Country-dyad level analysis would isolate each particular relationship within a group as well as increase the number of cases available for analysis. Another approach would be to capture the relationship of each state to the remaining states in the organizational aggregate. This would allow us to highlight any specific outliers in the group as well as isolate which state(s) are defecting from the group. The observations of both Peru and Venezuela's defection from CAN suggest that both "losers" and "winners" of economic asymmetry have incentive to defect. By isolating individual states from the group aggregate, we can test the applicability of this finding in a large-N analysis.

Another avenue for future research involves exploring additional potential variables noted in the cases of CAN and Mercosur as well as expanding the measurement of cooperation in both the quantitative and qualitative analysis. For example, controlling for similarity of market composition may better illuminate the dynamics around economic asymmetry. Perhaps relative gains are less impactful when states are not competing in the same industries. This might help explain the continued levels of cooperation within the EU despite notable variation in current account balances among members. Additionally, future research must address the specific roles of economic and

political crises within member-states. Do such crises exacerbate the impact of economic asymmetry or possibly even better explain periods of defection? Finally, with regard to cooperation, additional qualitative analysis will benefit from comparing periods of defection with periods of active cooperation between organizations. While defection and active cooperation are two sides of the same spectrum of cooperation, it is possible that asymmetry only has negative impact leading to defection whereas additional factors are at play when regional organizations spur forward.

A final avenue to consider for future research is the analysis of additional cases. Do the findings from this research hold when applied to regional organizations outside of Latin America? In particular, how does economic asymmetry affect regional cooperation levels in other emerging regions such as Southeast Asia and Sub-Saharan Africa? Finally, there is an increasing number of inter-regional agreements as regional organizations negotiate on a global level. Do concerns over relative gains clearly extend to inter-regional arrangements among these organizations as well?⁴² Through further research, I hope to continue to better understand the specific factors influencing variation in cooperation within regional organizations in emerging economies around the world.

Contribution and Policy Prescriptions

This research aimed to provide a more nuanced understanding of the dynamics behind cooperation efforts within emerging regions through comparing Latin American

⁴² When looking at relative gains in inter-regional agreements, supranational institutions and the overall strength of each organization is likely a crucial. See Carranza (2008, pp. 74-75) for further discussion on inter-regional bargaining power from a neorealist perspective.

regional organizations created post-WWII. This nuance is often lost with similar work comparing organizations to the more advanced development of the EU and therefore missing the variation present among less developed organizations. In addition, emerging regions such as Latin America are highly focused on economic development and extra-regional signaling through regional cooperation often displaying significantly lower levels of interdependence relative to Europe or North America. This research contributes further to our understanding of cooperation in emerging regions through an internal comparison of the existing organizations in Latin America. This comparison allows us to observe the variance among these groups without a comparison to the EU or NAFTA that may dwarf the cooperation levels in emerging regions preventing us from seeing the critical factors at play. In addition, by moving away from intra-regional trade as a measure of cooperation but rather a driver of it, this research adds to our understanding of the impact of economic factors on political indicators of cooperation. Economic asymmetry appears harmful to overall regional cooperation efforts. However, further comparative studies within emerging regions are needed to better understand what factors help and hinder these organizations.

An increased understanding of the drivers of regional cooperation is necessary to better help states achieve the many potential benefits these organizations can offer in a globalizing world. The findings of this work support the argument that economic asymmetry is detrimental to the progress of regional organizations. Therefore, steps must be taken to minimize the variation in gains enjoyed by member-states in order for regions to move forward, deepen their ties, and gain from regional cooperation. This is

particularly important in emerging regions as they seek to increase international influence; states within these regions need to work together in multilateral institutions and when negotiating with larger powers to maximize their leverage.

Unfortunately, minimizing economic asymmetry and ensuring relatively equal gains for member-states is a difficult task especially for less integrated organizations. Redistribution mechanisms within an organization would lessen any asymmetry with FDI inflows and help compensate states with severe trade deficits. However, such mechanisms are unlikely to find much political support as states seek to maintain a high degree of sovereignty even as they cooperate and stronger states hesitate to minimize their potential gains. Additionally, more favorable and lenient policies toward smaller economies within a group can minimize any initial variation in economic gains. Such measures were adopted by both CAN and Mercosur to assist their smaller members and were effective initially, particularly within CAN. Unfortunately, these measures are not always sustainable and can ultimately minimize any integration efforts as states do not want to relinquish their special status once they improve economically.⁴³

Finally, dispute settlement mechanisms can help prevent periods of defection at times of high economic asymmetry. While dispute settlements are unlikely to minimize the actual asymmetrical distribution of gains, they can help settle any conflict that this inequality may create before states actively defect or turn to extra-regional mediation. Mercosur developed and actively utilizes its regional dispute settlement mechanism.

⁴³ This was problematic during the Peruvian exit threat in CAN when Peru did not want to relinquish its exceptions to Andean policies.

Though it does not appear to be effective in deepening relationships in part because of perceived power imbalances within the region, it does allow member-states an outlet during times of conflict and a forum for diplomacy.

This research increases our understanding of the driving factors of regional cooperation. In particular, it addressed the impact of economic indicators on political indicators of cooperation in Latin American organizations arguing that economic asymmetry leads to periods of defection. In an era of globalization, emerging regions have much to gain through regional cooperation as they seek to simultaneously integrate with the global economy and protect themselves from international volatility. These gains must be kept in mind as organizations move forward with any policy attempt to minimize asymmetries. Through a better understanding of what helps and hinders cooperation efforts, regional organizations will be better aware of the challenges they face and able to further explore policies to minimize the impact of potentially detrimental factors.

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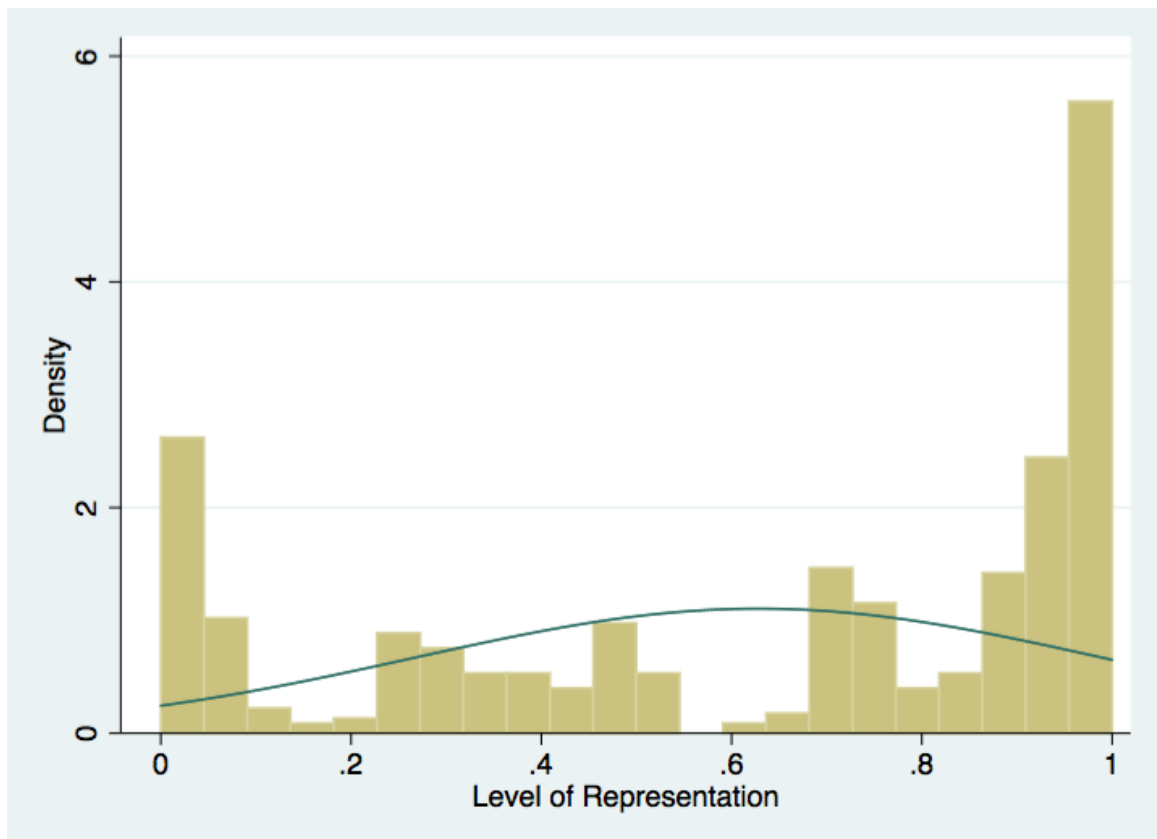
Appendices

Appendix A

Components of the Cooperation Index variable:

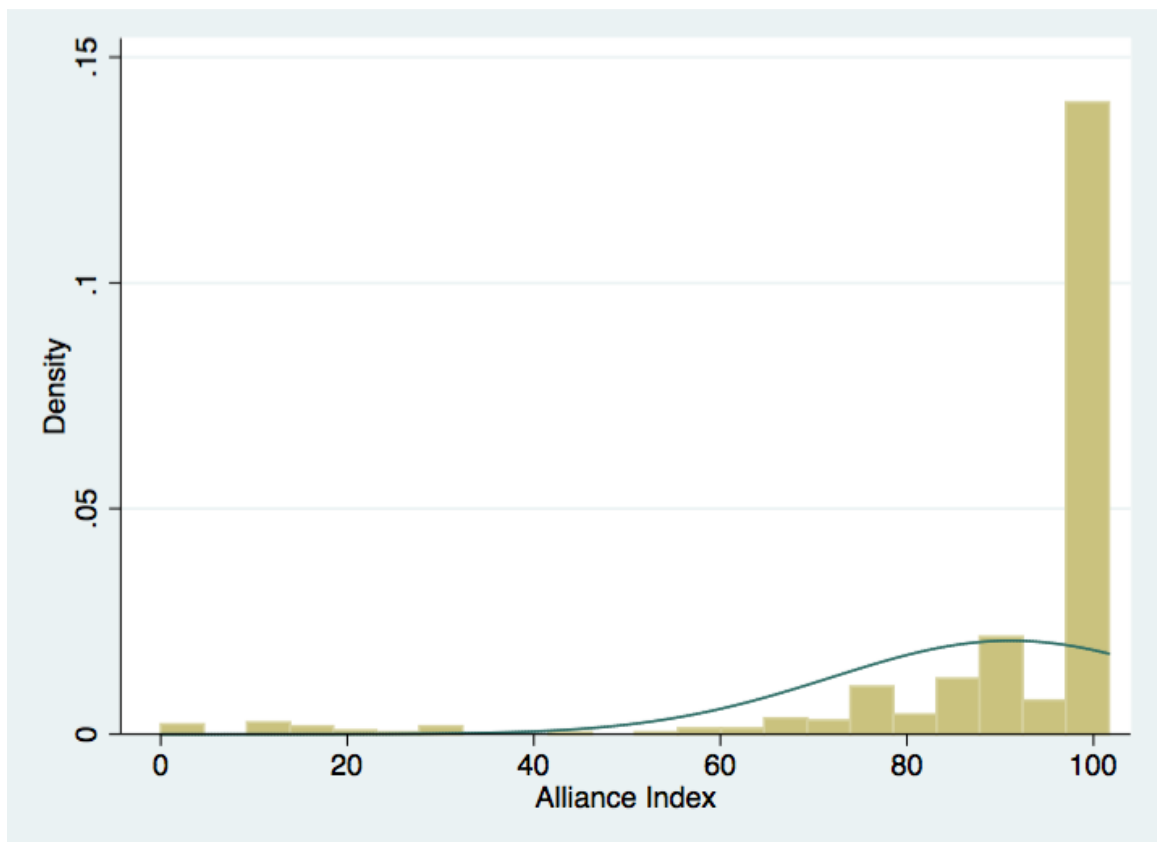
Level of Representation:

The level of representation (LOR) index was calculated by the Frederick S. Pardee Center for International Futures (Moyer et al, 2015). The index captures formal diplomatic relations between two states in a given year looking at the presence of an embassy and ambassador as well as their level of focus devoted to the singular relationship. Below is the distribution of the LOR scores for the cases observed.



Alliance Index:

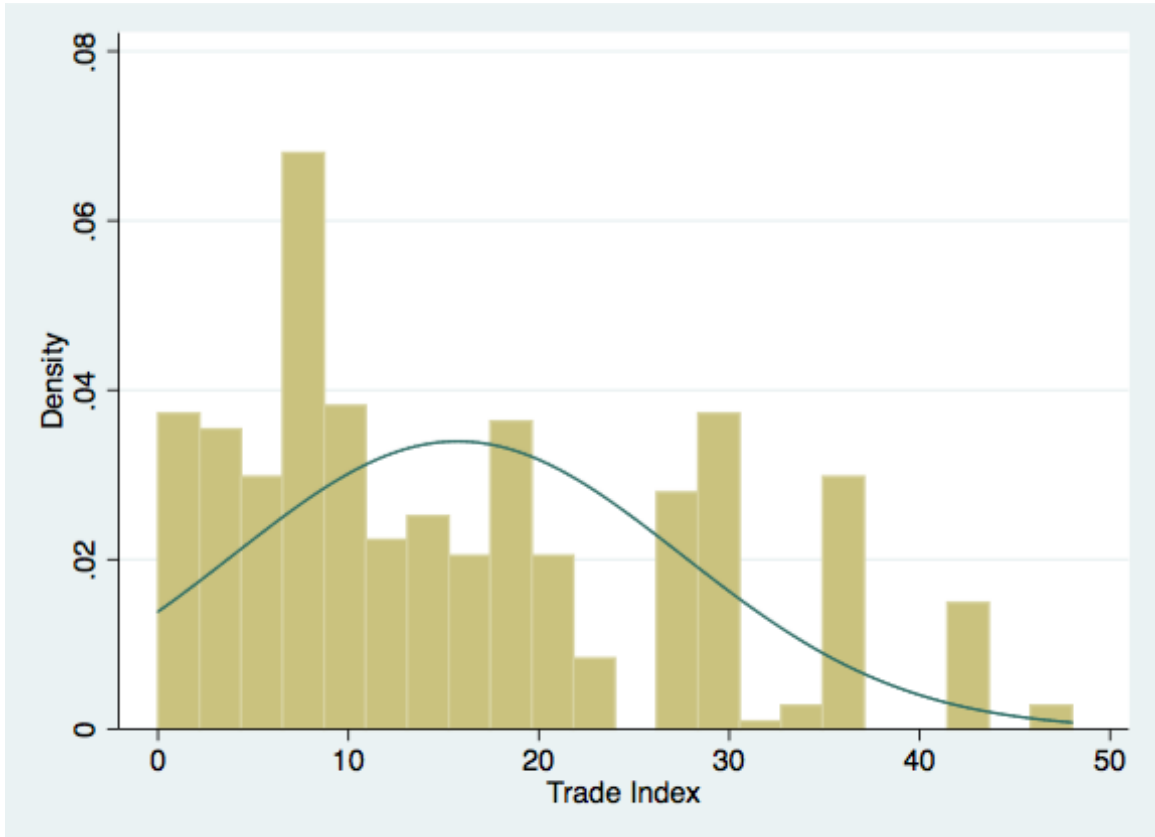
The alliance index captures the degree of formalized military alliances between two states. It looks at obligations for non-aggression, neutrality, consultation, defense, and mutual offense action giving increasing weight to each one respectively. The data was collected from ATOP and compiled into the alliance index by the Pardee Center for International Futures.



Trade Index:

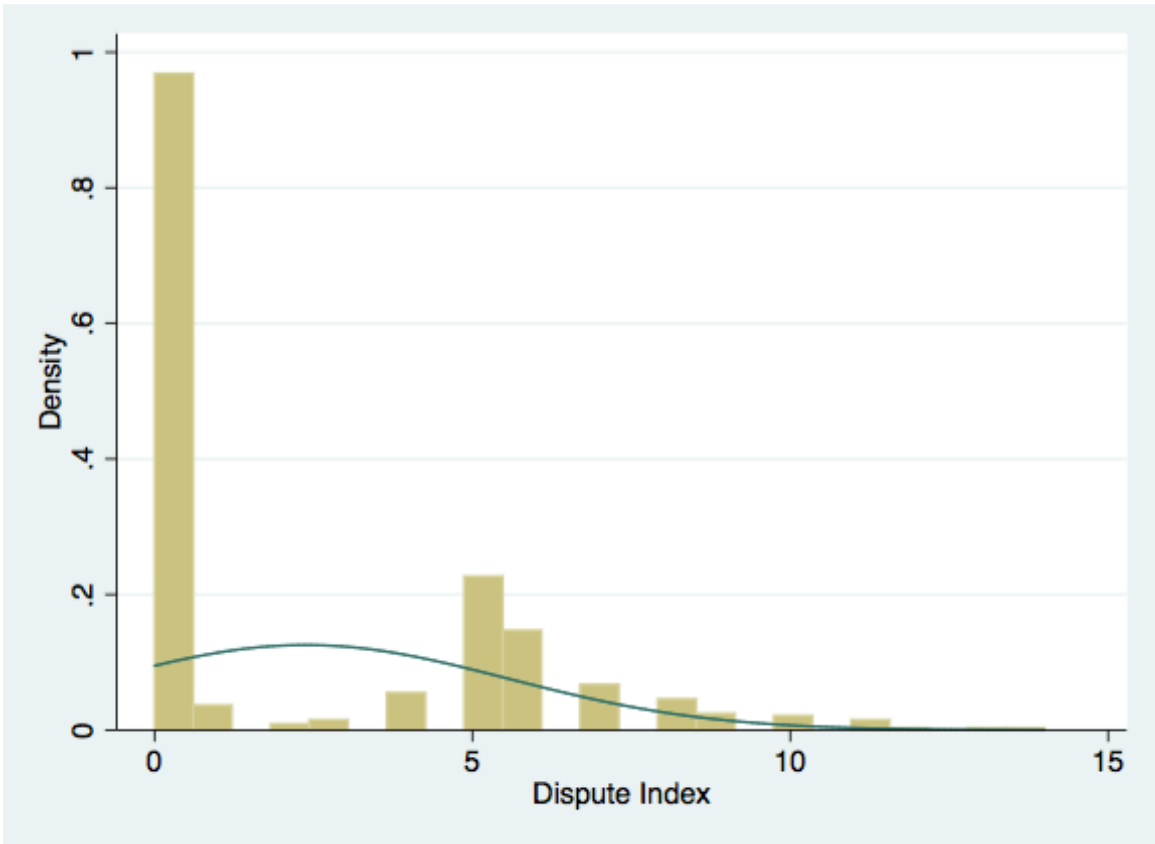
The trade index captures the depth of formal free trade agreements between states. It looks at preferential trade agreements in force, association, regional, and bilateral free trade agreements, and the formation and accession of custom unions agreements giving increasing weight to each one respectively. The index is based on data from the World

Bank's Global Preferential Trade Agreements Database and assembled by the Pardee Center for International Futures.



Dispute Index:

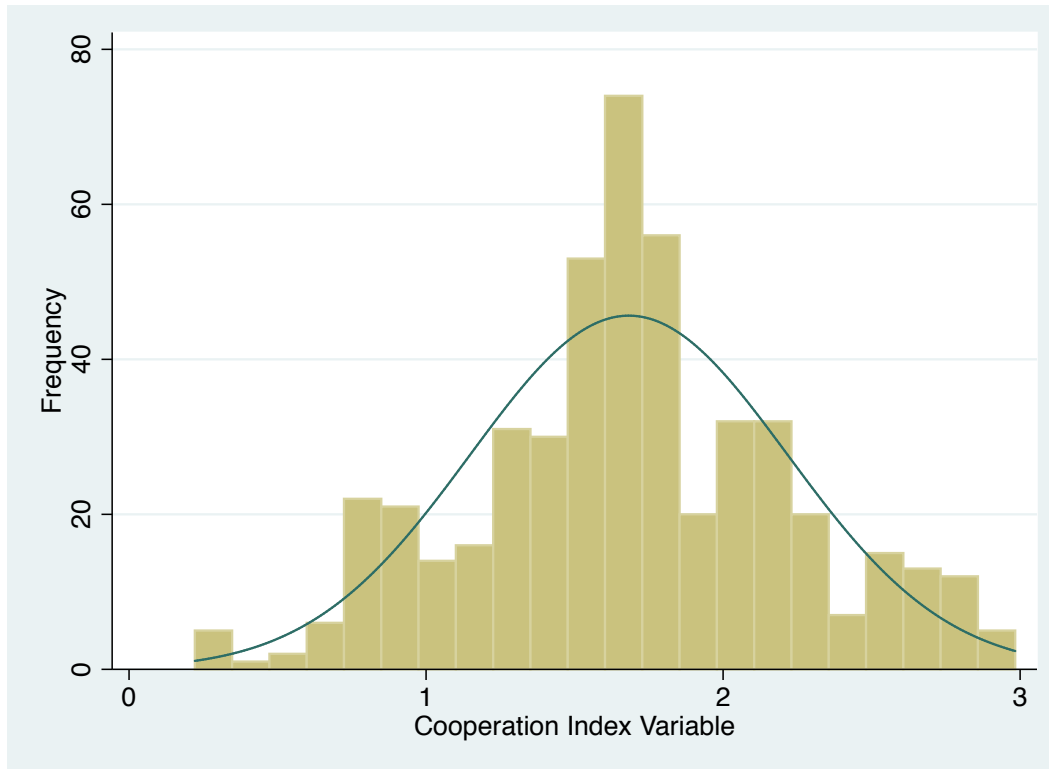
The dispute index observes formalized disputes taken to the WTO as well as militarized interstate disputes as coded by the Correlates of War project in their Militarized Interstate Dispute (MID) database. The conflicts captured in the MID database include information on their fatality levels and the highest military action taken during the dispute. The fatality levels were given a score from 0 to 6 with 0 indicating no recorded deaths and 6 indicating over 999 deaths. The highest military action was coded from 1 to 5 with 1 indicating no militarized action and 5 indicating beginning or joining an interstate war.



Appendix B

Cooperation index variable distribution.

$$\textit{Cooperation} = \textit{Level of Representation} + \textit{Alliance Index} + \textit{Trade Index} - \textit{Dispute Level}$$



Appendix C

Null Regression Results

Mixed-effects ML regression
 Group variable: **_all**

Number of obs = **487**
 Number of groups = **1**

Obs per group:
 min = **487**
 avg = **487.0**
 max = **487**

Log likelihood = **-68.646152**

Wald chi2(0) = **.**
 Prob > chi2 = **.**

cooperationDISIN	Coef.	Std. Err.	z	P> z	[95% Conf. Interval]	
_cons	1.46501	.123436	11.87	0.000	1.22308	1.706941

Random-effects Parameters	Estimate	Std. Err.	[95% Conf. Interval]	
_all: Identity sd(R.year)	.3128378	.034187	.2525222	.38756
_all: Identity sd(R.org_name)	.4606173	.0825199	.3242253	.6543854
sd(Residual)	.2209253	.0077463	.2062528	.2366416

LR test vs. linear model: chi2(2) = **633.64** Prob > chi2 = **0.0000**

Note: [LR test is conservative](#) and provided only for reference.

ICC for the Null Model

- $.3128378 / (.3128378 + .4606173 + .2209253) = .3146055$
- $.4606173 / (.3128378 + .4606173 + .2209253) = .4632204$

Appendix D

Correlation chart for all IVs

	Growth (org)	Growth (time)	FDI (org)	FDI (time)	BOT- glb (org)	BOT- glb (time)	BOT- reg (org)	BOT- reg (time)	Econ. Open. (org)	Econ. Open. (time)
Growth (org)	1.00									
Growth (time)	0.00	1.00								
FDI (org)	0.60	0.01	1.00							
FDI (time)	0.01	-0.00	-0.00	1.00						
BOT-glb (org)	0.48	-0.01	0.83	0.05	1.00					
BOT-glb (time)	-0.00	0.19	-0.01	0.21	0.00	1.00				
BOT-reg (org)	0.17	-0.00	0.40	-0.00	0.46	-0.00	1.00			
BOT-reg (time)	-0.01	-0.13	0.01	0.241	0.03	0.08	0.00	1.00		
GBZ (org)	0.24	0.00	0.40	-0.00	0.35	0.00	0.24	-0.00	1.00	
GBZ (time)	0.01	-0.04	-0.01	0.25	0.03	0.09	-0.00	0.00	-0.00	1.00
Members (org)	0.44	0.00	0.51	0.00	0.50	0.00	0.70	-0.00	0.49	-0.00
Members (time)	0.14	-0.11	0.22	0.23	0.26	0.05	0.07	0.24	0.01	0.14
Hegemon	-0.12	-0.00	0.28	-0.00	0.02	-0.00	-0.01	-0.00	0.45	-0.00
Trade (org)	-0.34	0.00	-0.44	0.00	-0.23	0.00	0.28	0.00	0.19	-0.00
Trade (time)	-0.02	-0.22	-0.01	0.14	0.07	0.00	-0.01	0.29	-0.04	0.13
Regime (org)	0.73	0.00	0.45	0.01	0.48	0.01	0.15	-0.01	0.01	0.00
Regime (time)	0.01	0.28	0.08	-0.25	0.04	0.06	0.02	-0.17	0.01	-0.30
US Inf (org)	0.35	0.00	0.41	0.00	0.65	-0.00	0.13	-0.02	0.09	0.00
US Inf (time)	0.22	0.19	0.01	-0.15	0.03	0.05	0.01	-0.07	-0.01	-0.08

	Members (org)	Members (time)	Hegemon	Reg. Trade (org)	Reg. Trade (time)	Regime (org)	Regime (time)	US Inf. (org)	US Inf. (time)
Members (org)	1.00								
Members (time)	0.00	1.00							
Hegemon	0.06	-0.00	1.00						
Trade (org)	0.22	0.00	-0.10	1.00					
Trade (time)	-0.00	0.43	0.00	0.00	1.00				
Regime (org)	0.41	0.04	-0.02	-0.24	0.00	1.00			
Regime (time)	0.00	-0.08	-0.00	-0.00	-2.26	0.00	1.00		
US Inf (org)	0.17	-0.00	-0.56	-0.19	-0.01	0.08	0.00	1.00	
US Inf (time)	0.00	-0.02	0.00	0.00	-0.05	0.01	0.31	-0.00	1.00

Appendix E

Regression Analysis: VIF and ICC for each model.

- Model 1A

- VIF test for multicollinearity

Variable	VIF	1/VIF
BOTglb_org	1.73	0.578788
GBZ_org	1.57	0.636440
hegemon	1.38	0.723897
growth_org	1.37	0.732054
BOTreg_org	1.31	0.763377
growth_time	1.07	0.934778
BOTglb_time	1.07	0.937788
BOTreg_time	1.04	0.961083
GBZ_time	1.01	0.986432
Mean VIF	1.28	

- ICC (intra-class correlation coefficient)

- $.2543835 / (.2543835 + .1931743 + .2011576) = .39213421$
 - $.1931743 / (.2543835 + .1931743 + .2011576) = .29777974$

- Model 1B

- VIF test

Variable	VIF	1/VIF
FDI_org	2.24	0.445819
growth_org	1.98	0.504548
member_org	1.77	0.565861
GBZ_org	1.73	0.577978
hegemon	1.64	0.609861
member_time	1.32	0.757112
FDI_time	1.12	0.892572
GBZ_time	1.07	0.932746
growth_time	1.04	0.959003
Mean VIF	1.55	

- ICC

- $.2689799 / (.2689799 + .1382544 + .2095399) = .43610757$
 - $.1382544 / (.2689799 + .1382544 + .2095399) = .22415724$

- Model 2A

- VIF test

Variable	VIF	1/VIF
B0Tglb_org	2.50	0.399271
GBZ_org	1.85	0.539721
regtrade_org	1.65	0.605944
B0Treg_org	1.64	0.609354
hegemon	1.50	0.666506
regime_org	1.36	0.737652
regime_time	1.28	0.783914
regtrade_t~e	1.26	0.793396
B0Treg_time	1.14	0.878267
GBZ_time	1.11	0.899570
B0Tglb_time	1.03	0.968252
Mean VIF	1.48	

- ICC

- $.1972637 / (.1972637 + .1722767 + .1939596) = .35006868$
 - $.1722767 / (.1972637 + .1722767 + .1939596) = .30572618$

- Model 2B

- VIF test

Variable	VIF	1/VIF
FDI_org	3.51	0.285116
member_org	2.48	0.402920
regtrade_org	2.42	0.413256
growth_org	1.92	0.520930
member_time	1.68	0.596366
GBZ_org	1.56	0.639090
regtrade_t~e	1.35	0.742020
USinf_org	1.34	0.747551
FDI_time	1.15	0.872918
growth_time	1.12	0.894091
GBZ_time	1.08	0.927278
USinf_time	1.07	0.932551
Mean VIF	1.72	

- ICC

- $.2607075 / (.2607075 + .1404254 + .199867) = .43378959$
 - $.1404254 / (.2607075 + .1404254 + .199867) = .23365295$

- Model 3B

- VIF test

Variable	VIF	1/VIF
GBZavg_org	1.18	0.845520
GBZavg_time	1.16	0.858705
B0Tregavg_~g	1.15	0.866513
growthavg_~e	1.14	0.878850
hegemon	1.03	0.971509
B0Tregavg_~e	1.03	0.975529
Mean VIF	1.12	

- ICC

- $.2533755 / (.2533755 + .2208452 + .2177434) = .36616856$
 - $.2208452 / (.2533755 + .2208452 + .2177434) = .31915702$

- Model 3B

- VIF test

Variable	VIF	1/VIF
member_time	1.13	0.882966
FDIavg_time	1.09	0.914613
FDIavg_org	1.04	0.957618
hegemon	1.02	0.979057
member_org	1.02	0.982483
growthavg_~e	1.01	0.991533
Mean VIF	1.05	

- ICC

- $.2874108 / (.2874108 + .1738401 + .2131373) = .42618005$
 - $.1738401 / (.2874108 + .1738401 + .2131373) = .25777453$

- Model 3C

- VIF test

Variable	VIF	1/VIF
growthavg_~g	1.34	0.748604
hegemon	1.28	0.781987
B0Tglbavg_~g	1.13	0.882158
growthavg_~e	1.04	0.960166
B0Tglbavg_~e	1.04	0.960664
Mean VIF	1.17	

- ICC

- $.2630611 / (.2630611 + .3193706 + .2050402) = .33405776$
- $.3193706 / (.2630611 + .3193706 + .2050402) = .40556444$

- Model 4A

- VIF test

Variable	VIF	1/VIF
GBZavg_org	1.75	0.571809
B0Tregavg_~g	1.65	0.607557
GBZavg_time	1.62	0.617397
regimeavg_~e	1.41	0.710890
regtrade_t~e	1.26	0.792756
B0Tregavg_~e	1.20	0.836030
growthavg_~e	1.18	0.849559
regtrade_org	1.16	0.859719
regimeavg_~g	1.12	0.893061
hegemon	1.11	0.896961
Mean VIF	1.35	

- ICC

- $.2922951 / (.2922951 + .1916949 + .2078783) = .42247217$
- $.1916949 / (.2922951 + .1916949 + .2078783) = .27706848$

- Model 4B

- VIF test

Variable	VIF	1/VIF
FDIavg_org	1.83	0.547690
hegemon	1.82	0.550849
USinfavg_org	1.79	0.558040
FDIavg_time	1.72	0.582296
member_time	1.62	0.618187
member_org	1.61	0.619583
regimeavg_~e	1.48	0.676446
regtrade_org	1.45	0.687805
regtrade_t~e	1.43	0.701436
regimeavg_~g	1.23	0.813588
USinfavg_t~e	1.21	0.829676
growthavg_~e	1.07	0.934944
Mean VIF	1.52	

- ICC

- $.3200807 / (.3200807 + .1470886 + .196644) = .48218483$
- $.1470886 / (.3200807 + .1470886 + .196644) = .22158128$

- Model 4C

- VIF test

Variable	VIF	1/VIF
member_time	1.60	0.625037
regtrade_time	1.35	0.743246
regtrade_org	1.28	0.780700
member_org	1.21	0.827344
hegemon	1.20	0.834072
BOTglbavg_time	1.20	0.835601
regimeavg_time	1.18	0.848232
regimeavg_time	1.15	0.869856
BOTglbavg_time	1.09	0.916962
growthavg_time	1.04	0.957522
Mean VIF	1.23	

- ICC

- $.2559458 / (.2559458 + .1625279 + .1846498) = .42436715$
 - $.1625279 / (.2559458 + .1625279 + .1846498) = .26947698$

- Model 5A

- VIF test

Variable	VIF	1/VIF
growthavg_time	2.19	0.456370
regime_org	2.01	0.498206
BOTglb_org	1.92	0.520355
member_org	1.91	0.524202
member_time	1.49	0.671312
regtrade_time	1.46	0.685631
regtrade_org	1.43	0.698781
regime_time	1.21	0.827723
growthavg_time	1.03	0.969514
BOTglb_time	1.02	0.983260
Mean VIF	1.57	

- ICC

- $.2271622 / (.2271622 + .1354236 + .1806619) = .41815584$
 - $.1354236 / (.2271622 + .1354236 + .1806619) = .24928518$

- Model 5B

- VIF test

Variable	VIF	1/VIF
growthavg_~g	2.49	0.400824
FDI_org	1.89	0.530238
regime_org	1.84	0.544518
regtrade_org	1.18	0.845040
regime_time	1.17	0.852709
regtrade_t~e	1.12	0.893564
FDI_time	1.08	0.927369
growthavg_~e	1.01	0.985728
Mean VIF	1.47	

- ICC

- $.2249551 / (.2249551 + .1621173 + .2125208) = .37517954$
 - $.1621173 / (.2249551 + .1621173 + .2125208) = .27037882$

- Model 5C

- VIF test

Variable	VIF	1/VIF
growth_org	2.03	0.492494
member_org	1.95	0.511759
growthavg_~g	1.70	0.589060
GBZavg_org	1.58	0.632441
regtrade_org	1.53	0.653187
member_time	1.49	0.670548
GBZavg_time	1.39	0.721363
regtrade_t~e	1.32	0.757524
growthavg_~e	1.17	0.857188
growth_time	1.08	0.930026
Mean VIF	1.52	

- ICC

- $.2558363 / (.2558363 + .1478105 + .2103782) = .41665453$
 - $.1478105 / (.2558363 + .1478105 + .2103782) = .24072391$