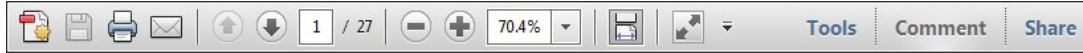
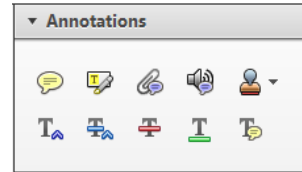


Once you have Acrobat Reader open on your computer, click on the [Comment](#) tab at the right of the toolbar:



This will open up a panel down the right side of the document. The majority of tools you will use for annotating your proof will be in the [Annotations](#) section, pictured opposite. We've picked out some of these tools below:



1. [Replace \(Ins\)](#) Tool – for replacing text.

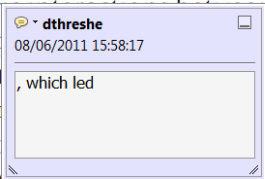


Strikes a line through text and opens up a text box where replacement text can be entered.

How to use it

- Highlight a word or sentence.
- Click on the [Replace \(Ins\)](#) icon in the Annotations section.
- Type the replacement text into the blue box that appears.

standard framework for the analysis of microeconomic activity. Nevertheless, it also led to the development of a number of strategic approaches. The number of competitors in an industry is that the structure of the industry is a key component. The main components of the industry are the number of firms and the level, are exogenous variables. The important words on entry by firms (M henceforth) we open the 'black b



2. [Strikethrough \(Del\)](#) Tool – for deleting text.



Strikes a red line through text that is to be deleted.

How to use it

- Highlight a word or sentence.
- Click on the [Strikethrough \(Del\)](#) icon in the Annotations section.

there is no room for extra profits as mark-ups are zero and the number of firms (net) values are not determined by market structure. Blanchard and ~~Kiyotaki~~ (1987), perfect competition in general equilibrium. The effects of aggregate demand and supply shocks in a classical framework assuming monopolistic competition and an exogenous number of firms

3. [Add note to text](#) Tool – for highlighting a section to be changed to bold or italic.



Highlights text in yellow and opens up a text box where comments can be entered.

How to use it

- Highlight the relevant section of text.
- Click on the [Add note to text](#) icon in the Annotations section.
- Type instruction on what should be changed regarding the text into the yellow box that appears.

dynamic responses of mark-ups consistent with the VAR evidence

sation by Markov processes. The number of firms in an industry is that the structure of the sector is also with the demand-



4. [Add sticky note](#) Tool – for making notes at specific points in the text.

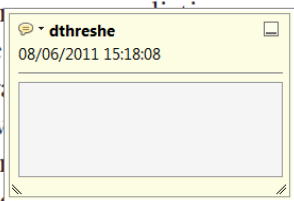


Marks a point in the proof where a comment needs to be highlighted.

How to use it

- Click on the [Add sticky note](#) icon in the Annotations section.
- Click at the point in the proof where the comment should be inserted.
- Type the comment into the yellow box that appears.

and supply shocks. Most of the firms in an industry are small. The number of firms in an industry is that the structure of the sector is also with the demand-



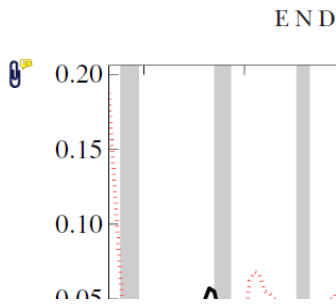
5. **Attach File** Tool – for inserting large amounts of text or replacement figures.



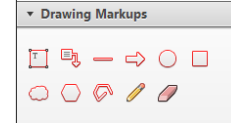
Inserts an icon linking to the attached file in the appropriate place in the text.

How to use it

- Click on the **Attach File** icon in the Annotations section.
- Click on the proof to where you'd like the attached file to be linked.
- Select the file to be attached from your computer or network.
- Select the colour and type of icon that will appear in the proof. Click OK.

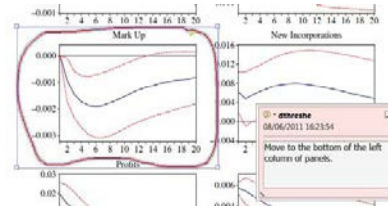


6. **Drawing Markups** Tools – for drawing shapes, lines and freeform annotations on proofs and commenting on these marks. Allows shapes, lines and freeform annotations to be drawn on proofs and for comment to be made on these marks.



How to use it

- Click on one of the shapes in the Drawing Markups section.
- Click on the proof at the relevant point and draw the selected shape with the cursor.
- To add a comment to the drawn shape, move the cursor over the shape until an arrowhead appears.
- Double click on the shape and type any text in the red box that appears.



Competitive Diffusion of Trade Agreements in Latin America¹


CINTIA QUILICONI
FLACSO- Argentina

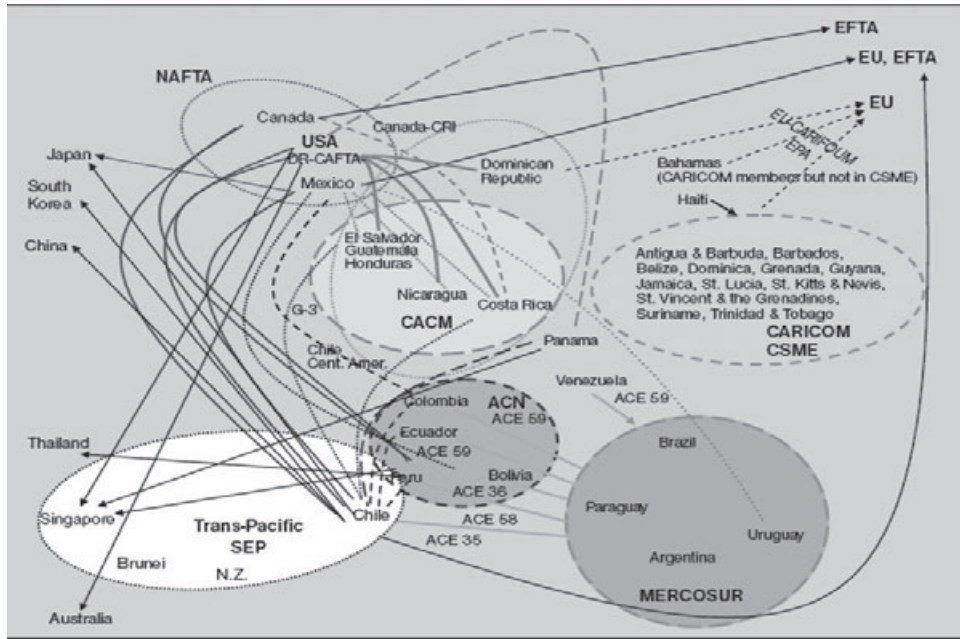
Preferential Trade Agreements (PTAs) have rapidly proliferated in Latin America since the 2000s; this paper examines the factors which have facilitated or hampered their diffusion. The paper argues that the diffusion of PTAs, and resistance against them, has resulted in two alternative trade-integration models. On one hand, there is diffusion of US-led neoliberal North–South PTAs in Central American and Latin American countries (LACs) on the Pacific Basin. On the other hand, the reinforcement of post-liberal regionalism led by Brazil and MERCOSUR countries has acted as a firewall of resistance to the diffusion of US-led PTAs and their neoliberal policies. This paper first discusses how the competitive diffusion of US-led PTAs started in Latin America. It then analyzes two intertwined dynamics (international-regional and institutional-domestic) that explain why US-led PTAs have proliferated in the region. The third section explores MERCOSUR’s reactions to the US competitive PTA diffusion and also how Brazilian leadership has evolved in the South American subregion to encircle U.S. diffusion of PTAs, leading to an outcome of two different patterns of integration in Latin America.

In the early 1990s, LACs began to develop a dense network of PTAs, the majority of which were among countries with similar levels of development. Only a few crossed the North–South divide. The North American Free Trade Agreement (NAFTA) was signed in 1992, the Canada–Chile PTA was signed in 1996, and the Mexico–EU PTA was signed in 2000. The first modern regional trade agreements in Latin America were intraregional customs unions formed or revived in the early 1990s: notably the Andean Community of Nations (ACN), the Caribbean Community, the Central American Common Market, and the Southern Common Market (MERCOSUR). Also in 1994, the first Summit of the Americas launched negotiations for the Free Trade Area of the Americas (FTAA), which intended to amalgamate the regional (incomplete) customs unions and NAFTA under a single hemispheric agreement.

In 1994, when negotiations for the FTAA began, the regional trade-agreement architecture in Latin America was simply organized around a geographic logic. NAFTA aside, trade agreements tended to take up the European Union (EU) as the model to emulate (Lenz 2012) and were conceived as custom unions or common markets. The FTAA negotiations were launched as each respective institution consolidated around core states: the United States in NAFTA and Brazil

¹I would like to acknowledge the very helpful comments of Ali Arbia, Andrea Bianculli, Tanja Borzel, Detlef Jahn, Art Stein, Etel Solingen and Diana Tussie.

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Source: IADB 2009

Fig 1. Regional Trade Agreements—Western Hemisphere, 2008

in MERCOSUR. The eventual demise of the FTAA in 2005 and the coetaneous withering of the Doha Round in the WTO opened up the way for a dual track on trade integration in the Western hemisphere. The United States resorted to bilateral PTAs with LACs in the Pacific and in Central America, while Brazil sought to institutionalize the South American subsystem under the MERCOSUR umbrella.

Nowadays, the majority of the PTAs in Latin America are not intraregional (see Figure 1). That web of bilateral PTAs in the region does justice to Bhagwati's "spaghetti bowl" and they are in their majority North–South treaties. North–South PTAs are signed by a developed and a developing country and have an agenda with a stronger emphasis on the imposition of regulatory disciplines in various areas—such as investment, labor and environmental standards and intellectual property rights—than on trade liberalization itself (Bianculli 2013). Diffusion of these North–South PTAs in Latin America is the dependent variable (analyzed in this paper) tracing how the United States has triggered a competitive diffusion dynamic that has resulted in two competitive models of integration in LACs. The paper argues that diffusion of North–South PTAs in Latin America has fragmented the Western Hemisphere in two alternative models of trade integration. The model chosen depends upon three primary factors: the countries' dependence on trade with the United States, the economic ideology of the executive power, and the role of business interests given the size of each LAC domestic market. Thus, diffusion of North–South PTAs spread among those LACs that showed intense dependence on the US market, presidents that were ready to lock in neoliberal reforms, and business interests that supported those agreements.

Solingen (2012) introduces the conceptual building blocks that are necessary to analyze diffusion theory. She points out that in any phenomenon of international diffusion, it is necessary to identify several components: the initial stimu-

1 lus, the medium through which information about the initial event travels, the
2 social agents affected by the stimulus, and the outcomes that allow discrimina-
3 tion among different types of diffusion. This paper analyzes these proposed
4 building blocks of diffusion theory in the case of PTAs in Latin America. It
5 examines which factors have facilitated or hampered competitive diffusion of
6 North–South PTAs. On one hand, there is the diffusion of US-led neoliberal
7 PTAs in Central America and LACs on the Pacific. On the other hand, the rein-
8 forcement of post-liberal regionalism led by Brazil and MERCOSUR countries
9 that acted as a wall of resistance to the diffusion of US-led PTAs and their neo-
10 liberal policies.

11 The main agents that have embraced these two alternative models in LACs are
12 (i) strong executive powers supported either by export-oriented (internationaliz-
13 ing) business coalitions that favor trade liberalization through North–South
14 PTAs and, alternatively, (ii) strong presidents that have faced opposition to more
15 trade liberalization and thus have supported regional integration as a way of pro-
16 tecting import-competing (inward-looking) business coalitions; those have sided
17 under MERCOSUR. The medium through which these two models compete is
18 regional and contains two firewalls. The first firewall is domestic: internationaliz-
19 ing versus inward-looking constituencies at the state level. The second firewall is
20 regional: the role played by Brazil and MERCOSUR as counterbalances to the
21 US presence and neoliberal policies in the hemisphere.

22 This paper first discusses how competitive diffusion of US PTAs started in
23 Latin America. In the second section, I analyze two intertwined dynamics (inter-
24 national-regional and institutional-domestic) that are part of the explanation of
25 why US-led PTAs have proliferated in the region. The third section explores Bra-
26 zil’s reactions to US competitive PTA diffusion and also how Brazilian leadership
27 has evolved in South America subregion to encircle US diffusion of PTAs, creat-
28 ing an outcome of two different patterns of integration in LACs. In the last sec-
29 tion, I flesh out the conclusion on the process of diffusion.

30 31 **Competitive US PTA Diffusion in Latin America**

32
33
34 International policy diffusion provides a way to consider mechanisms and pro-
35 cesses through which national government policy decisions are “systematically
36 conditioned by prior policy decisions made in other countries” (Simmons, Dob-
37 bin and Garret 2006: 787). Its key assumption is that governments adopt new
38 policies not in isolation but in response to what their counterparts in other
39 countries are doing. These authors highlight four main modes for policy diffu-
40 sion: coercion, competition, learning, and emulation.

41 Solis and Katada (2009) have identified two diffusion mechanisms in the pro-
42 liferation of PTAs in Asia and Latin America, economic competition and idea-
43 tional emulation, showing that dynamics of economic competition seem to
44 prevail on both continents. However, the authors do not account for the effect
45 that this proliferation of PTAs has on existing regional agreements and, in the
46 case of LACs, how a regional leader like Brazil might react to the diffusion of
47 US-led neoliberal policy.

48 Diffusion literature on PTAs traditionally defines competition as arising for
49 solely economic or normative-institutional reasons (Simmons et al. 2006; Borzel
50 and Risse 2012) but Solis and Katada (2009) have shown that, in the case of
51 PTAs, competitive diffusion is better understood as the quest for relative advanta-
52 ges in a multidimensional field of economic, political and legal elements and
53 involves countries competing with their peers. Economic competition involves
54 the advantage of getting ahead of peers, mainly in market access and investment
55

1 aspects. Political competition affects interstate alignment patterns by establishing
2 closer links with allies and/or using them to isolate competitors. In this type of
3 competition, large states usually sign PTAs with smaller states to encircle what
4 they consider negative security trends or threats to their hegemonic power. Legal
5 competition is related to the stalemate of WTO negotiations; as regulation on
6 new issues such as investment, competition policy, and labor and environmental
7 standards largely contributed to the failure of WTO talks, developed countries
8 see PTAs as a way to disseminate these new rules and lock-in WTO-plus commit-
9 ments (Stallings, Solis and Katada 2009).

10 This paper argues that there is a clear policy-diffusion competition dynamic in
11 North–South PTAs in the Western Hemisphere. On one hand, the United States
12 and the European Union engaged in competitive diffusion policies that created
13 a hub-and-spoke system based particularly on legal and political competition. On
14 the other hand, this paper also focuses on how the offer of signing North–South
15 PTAs triggered economic competition among LACs to get parity of market
16 access and investment rules.

17 Solingen (2012: 632) sheds light on impediments to diffusion when she argues
18 that “firewalls can increase or decrease a medium’s conductivity along the diffu-
19 sion path.” Regional firewalls first appeared in the Western Hemisphere medium
20 when Brazil and MERCOSUR became the platform for anti-liberalization stances
21 to stall and resist US expansion in the FTAA negotiations, particularly after
22 2000, when the whole package was meant to be brought to a close. Brazil led the
23 opposition in that battle, effectively killing the FTAA. While MERCOSUR legisla-
24 tion requires its members to conduct common external negotiations, the regula-
25 tions set out a PTA encirclement for those MERCOSUR members that had
26 contemplated the idea of signing bilateral North–South PTAs (see Figure 1). US
27 competitive bilateralism triggered a Brazilian attempt to firewall North–South
28 PTAs by creating a different type of competition dynamic (based on political
29 and legal issues) as Brazil slowly started to shoulder some of the costs inherent
30 in cooperation and integration in the South American region, attracting the
31 LACs that were not ready to lock-in neoliberal reforms under North–South
32 PTAs. Brazil also created a new political organization, the Union of the South
33 American Nations (UNASUR), in order to contain US influence in what it now
34 considers its natural region.

35 The regional landscape is then divided into two clear subregions. In geopoliti-
36 cal terms, the majority of the countries facing the Pacific, except Ecuador, have
37 sided with US-led PTA policy diffusion while the rest of the countries that face
38 the Atlantic, particularly in South America, have maintained their previous regio-
39 nal commitments, transforming under Brazilian leadership from open regional-
40 ism to what some authors term post-liberal regionalism. This project is an
41 economic and political construct that aims to achieve its members’ trade goals
42 while retaining room to maneuver for an active role in development and regio-
43 nal autonomy particularly regarding the United States (Riggirozzi 2012; Sanahuja
44 2012;).

46 **The Political Economy of North–South PTAs in Latin America**

47
48
49 The political economy of North–South PTAs in LACs is based on two different
50 dynamics, one related to international-regional factors and the other to institu-
51 tional-domestic factors. The international-regional factors encompass the role of
52 the stalemates at the WTO and FTAA as the stimuli to open a new avenue for
53 North–South PTAs. In turn, this possibility spread in the region, encouraging
54 competence among LACs to join this trend. The institutional-domestic factors
55

1 encompass the role of LACs' presidents and societal and business pressures on
2 the process of diffusion of North–South PTAs.

3 The role of presidents and their supporting constituencies is key to explaining
4 why some LACs signed North–South PTAs at critical moments of negotiation with
5 the United States. Strong executives in LACs played a key role in trade policy deci-
6 sions, not in isolation but with attention to business interests and to the policies of
7 other countries in the region. In both the Central American and the Andean
8 cases, the decision to start PTA negotiations with the United States led to regional
9 diffusion. In the case of Peru, the commitment of then President Toledo to sup-
10 port a PTA with the United States was an important factor, which facilitated a
11 smooth negotiation process and a particularly hasty Congressional discussion prior
12 to ratification. The PTA between the United States and Costa Rica also shows the
13 gravitation of the executive throughout the process, albeit but in a different way.
14 The ups and downs of President Pacheco's indecisiveness led to delay not only in
15 the negotiation process but also in ratification. It all flared up in a controversy
16 under the next administration and the PTA was finally approved in a highly strung
17 referendum. In turn, the negotiations between the United States and Ecuador for
18 a PTA exemplify how a weak and unstable administration, continuously chal-
19 lenged by the indigenous movement, led to the failure of the agreement.

20 Business interests interacted with strong executives and played an important
21 role in supporting PTAs with the United States Most LACs, except for MERCOSUR **3**
22 and Venezuela, were traditionally highly dependent on the United States as
23 a destination for exports and dependent on preferential access to its market
24 under the general system of preferences and related schemes. PTAs were seen as
25 a way of locking in benefits (Tussie 2009). In MERCOSUR, and particularly in
26 Argentina and Brazil, business interests opposed more trade liberalization as
27 both economies have dense domestic markets, are active exporters in regional
28 markets, and are the least open economies in comparative terms. They thus had
29 strong defensive interests to protect and less permeability to a PTA agreement
30 with the United States.

31 In terms of the international-regional dimension, the WTO and FTAA stale-
32 mates acted as an initial stimulus for the United States to start off a process of
33 competitive diffusion, offering bilateral PTAs which itself triggered regional com-
34 petition among LACs. The agreement between United States–Chile was used as
35 a template in the region as it set the precedent of incorporating labor and envi-
36 ronmental standards, a requirement that all subsequent PTAs with the United
37 States included (Quiliconi and Wise 2009; Arbia 2013). As the former Deputy
38 Minister of Foreign Trade in Costa Rica, Doris Osterlof Obregón, points out, the
39 United States began to send some positive signs toward Central American coun-
40 tries on the possibility of signing a PTA, due to security concerns. The first
41 exploratory meeting took place at the end of 2001, even though formal negotia-
42 tions for a PTA between the United States and Central American countries did
43 not start until the beginning of 2003.² The euphoria of launching a new round
44 of negotiations in Doha in 2001 lasted until the next ministerial meeting. Multi-
45 lateral trade negotiations collapsed in September 2003 at the WTO ministerial
46 meeting in Cancun, Mexico and paved the way for bilateral PTAs.

47 The new concerns changed the matrix of incentives for LACs. They opened
48 up a new route for securing and obtaining better market access and attracting
49 direct foreign investment. Those LACs more dependent on access to the US
50 market with strong export-oriented sectors supporting the agreement were
51 the ones in which PTA diffusion spread. In turn, each PTA led to defensive reac-
52 tions from neighboring countries with similar export baskets. Diffusion became
53 a cumulative process. In a confidential interview at the US Department of
54

²Interview with Doris Osterlof Obregón, Deputy Minister of Foreign Trade, October 2009, San José, Costa Rica.

1 Commerce, a high-ranking bureaucrat—involved in negotiations with LACs for
2 more than 20 years—recognized that “the U.S. started to sign bilateral trade
3 agreements to exert pressure on the other countries. LACs were also doing that
4 themselves and the process had a signaling meaning while it was easier to deal
5 with a limited number of parties ready to sign.”³ However, according to USTR
6 representatives, the avalanche of PTAs the United States started to negotiate in
7 the 2000s was also due to political and legal reasons, among the most important
8 the lock-in of neoliberal reforms through PTAs and the competition for liberal-
9 ization on many negotiation boards. In fact, in 2001, the new Bush administra-
10 tion sought to revive US leadership in trade negotiations through competitive
11 liberalization and, since August 2002, with the approval of TPA, bilateral trade
12 negotiations have been used as a way to address the rules that have hampered
13 WTO and FTAA progress (Zabludosky and Gómez Lora 2007).

14 North–South PTAs proliferated in a geographically dispersed fashion, contrary
15 to common regional-integration assumptions about the importance of geo-
16 graphic proximity⁴. In contrast, the Brazilian strategy has been geographically
17 concentrated in South America, as I address in the next section. Thus, there is a
18 clear interaction between the motives behind U.S. shift of strategy to the bilat-
19 eral negotiation board and the motives of LACs to undertake the route of
20 North–South PTAs. Given the stalemate of multilateral negotiations, the United
21 States attracted political allies and countries that were ready to accept their regu-
22 lation demands. In other words, the shift in US trade policy started a policy-dif-
23 fusion pattern based on political and legal interests.

24 In the case of LACs, the motives are mixed. On one hand, the possibility of
25 signing a PTA with the United States allows them to lock-in neoliberal models of
26 development and to bind access under preferential schemes. On the other hand,
27 the web of PTAs in itself generates competition among LACs for parity of market
28 access. The final signature of a PTA was used to win domestic battles on eco-
29 nomic reforms; resistance from import-competing sectors was watered down.
30 The cases of Peru and Costa Rica are a good example of this snowball dynamic.
31 After they signed a PTA with the United States, they were on board to negotiate
32 with the European Union and Asian countries.

33 In terms of the domestic institutional dynamic, it is important to take into
34 account two main features. First, in those LACs where there was greater fragmen-
35 tation—between the interest of the executive power, business interests, and civil
36 society—it was harder to change existing policies and sign an a PTA with the
37 United States as was shown in the Ecuadorian case. Second, executive powers
38 were prone to embrace North–South PTAs whenever that policy shift coincided
39 with the interests of their business community and their support to lock-in neo-
40 liberal reforms. In countries where fragmentation of social and business interests
41 was strong, the probability of signing a North–South PTA was diminished given
42 competition from a different development model: based on the protection of
43 their internal market and the important role of societal pressures to—for exam-
44 ple—maintain backlash coalitions that comprise sectors threatened by that exter-
45 nal liberalization (Solingen 2001).

46 As societal approaches strengthen the idea of influential sectors of society
47 determining trade policy, they usually pay scant attention to the domestic politi-
48 cal institutions that filter societal demands and have the power to set policy. A
49 study of LAC cases shows that the decision of either signing a North–South PTA
50 or favoring regional integration was usually a state-led rather than business-led
51 process. Although the role of business was important as export-oriented sectors
52

53 ³Confidential interview, USTR officer, June 2009, Washington D.C.

54 ⁴Aggarwal and Koo (2005) define “geographically concentrated” PTAs as the ones that are contiguous in land
55 or at a distance not higher than 400 nautical miles.

1 lobbied for more liberalization, the main impetus in North–South PTAs came
2 from the presidents. The executive’s support for North–South PTAs and the
3 level from opposition of business and civil society are key factors accounting for
4 their signing or not signing.

5 This finding supports the argument of diffusion theorists that rejects the
6 notion that processes of policy change can be adequately understood by conceiv-
7 ing national governments as making decisions independently of each other.
8 Even though I argue that the role of executives is important in making decisions
9 about PTAs, there is no policy independence. As Simmons et al. (2006) pointed
10 out: domestic political and economic factors cannot alone predict when govern-
11 ments will adopt new policies. In fact, as I have argued before, decision making
12 regarding North–South PTAs has been highly interdependent on what other
13 countries have done in the region due to market access and FDI attraction com-
14 petition. Particularly, small countries dependent on preferential market access to
15 the United States line up to sign bilateral trade agreements with the United
16 States Many of the countries that have resisted diffusion of North–South PTAs
17 are the countries with important internal markets, but others have found them-
18 selves trapped in MERCOSUR’s institutional firewall of common negotiations.
19 For example, given the small market size and strong export business in Uruguay,
20 we could have expected this country to join the North–South PTA diffusion, but
21 the pressure of MERCOSUR policy on external negotiations contained diffusion
22 of PTAs to this country. Brazil, in particular, acted as firewall of this competitive
23 diffusion, as I discuss in the next section.

24 **US Driven PTAs *Vis-à-vis* Brazil and MERCOSUR Subregional Integration**

25
26
27
28 Based on its competitive liberalization policy, the United States has been success-
29 ful in defending its interests in the region *vis-à-vis* Brazil. In fact, most of the
30 countries that have signed PTAs with the United States are the ones that sup-
31 ported the FTAA and were disappointed by the Brazilian and MERCOSUR oppo-
32 sition to the project. The US hemispheric integration entailed the immersion of
33 MERCOSUR into an enlarged NAFTA. Members of the Clinton administration
34 expressed various times that MERCOSUR was seen as “harmful” to the FTAA
35 and “a threat to hemispheric regionalism” (Carranza 2000, 124; Bandeira 2004,
36 133–35). This scenario was feared by Brazil, which was suspicious of the FTAA
37 and saw it as an “obstacle to the designs of Brazilian leadership within the regio-
38 nal order” in South America (Cervo and Bueno 2008, 488).

39 Brazil, as part of the BRICs, has long wanted to achieve international recogni-
40 tion as a major player (Lima and Hirst 2006) and since Goldman Sachs included
41 Brazil in the BRICs category, its characterization as an emerging power became
42 undoubtable. However, unlike the other BRICs, Brazil is characterized by its soft
43 power—because even though it is the largest Latin American economy, it is not
44 the richest and still has important social cleavages. Given this relative weaknesses,
45 Brazil has always believed that support from the region is necessary to reinforce
46 its global claims (Hurrell, Cooper, González González, UbiraciSennes and Sitar-
47 aman 2000). According to Poggio Teixeira (2011), Brazil’s policy has been one
48 of securing and reinforcing its position within the South American sub-region in
49 order to avoid its absorption by a US-led hemispheric trade agreement. A key-
50 stone in building this regional policy was the creation of MERCOSUR in 1991.
51 As soon as George Bush announced the Enterprise for the Americas Initiative,
52 Brazil responded that it would only negotiate a hemispheric agreement within a
53 common framework for MERCOSUR members that would enable a joint posi-
54 tion in negotiating with the United States.
55

1 Since the early 1990s, many Brazilian administrations have referred to mention
2 a South American space. For instance, when Cardoso was the Brazilian Foreign
3 Minister, he mentioned the notion of a “South American platform” (Cardoso
4 1994, 185) and later, as president, he considered MERCOSUR to be “a pole
5 from which we will organize the South American space” (Cardoso and Roberto
6 1998, 127). MERCOSUR was thus seen as an alternative hub from which Brazil
7 would build its subregional pole of attraction in the hemisphere, creating obsta-
8 cles to US policy diffusion in South America.

9 Finally, in 2000, a political and tangible consolidation of this idea was crystal-
10 lized when Brazil brought all South American leaders together in conference for
11 the first time, to discuss a variety of issues pertaining to that regional subsystem.
12 By curtailing the initiative to South America, Brazil tacitly recognized the limits
13 to its influence over the whole of Latin America and acknowledged the divergent
14 economic interests in the region. This initiative led to the creation of the South
15 American Community in 2004, later called UNASUR.

16 Burges (2009, 59) argues that the 2000 meeting was “the first exclusive gather-
17 ing of South American presidents, giving symbolic gravitas to South America as a
18 viable geopolitical entity” and its outcome suggested “an implicit acceptance of
19 the consensual leadership role that Brazil had been accruing over the previous
20 six years”. MERCOSUR constituted the inner circle of the UNASUR.

21 By the beginning of the 2000s, and particularly after the Brazilian and Argen-
22 tinean devaluations, it became clear that MERCOSUR was not delivering the
23 expected benefits—at least to the smaller countries in the initiative (Paraguay
24 and Uruguay). The integration agreement stagnated as mutual understanding
25 and cooperation steeply declined; implementation problems, unilateral mea-
26 sures, and case-by-case enforcement led to a growing mistrust (Bouzas, Motta
27 Veiga and Torrent 2002). However, President Cardoso considered the 2000 sum-
28 mit as a moment of reaffirmation of South America’s identity as a region, add-
29 ing that a freetrade agreement between MERCOSUR and the ACN would
30 become the spine of South America as an extended economic space (Ruiz Caro
31 2005).

32 In 2006, as a result of the competitive liberalization diffusion policy that the
33 United States launched in Latin America, Venezuela left the ACN. Due to dis-
34 agreements with Colombia and Peru, both of which signed PTAs with the United
35 States, Venezuela formally asked for MERCOSUR full membership. Incorpora-
36 tion was finally crystallized in June 2012, when Paraguay—that had systematically
37 resisted Venezuela’s access—was suspended from MERCOSUR due to an institu-
38 tional coup. With Venezuela freshly incorporated into MERCOSUR and the
39 recent requests of Bolivia and Ecuador to become full MERCOSUR members,
40 Brazil seemed able to counterbalance US PTA diffusion in South America.

41 In contrast to US trade policy, which relies mostly on specific PTAs and there-
42 fore is much more restricted, Brazil seems to pursue a regional policy of cooper-
43 ative leadership in which it attempts, within a multilateral structure and by
44 stressing a common identity, to make all South American states rally around the
45 political project of establishing South America as a distinct region within the
46 hemisphere, thus increasing the costs of a more significant US involvement in
47 the subregion.

48 The outlook of Latin American integration is interconnected with the transfor-
49 mation that the global economy underwent before and after the global financial
50 crisis in 2008. The proliferation of bilateral trade agreements with the United
51 States in Central American and Andean countries has direct repercussions for
52 existing regional agreements. On one hand, as a consequence of the FTAA fail-
53 ure in 2005, there is now a clear fragmentation in the hemisphere between the
54 countries that, after receiving a green light from Washington, have negotiated
55 bilateral trade agreements with the United States and the countries that have no



FIG 2. Two Competing Models of Integration

10

interest in doing so. The coalition of the willing includes Mexico, many Central American countries, and Panama, Chile, Colombia, and Peru.

MERCOSUR seems to have become the locus of resistance for the countries that experienced fatigue from the 1990s' liberal economic reforms and have strong industrial import-competing sectors. In these countries, a wide variety of left-wing governments are rhetorically more interested in supporting or joining MERCOSUR and reluctant to embrace a US trade agenda and its contentious new regulatory demands. Thus, in terms of trade agreements, the hemisphere is divided by two competing models of trade integration, one looking mainly to the Pacific (with the exception of Ecuador) and the other one facing the Atlantic, as shown in Figure 2.

Previous subregional agreements, however, are under pressure to deliver on earlier promises and their state in the region is currently not so rosy. MERCOSUR, despite Brazilian aspirations of regional leadership, still struggles to avoid unilateral actions, and lacks a clear format of integration as the custom union commitments have not fulfilled the complaints of the smaller members (this would require more mechanisms to deal with economic asymmetries). The incorporation of new members might provide the agreement with some oxygen—but his would also mean some serious challenges.

In turn, the ACN political cohesion was deeply undermined when Peru and Colombia joined diffusion of trade agreements with the United States. The main problem for the ACN is that common commitments were eroded by North–South PTAs. If Bolivia and Ecuador are accepted as full MERCOSUR members, there is a question mark over whether that will imply a deeper disintegration of the ACN.

The other final effect of the US competitive liberalization diffusion policy in Latin America has been the emergence of new regional cooperation initiatives that no longer focus on trade but rather on cooperation in general. The creation of UNASUR in 2008 is important, as it is composed by the members and associates of the ACN and MERCOSUR, and has the objective of creating a single market by 2019. In addition, it includes cooperation in various areas, such as infrastructure, migration, health, and a policy dialogue. All these initiatives, which are highly dependent on the political commitment of presidents, jointly with the most important preexisting regional blocs—MERCOSUR and ACN—have generated a complex institutional heterogeneity in Latin American integration processes, bypassing many of the usual obstacles to specific agendas and commitments (Altmann and Rojas 2008). This overlapping network of agreements is even more complex due to the proliferation of bilateral PTAs and the creation in June 2012 of the Pacific Alliance formed by Chile, Colombia, Mexico, and Peru and the very recently joined Costa Rica. This alliance can also be seen as a counterbalance to UNASUR in the region, deepening the fragmentary pattern that is the outcome of the diffusion of North–South PTAs. In this sense, I agree with Klingler Vidra and Schleifer (2014) that convergence can be expected when a single-source diffusion process takes place, however, when diffusion processes involve multiple and competitive sources as in this case, two sources can lead to polarization as adopters converge to one of the two alternative nodes, as has happened between the United States and Brazil in the Western Hemisphere.

Final Remarks

Diffusion and trade integration in LACs follows a fragmentary and unfinished pattern. A dual dynamic of competitive policy diffusion prevails nowadays in the Western Hemisphere. As Table 1 shows, the clash between trade within neoliberal and post-liberal models of development underpins the dichotomy that divides the countries that are willing to sacrifice policy space for market access to developed countries versus the ones that prefer to apply more active broader development policies coordinated by the state.

TABLE 1. Policy-Diffusion Competitive Patterns in Hemispheric Trade Integration

<i>Competitive policy diffusion based on:</i>	<i>Among LACs</i>	<i>Between the United States and Brazil</i>
Political issues	Not key.	Neo-liberal versus. post-liberal approaches. Separation of spheres of influence.
Legal issues	Not key.	Competition between the US WTO-plus regulation and rule-making versus Brazil and other countries that battle to keep policy space for an active role of the state.
Economic issues	Competition for market access and investment attraction from developed countries.	Business lobbies compete to protect or liberalize regional markets.

To sum up, the initial stimulus generated by the US offer to sign North–South PTAs proliferated in a context of open economies that were permeable media to diffuse these agreements and trigger competition. In the case of LACs, the main social agents that either boosted or resisted this diffusion were the governments and particularly the executive powers *vis-à-vis* the support of business interests. As a result of the firewalls that this diffusion triggered in opposing countries—particularly Brazil—the hemisphere is now divided into two opposite models of international integration: one neoliberal and strongly export-oriented and the other state-led and relatively more inward-regional looking. These two different integration schemes—still in fluctuation—are the main outcome of the U.S. competitive liberalization diffusion process in Latin America.

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