2000

Economic and Political Integration: Europe and the Americas

Phynessa McCurry

COLLEGE SCHOLARS PROJECT APPROVAL

Phynessa L. McCurry
Scholar

Dr. John Romeiser
Mentor

Economic and Political Integration: Europe and the Americas
Project Title and Completion Date

COMMITTEE MEMBERS' SIGNATURES
(Minimum 3 Required)

[signature] ______________________ ______________________

April Morgan ______________________ ______________________

John Romeiser ______________________ ______________________

______________________ ______________________

PLEASE ATTACH A COPY OF THE SENIOR PROJECT TO THIS SHEET AND RETURN BOTH TO THE PROGRAM DIRECTOR. THIS PAGE SHOULD BE DATED AND COMPLETED ON THE DATE THAT YOUR DEFENSE IS HELD.

DATE COMPLETED ______________________

2000

Economic and Political Integration:
Europe and the Americas

Purpose of Paper

As states have coalesced into regional organizations, the contemporary global political economy has seen the emergence of three powerful blocs. First, centered on the wealthy states of North America, the American bloc spans North, Central, and South America. Second, the European bloc, centered on highly industrialized countries in Western Europe, the European bloc includes Eastern European states and some Eurasian states. Finally, an Asian bloc has emerged in the past half-century around rapidly industrialized Japan.

This paper will focus on the first two powers—the American bloc and the European bloc. In the past century, both regions have dramatically changed composition. On the economic level, Europe progressed from a fragmented mass of states to a cohesive group that acts as a whole. Along the path to economic integration, European states also progressed toward political integration.

The American bloc has not attained the level of integration that Europe has achieved; yet it has taken important steps in that direction. Intra-regional markets have opened up, liberalizing trade between the members. Politically, the region has founded the Organization of American States, a multilateral organization through which individual states can voice their concerns.

At first glance, several differences between the two blocs are apparent. Differences between these two blocs are best illustrated through the history of their integration. This paper will look at integration in the two blocs and attempt to discern exactly how integration differs between them. It will address motives and methods for integration and attempt to predict the next step in the integration process.

Background: Implications for Conflict and Cooperation

After the Second World War, the United States emerged as the pre-eminent global power. The United States had not suffered the casualties that plagued other participants in the conflict, and, with the exception of Pearl Harbor, its territory was relatively unscathed by the war. In fact, the war aided the United States by pulling it out of the vast depression that started in 1929. With almost fifty percent of world GNP, the US economy dwarfed the post-war economies of other states. In certain sectors, such as crude petroleum production, the US output exceeded the output of all other states combined. (See Figure 1, "Economic Role of the United States in 1950.")[1]

Figure 1 Economic Role of the United States in 1950

- Produced 17% of the world's wheat
- US exports accounted for 18% of world trade
- Produced 42% of the world's iron ore
- Produced 45% of the world's crude steel
- Held 49% of international financial reserves
- Produced 53% of the world's crude petroleum
- Almost 50% of world GNP produced within the United States

Source: Rosati, p. 52.

Continuing prosperity throughout the fifties caused many to speculate that the United States would remain an uncontested superpower throughout the twentieth century. The following decade demonstrated that not to be the case. Formerly war-ravaged states rebuilt their industrial and banking sectors with unbelievable rapidity. Germany and Japan, in particular, rehabilitated at an unprecedented rate. Analysts were keenly aware that US improvements were not keeping pace with the growth of foreign economies. Soviet technology and influence began

[1]Jerel A. Rosati, The Politics of United States Foreign Policy, (Fort Worth, TX: Harcourt Brace College Publishers, 1999), p. 52.

to threaten the United States, which saw itself as lagging dangerously behind. According to realists, who see state power as a zero-sum game,[2] the relative increase in European and Soviet power caused a relative decrease in US power. The result was the perception of parity between the United States and Soviet Union, with Europe not far behind.[3]

The situation resulting from the US-USSR conflict is a classic example of tight bipolarity. According to balance of power theory, some states seek to gain regional or global hegemony. Feeling their security threatened by the rise of a strong state, states that are smaller or weaker band together to counter the expanding power of the strong state. Their goal is to keep any one state from obtaining a monopoly of international power. In the example of the post-World War II era, the United States emerged as a hegemonic power. The Soviet Union soon rose to challenge US hegemony. Instead of the unipolar, US-dominated system, the international community became a bipolar system.

The United States mutually feared that the other state would come to dominate the international system. The Soviet Union declared spheres of influence in Eastern Europe and Asia. In response to possible Soviet pre-eminence, the United States banded together with other Western democracies, Japan, and South Korea. It declared its own spheres of influence in Central and South America. The result, as mentioned earlier, was a rigidly bipolar system: the US-led bloc opposed to the USSR-led bloc. The apparent standoff between these two superpowers led to a scramble for each to enforce its own ideology on other states.

---

[2] The zero-sum game is a notion that comes from Game Theory in International Relations. The central tenet is that there is a set amount of world power. The power of any one state is determined *relative to other states.* States divide this power as one would divide a cake—a larger slice for one state means a smaller slice for another state. The opposing idea is the "variable-sum" game, which holds that there is not a set amount of available power. According to this theory, it is possible for states to gain power at the same time. In other words, one state's gain in power does not necessarily mean another state's loss of power.

[3] Rosati, p. 53.

Both blocs were comprised of many weaker states in tight political alliance with the larger state. Two main goals convinced smaller states to ally with one superpower or the other. First, in some cases, the smaller states sought to balance against one of the superpowers. It could join with the state that espoused its ideals and slow the momentum of the one it opposed. Second, a small state could gain protection from the superpower to which it allied.

On the other hand, larger states sought to add smaller states to their bloc as a means for preserving their own security. By holding them in a tight political or economic alliance, they could assure themselves that the states would not side with the enemy. This practice, unlike the former case, did not always cater to the will of the smaller state. The Soviet Union, in the process of liberating Eastern Europe from Nazism, incorporated a number of smaller states. Similarly, the United States rejected socialist and communist movements in Latin America, effectively incorporating Latin America into its capitalist system.

In sum, the post-World War II era was ripe for economic and political integration. In fact, the Cold War created a system that encouraged capitalists and communists to disseminate their beliefs. Fearful that their states would actually cease to exist if they did not do otherwise, each camp sometimes turned to force in order to coerce states into political and economic integration.

Theoretical Basis for Economic Systems: Why Integrate?

The reasons less-developed countries (LDCs) typically engage in regional integration are clear. Ninety less developed countries have populations under fifteen million, and over sixty of those have populations under five million. When the citizens of these countries earn an income of only a few hundred dollars per capita each year, the market of the entire country is no bigger than the market of certain cities in developed countries. The resulting economic problem is that the state is limited in the number of industries that can attain economies of scale.[4] The term "economies of scale" indicates that output grows faster than input. If inputs increase by 25 percent, for example, outputs increase more than 25 percent. In order to attain economies of scale, cost per unit of production must decline as more units are produced.[5]

Given these conditions, it may be impossible for an industry in a small state to grow large enough for the unit cost of production to decrease. (For that matter, it may be impossible for the industry to grow large enough to make net profits.) Therefore, small states view economic integration as a way to attain economies of scale. They can increase the size of the market for their goods, specialize in the good that they produce most efficiently, and increase the amount of affordable goods available to them from their trading partners. According to economic theory, removing imposed barriers to trade allows all parties to grow economically.

Economic theory indicates that removing excess costs is the method by which all states can grow economically. The First Theorem of Welfare Economics asserts that removing all barriers to trade will result in the elimination of excesses from the system. For example, when free trade makes it possible for other suppliers to offer their goods on a certain market, price competition ensues. Firms can no longer make excess earnings, termed profits. Since consumers have an option, the theory states, consumers will shop for the lowest prices. In the presence of competitors, therefore, firms must cut prices as low as possible in order to attract consumers to their product. In the end, each firm will charge only enough to cover its costs. The firm that can produce a good at the lowest opportunity cost, therefore, will be the one to survive.

---

[4] Joseph S. Nye, Jr., Central American Regional Integration (New York: The Carnegie Endowment of International Peace, 1967), p. 6-8.
[5] Mordechai E. Kreinin, International Economics: A Policy Approach (Fort Worth, TX: Dryden Press, 1998), p. 64.

That means the most efficient firm will be the only one to stay in business, which is assumed to be advantageous in economic theory.[6]

According to the above reasoning, economic integration establishes an incentive for efficiency. In the same manner that companies seek to control their costs, economic integration demands that companies manage their resources efficiently. When firms that were once outside the trading area begin vying for the same resources, resources flow to the sector that produces the most output with them. In other words, the firm most capable of limiting the resources it requires will stay in business.[7]

Economic integration also makes it easier for a state to offer a product that it produces efficiently. If a certain state had no trading partners, which would be virtually impossible in the real world, it would have to be totally self-sufficient and produce every good itself. That state will naturally produce some goods at lower cost than others. For instance, if the state lacks capital, it will have difficulty producing capital-intensive goods. On the other hand, if the country has a large population but small land area, it may struggle to produce enough food for its citizens.

By making trade as free as possible across borders, the state casts off the responsibilities of a self-sufficient society. Not only can it attain products that it had no way of producing before, it can specialize in the goods it produces most efficiently. The Ricardian Comparative Advantage Theory of International Trade states exactly that principle. A state will choose to produce the one good for which it has a comparative advantage over other states. Even if Country A produces watches *and* cheese more cheaply than Country B can, it will choose to produce the good it produces most cheaply. If Country A, with its skilled labor force and better

---

[6] Eithne Murpy, "Market, State, and Community," Core Issues in European Economic Integration, Eamon O'Shea and Michael Keane, eds., (Dublin: Oak Tree Press, 1999), pp. 22-3.

assembly plants, can produce watches more cheaply than it can produce cheese, it will specialize in watch production and export watches to Country B. Country B, on the other hand, will produce only cheese and export it to Country A. Since each state produces only the good in which it has the comparative advantage, they both maximize their output. Both countries will produce more than they could under their former, non-integrated terms.

Large, developed states seek to integrate their economies for many of the same reasons; however, large corporations often provide the impetus for integration. Businesses view economic integration as beneficial for three major reasons: 1) convenience, 2) efficiency, and 3) growth. Economic integration is convenient because it allows companies to move products across borders without the hassle of inspections or taxes. Manufacturers have greater access to resources such as raw materials and labor. Just as they are encouraged to be efficient in their plant operations, integration encourages their suppliers to operate efficiently, meaning that they may be able to obtain inputs at a lower cost than before integration. Finally, just as in small states, corporations in large states enjoy the profits of selling to a larger market. Even if they have already reached economies of scale, companies can nevertheless earn a larger profit by increasing their consumer base. A number of economic systems represent the range of integration that member states can implement. This range, explained in Figure 2, is composed of the

- free trade area
- customs union
- common market
- economic union
- monetary union.

---

[7] Murphy, p. 23.

Figure 2 **Economic Integration**

A **free trade area** is a union in which member states do not levy tariffs between themselves, but each nation reserves the right to set its own tariff on goods entering from outside the free trade area. Generally, there are low economic demands on the parties involved, that is, member states do not undergo great economic changes in the process of opening their borders to free trade. In addition, free trade areas require a low level of political cooperation between the states. They retain their individual sovereignty to levy tariffs against outside goods, so negotiation for a common outside tariff is not necessary.[8]

In **customs unions**, not only do members eliminate tariffs between themselves, they levy a common tariff against goods entering from outside the union. This type of economic union requires that states negotiate a common external tariff, which requires more economic and political cooperation between the states. All barriers to trade are still not lifted, however. States retain the right to impose nontariff barriers (NTBs) such as health or safety standards on goods coming from outside or from other member states.

The **common market** requires more cooperation than does the customs union. For a common market, the member states must agree on common policies in areas that are not directly related to tariffs and trade. For example, they must declare similar policies on matters of "agriculture, transport, competition law, tax laws and regional policies."[9] Naturally, harmonizing these policies requires economic and political cooperation.

An **economic union** entails all the provisions of the customs union, as well as the free movement of labor, capital, goods, and services. Members must harmonize budgetary policies, monetary policies, and exchange rates.

A **monetary union** entails guaranteeing the exchange rates of the member currencies, removing all restrictions on capital flows, and integrating financial and banking markets. A central bank manages a single monetary policy for all the members, and the individual currencies of the countries may be replaced by a single currency.[10]

---

[8] David N. Balaam and Michael Veseth, Introduction to International Political Economy (Upper Saddle River, NJ, 1996), p 219.
[9] Immanuel Apel, European Monetary Integration: 1958-2002 (London: Routledge, 1998), p13.

They are listed in order of least to greatest economic unity, so each successive union demands increased economic cooperation. Because the members must negotiate additional trade policies and policies related to trade (transport, agricultural, etc.), each level demands increased political cooperation.

Evidence compiled from trade statistics generally proves the results of theoretical modeling. That is to say, corporations and consumers seem to gain from economic integration. They are able to find lower prices for goods, and industries are forced to run their businesses more efficiently. Corporations, especially large, profitable corporations enjoy the possibilities of expanding their markets and earning even more profits.

Why then, does every country not band together into a tight economic alliance? It is possible to treat the range as a set of steps toward tighter integration, so, why is it that a state does not realize that each step produces more and more benefits, and therefore continue to integrate more and more fully? If the presented reasoning suggests that the most benefit would accrue from engaging every state in a monetary union, what keeps national governments from pursuing whole-heartedly this ideal? In fact, there are two explanations for states' behavior: 1) they depend on economics as a tool to maintain domestic well being, and 2) forging a high-level economic alliance demands that they relinquish a portion of political sovereignty.

Monetary policy is one of the important tools a central government uses to control its well-being. For example, if unemployment rises in a state, the central government can pursue certain monetary policies to correct the problem. The government can raise the amount of money in circulation by printing more currency or by buying back government bonds. Either policy would increase consumer spending, increase suppliers' profits, and encourage businesses

[10] Ibid.

to employ. Conversely, the central government could implement contractionary monetary policy in order to correct the problem of inflation in the state.

Another example of monetary policy, more applicable to the integration question, is the ability of central governments to devalue their currency. If, for some reason, world demand for Italian goods falls, Italian workers would suffer unemployment. One logical step that the Italian state could follow would be to devalue the lira. By doing so, Italian goods would appear cheaper and therefore more appealing to international consumers. They would buy more Italian goods, which would mean employment for Italian workers. The lira could return to its normal exchange rate after the demand shortage and unemployment problem subsided.

The problem with monetary integration is that central governments lose the ability to perform either of these actions when they integrate with other states.[11] In a monetary union, a central bank determines how much currency the member states may print and controls exchange rates. Therefore, a state would suffer even harsher effects if the central bank demanded a policy that exacerbated the problem. By enforcing contractionary policy during a period of high unemployment, for instance, the central bank could cause inflation to increase. Problems such as these arise in situations where a single bank tries to coordinate policy for a number of states. Naturally, there will be times that some states experience inflation while others experience unemployment, so the central bank's policy will have a negative effect on one or the other.

Theoretical Basis for Political Integration: Why *not* integrate?

Losing certain economic powers can be damaging to a state, as demonstrated above. However, economic control has higher implications as well. Agreeing to a strong economic

[11] Alison M.S. Watson, Aspects of European Monetary Integration: The Politics of Convergence (New York: St. Martin's Press, 1997) p. 6.

alliance requires a high degree of *political* cooperation. In fact, an economic alliance may determine certain political choices that normally fall into the realm of politics. Therefore, a state's leaders may feel that a strong economic alliance infringes on that state's sovereignty.

It is undeniable that making treaties is an *exercise* of state sovereignty.[12] However, when states bind themselves to a certain agreement, they relinquish a portion of sovereignty as well. They are forced to bring domestic political issues into accord. One example of this fact is the case of Ireland's anti-abortion policy. As delegates to the Maastricht summit in the Netherlands finalized plans for the European Union, Irish courts were hearing the case of a fourteen-year-old rape victim who wanted an abortion. Unlike Ireland, most European states do not impose a ban on abortion. Irish pro-life lobbyists felt the threat of lost sovereignty in face of states that do not agree with its policy.[13]

Creating a monetary alliance seems to produce many benefits, but there are also serious disadvantages to the alliance. Furthermore, withdrawal from a monetary union is extremely difficult, especially when the economic union adopts a common currency. A state may find itself bound in a union that central planners mismanage. If the currency suffers devaluation or if the union suffers unemployment, a member state has no choice but to carry on with policies that may worsen its situation.

A situation in which a state is bound to a disagreeable policy indicates that the state has given up some of its sovereignty. Sovereignty, at its most basic level, is the state's authority to act in its own self-interest. For some political theorists, preservation of state sovereignty is the

---

[12] This idea comes from the 1912 Wimbledon case in International Law.

[13] Joe Joyce, "Abortion Case Raises Fears for Maastricht Ratification," The Guardian (London), 25 February 1992, p. 8. Online. LEXIS®-NEXIS® Academic Universe. 2 May 2000.

Figure 3 **What is Cooperation?**

Two Views on Cooperation Between States

In International Relations theory there are many schools of thought that shape the way policymakers view relationships between states. Two of the oldest are Realism and Idealism, which present somewhat opposing views on the prospects of cooperation between states.

At the heart of the argument for each is a fundamental difference in the way they view human nature. Realists believe that humans are "greedy, self-interested, fearful, [and] prestige-hungry."[14] They are unable to change these basic characteristics, and the only power that can control these destructive values is a central governing force or prudence.

Idealists, on the other hand, see human nature as an area in which progress towards goodness is possible. They hold that humans are "capable of either good or evil, greed or cooperation."[15] Education, institutions, and laws can harness the negative characteristics and make cooperation more likely.

Each system has its own beliefs about the status of the international system as well. Because realists are inclined to believe that people are self-interested and power-hungry, they posit that states, like humans, will always struggle to assert their dominance over one another. The international system has no hierarchical power over the states, meaning that there is nothing to force states to cooperate. In this anarchic system, states will pursue their own interests without regard for each other, making the international system a dangerous, chaotic place.

Idealists reject the notion that people cannot band together to create trans-national institutions. These organizations, they believe, are the key to restraining the negative aspects of human behavior. By creating laws and institutions for states to follow, cooperation is possible.

The fundamental values of idealists and realists have permeated International Relations theory. The result is several theories built on their basic tenets. Examples of these are Neo-Liberal Institutionalism, a variation of Idealism, and Moderate Realism.

---

[14] Frances V. Harbour, Thinking About International Ethics: Moral Theory and Cases from American Foreign Policy, (Boulder: Westview Press, 1999) p. 15.
[15] Ibid.

central goal of any state. According to these political theorists, policymakers have the responsibility of preserving state security, so they should not risk binding the state in a pact that could prove injurious.

The school of thought that most often posits this reasoning is the realist school. (See Figure 3, "What is Cooperation? Two Views on Cooperation Between States.") In the extreme form, they doubt the value of making alliances toward the end of increasing security. Realists are likely to point to the disagreeable, and even dangerous, effects of forging a tight union with another state.

European Economic Integration

The above section delineates cost-benefit analysis that a state considers before choosing to integrate with other states. The mentioned benefits, however, did not weigh as heavily in Europe's choice to integrate as one might think. They did not seek to integrate in order to profit from the typical benefits a state seeks from integration. Instead, the Soviet threat during the Cold War provided the impetus for the economic union between Western European states. Since the end of World War II, the Union of Soviet Socialist Republics had worked to establish Communist governments throughout the world. The effects of communism were particularly strong in Eastern Europe. Afraid that the Soviet Union would "Balkanize" Western Europe, the United States set up a plan to prevent Western Europe from falling to communism.

The US response to the imposition of communism in Europe was the 1948 European Recovery Program (ERP). Proposed by US Secretary of State George Marshall, the plan took on the common name "Marshall Plan." It reflected the attitude of European and American leaders: strong economic and political ties between European states would reduce Communist influence.

The plan called for distribution of economic aid to all European states (even the Soviet Union) that would collaborate on a program for recovery. Russia and its satellites quickly declined the invitation, indicating that the United States sought to recreate Europe as a model of itself. Sixteen Western European nations eagerly joined the Marshall Plan.

At first, Truman had difficulty raising support for the Secretary of State's plan, but the opposition would not hold out long. First, Marshall Plan opponents were embarrassed to have the American Communist Party among their ranks. Then, the sudden fall of Czechoslovakia to Communists convinced the majority to support the plan after all. In April 1948, Truman signed of four billion dollars. During the course of the next three years, the Marshall Plan would send over twelve billion dollars in aid to Europe.[16]

In addition to supplying relief aid for the victims of the war, ERP provisions furnished a safe method for reintegrating Western Germany into Europe. Many realized the importance of rearming Germany in order to stave off a potential Soviet invasion; however, German force had proven dangerous to Europe before. The Americans felt that a close political tie with the rest of Europe would deter Germany from threatening any of its neighbors. The safety stipulation was important, and rejuvenating the German economy was essential to European recovery. Despite Allied damage to the state, most of Europe's intact industrial facilities still lay in Germany.[17]

The United States' insistence on these policies resulted partly from goodwill and partly from following its own interests. US policymakers had recently witnessed the disaster of the Smoot-Hawley Tariff Act's brand of protectionism. They did not wish to see their European neighbors to suffer the same fate. US policymakers viewed multi-lateralism and trade liberalization as the most important principles for economies to follow. Also, European

---

[16] Richard N. Current et al., American History: A Survey (New York: Alfred A Knopf, Inc., 1987) p. 807.

integration would provide markets and investment opportunities for US companies. In the post-war period, the United States suffered a trade surplus and therefore sought a market with demand for its goods. For these reasons, the United States pressed Europe hard to establish economic integration, even making trade liberalization imperative through the ERP.[18]

US policymakers had become familiar with the innovative mass-production techniques of Henry Ford. For that reason, creating a customs union stood out to US policymakers as a method for rehabilitating European economy. By drawing on a larger market for goods, European firms could reap the financial benefits of economies of scale and mass-production. With increased freedom to move goods across borders, states could properly allocate resources to the most efficient sectors. Efficiency could in turn spur on technical advancement.[19] Technical advancement would then assure economic growth in Europe.

One stipulation of the Marshall Plan was that Europe had to devise a mechanism for allocating the aid it received. The Organization for European Economic Cooperation (OEEC), created in 1948, occupied itself with this challenge. One of that organization's early decisions involved coal and steel allocation. Necessary for the industrial recovery of both France and Germany, the iron ore, coke, and steel deposits of the Ruhr Valley lay entirely in neither country's territory. France exported the majority of its iron ore deposits, yet suffered from the lack of coal and steel. Conversely, Germany lacked iron ore but had abundant coal and steel resources. This situation exemplified the need for resource allocation that the ERP advocated, and resulted in one of Europe's first important economic alliances.[20]

---

[17] Bill Lucarelli, The Origins and Evolution of the Single Market in Europe (Aldershot, England: Ashgate Publishing, 1999), pp. 13-4, 21.
[18] Lucarelli, p. 21.
[19] Ibid.
[20] Ibid., p. 36.

In 1951, France and the Federal Republic of Germany (FRG—West Germany) formed the **European Coal and Steel Community (ECSC)**. Belgium, the Netherlands, and Luxembourg had recently taken Europe's first step toward economic integration and created a customs union in 1948.[21] France and Germany invited the new alliance, called Benelux, and Italy to join ECSC.[22] (See "Chronology of European Economic Organizations.")

The European Coal and Steel Community served as a common market between the six members. It saw an increase in output during the 1950s, the causes of which, admittedly, could not be entirely attributed to the common market. During that period, the general increase in world economic activity bolstered output as much as common market practices. The union suffered some problems as well. For instance, separating the coal and steel sectors from the rest of the economy was nearly impossible. Second, the union did not achieve political integration as its framers had hoped. Finally, the coal shortage of 1959 greatly weakened the Community and contributed greatly to its collapse.[23]

In reaction to the difficulty of separating out certain economic sectors for governance, the six ECSC states created the **European Economic Community**. The EEC began with the 1957 Treaties of Rome, which simultaneously established the **European Atomic Energy Community** (Euratom). The guiding principle for the European Economic Community was internal trade liberalization. Beginning in 1958, member states eliminated customs duties and quotas between themselves. Euratom united Europe in matters of technical and nuclear power cooperation. It sought to encourage research, distribute technical information, institute safety standards, develop

---

[21] The European Union Encyclopedia and Dictionary: 1999 3d ed., (London: Europa Publications Limited, 1999): p. xiii.
[22] Lucarelli, p. 36.
[23] The European Union Encyclopedia and Dictionary: 1999, 3d ed., s.v. "ECSC."

Chronology of European Economic Organizations

Jan 1948: Customs union between Belgium, Luxembourg, and the Netherlands.

April 18, 1951: Treaty of Paris establishes European Coal and Steel Community (ECSC). Member states: Belgium, France, Federal Republic of Germany (FRG—West Germany), Italy, the Netherlands, and Luxembourg.

March 25, 1957: Treaties of Rome establish the European Economic Community (EEC) and European Atomic Energy Community (EAEC or Euratom). Signed by France, FRG, Italy, Luxembourg, and the Netherlands.

Feb 1959: Benelux Economic Union: Belgium, Luxembourg, and the Netherlands.

May 3, 1960: Stockholm Convention, comprising Austria, Denmark, Norway, Portugal, Sweden, Switzerland, and the United Kingdom, create the European Free Trade Association (EFTA).

1964: Common agricultural market established.

April 8, 1965: The Merger Treaty integrated the executives of the ECSE, EEC, and Euratom, establishing a single Council of Ministers and a single Commission.

June 1, 1968: Customs union completed. All customs duties removed between Belgium, France, FRG, Italy, Luxembourg, and the Netherlands.

Oct 1970: Werner Report presented member governments with plan for full Economic and Monetary Union (EMU).

1971: World monetary crisis disrupts EMU.

Jan 22, 1972: United Kingdom, Ireland, and Denmark join the union.

April 1972: EC sets up Snake monetary system.

July 22, 1972: Austria, Portugal, Iceland, Sweden, and Switzerland sign Special Relations Agreements with EEC.

May 14, 1973: Norway signs a free trade agreement with the EEC.

Nov 20, 1979: Council of Ministers endorsed the Tokyo Round of negotiations for the General Agreement on Tariffs and Trade, which further reduced customs duties.

Jan 1, 1981: Greece became the tenth member of the EEC.

Jan 1, 1986: Spain and Portugal became full members of the EC.

Feb 17, 1986: Single European Act (SEA) signed by Belgium, France, FRG, Ireland, Luxembourg, the Netherlands, Portugal, Spain, and the United Kingdom.

Feb 28, 1986: SEA signed by Denmark, Greece, and Italy.

1986: Adopted European Flag.

July 1, 1987: SEA came into affect.

June 1989: Delors Plan presented to Heads of Government. Stage One of EMU set for 1 July 1990.

3 Oct 1990: German reunification.

5 Oct 1990: United Kingdom allowed sterling to become a full member of the ERM.

Dec 1990: Uruguay Round of GATT broke down due to disagreements over EC Common Agricultural Policy (CAP).

Dec 1991: Maastricht Summit, European Council meeting in Maastricht, the Netherlands; reached an agreement on the Treaty on European Union (TEU), which included substantial revision of the Rome Treaties.

1 Jan 1993: Internal market completed.

1 Nov 1993: TEU entered into force. EC Member States became known as the European Union (EU).

1 Jan 1994: Stage Two of EMU began.

1 Jan 1995: Austria, Finland, and Sweden became members of the EU.

25 March 1998: Conference in London on enlargement of the EU. Commission recommended that 11 Member States participate in the EMU from the beginning: Austria, Belgium, Finland, France, Germany, Ireland, Italy, Luxembourg, the Netherlands, Portugal, and Spain. Denmark, Sweden, and the United Kingdom declined participation, and Greece failed to meet the convergence criteria.

31 Dec 1998: Conversion rates between euro and 11 Member currencies irrevocably fixed.

1 Jan 1999: Third stage of EMU began. Euro came into existence, replacing the European Currency Unit (ECU).

Source: The European Union Encyclopedia and Directory 1999.

nuclear energy installations, monitor provisions of nuclear ores and fuels, supervise the use of radioactive materials, and advocate peaceful uses for nuclear energy.[24]

In 1967, three related alliances—the European Coal and Steel Community (what remained of it), the European Atomic Energy Community, and the European Economic Community—formally joined in order to form the **European Community (EC)**. Under this umbrella, the EEC attained its goal of creating a customs union with the establishment of a common external tariff in 1968.

The European Community defined the framework of what would later become the European Union. The Treaty of Rome laid out provisions for integrating the economies of the participants. It was highly successful in eliminating formal barriers to trade. Member states phased out all tariffs and quotas by July 1968, eighteen months ahead of schedule. The result was that labor, capital, goods, and services could flow more freely between the states. Because of the common external tariff set that same year, goods from non-member states faced the same tariff no matter through which state they entered.[25]

Unfortunately, the Treaty of Rome had some flaws that hindered the integration process. Namely, the Treaty did not specify steps for removing non-tariff barriers to trade. Not yet realizing this problem, the EC Heads of State or Government convened in The Hague in 1969. Their plan was to "deepen and widen the Community."[26] They sought to deepen the integration by eliminating non-tariff barriers and establishing a European Monetary Union by 1980. The Community would widen to include four more members: Denmark, the United Kingdom, Norway, and Ireland. (See Figure 4, "Expansion to the European Union.")

---

[24] The European Union Encyclopedia and Dictionary: 1999, 3d ed., s.v. "EURATOM."
[25] Andrew Scott, "Economic Integration in the European Union," The European Union Encyclopedia and Dictionary: 1999, p. 138
[26] Ibid., p. 138-9.

Progress in the 1970s frustrated the framers. Although three of the invited members joined the organization (Norway refused), the task of eliminating non-tariff barriers proved more difficult than expected. The economic climate in the 1970s contributed to the difficulty. Early in the decade, the Bretton Woods exchange system fell through, making Western European and United States currencies unstable.[27]

Figure 4 **Expansion to the European Union**

Year, State/Region	**Agreement Signed by State/Region**
1958	
Belgium, France, Germany, Italy, Luxembourg, the Netherlands	Membership
1961	
Greece	*Association Agreement*
1963	
Turkey	*Association Agreement*
ACP Countries	*Association Agreement (Yaoundé)*
1970	
Spain, Malta	*Free Trade Agreement*
1973	
Denmark, Ireland, UK	Membership
Austria, Finland, Iceland, Norway, Portugal, Sweden, Switzerland	*Free Trade Agreement*
Cyprus	*Association Agreement*
1975	
Israel	*Free Trade Agreement*
ACP Countries	*Free Trade Agreement (Lomé)*
1976	
Maghreb	*Cooperation Agreement*
1977	
Mashreq	*Cooperation Agreement*
1980	
Yugoslavia	*Cooperation Agreement*
1981	
Greece	Membership
1986	
Portugal, Spain	Membership
1992	
Czechoslovakia, Hungary, Poland	*European Agreement*
1993	
Austria, Finland, Iceland, Norway, Sweden, Switzerland	*EEA Agreement*
Bulgaria, Romania	*European Agreement*
1995	
Austria, Finland, Sweden	Membership

Source: André Sapir, "Regional Integration in Europe," The Economic Journal 102 (November 1992): 1492.

[27] Ibid., p. 139.

Delegates in Bretton Woods, New Hampshire had restructured the international currency system that had dominated before World War II. Before, major currencies had determined their worth in terms of gold. In 1944, representatives at Bretton Woods decided that international currency exchange would no longer depend on gold as the core unit of exchange. Instead of determining each currency value in terms of gold and then establishing an exchange rate between them, currency rates would be stated in terms of dollars. Pegged to the dollar, each currency maintained a fixed exchange rate within a band one percent above or below its fixed exchange rate with the dollar.[28]

Because all European Bank transactions took place in dollars, each central bank retained extensive dollar reserves. In the late 1960s and early 1970s, US external deficits resulted in even larger dollar reserves abroad. Naturally, European central banks began to doubt the ability of the United States to back up its currency.

The United States had its complaints regarding the Bretton Woods System as well. The United States needed to devalue the dollar in order to alleviate unemployment problems. However, because it was locked into a set exchange rate with European states there was no way to devalue the dollar effectively. By 1971, the United States central bank could no longer promise gold for its foreign reserves. The Smithsonian Agreement stated this official policy change: that the United States would no longer redeem dollars with gold. Although official policies changed the system into a more relaxed exchange system, the Bretton Woods System effectively broke apart with President Nixon's announcement of the Smithsonian Agreement.

---

[28] Kreinin, p. 300.

Exchange rates had fluctuated by one percent above or below the dollar in the Bretton Woods System. In order to devalue the dollar, Smithsonian delegates needed to implement a wider band of fluctuation. This system was not practical for European currencies, however. Under the new system, European currencies would be able to float 2.25 percent above or the dollar. This band implied an intra-European currency fluctuation of 4.5 percent.[29] Even more troubling than a 4.5 percent difference in exchange rates, "under a 'crawling peg' regime, the spread between two EEC currencies could reach as high as 9 [percent] in the long term if one currency appreciated by the permitted 4.5 [percent] while another currency depreciated by the same magnitude."[30] In light of these possible problems, European states sought to tighten an economic union between themselves. Central banks, following a proposal by Prime Minister Pierre Werner of Luxembourg, narrowed the band in which their currencies could float against each other. They determined to maintain intra-European exchange rates within a band of 2.25 percent and allow currencies to float against the dollar at a maximum difference of 4.5 percent.

When graphed, this exchange rate system consisted of European currencies floating inside a narrow band, which was inside a wider band. For that reason, the economic system set up by Europe after the Bretton Woods System was called "the snake in the tunnel," or just "the snake." That is, the "snake" was the European countries allowed to fluctuate by 2.25 percent, and the "tunnel" was the 4.5 percent band outside the narrower band. Given the fact that the snake system accounted for both European currency fluctuation and an exchange rate with the

[29] When the US government failed to back the dollar by gold, the dollar devalued and European currencies revalued (appreciated). The German mark revalued by 13.5 percent; the Dutch guilder and Belgium franc revalued by 11.6 percent; the French franc revalued by 8.6 percent, and the Italian lira by 7.5 percent in relation to the dollar. (Lucarelli, p. 84.)

[30] Lucarelli, pp. 84-5.

dollar, it was created to work alongside the Bretton Woods System. It would replace Bretton Woods, however, at its official collapse in 1973.[31]

The snake in the tunnel was Europe's first attempt at economic and monetary union. In fact, the Werner Report was the first time that the term "economic and monetary union," or **EMU**, was used. The system faced difficulties, especially the oil crisis of 1973-74. During this time, several currencies withdrew from the arrangement, notably, Britain and Ireland in 1972, Italy in 1973, France in 1974 and then in 1976, and Norway in 1978. The plan fell through entirely in 1979.[32]

Many states were hesitant to embark on another economically unifying venture in Europe. Dollar problems in 1978, however, again encouraged the Europeans to consolidate their alliance. They established the **European Monetary System** (**EMS**) in 1979, which was essentially a managed-float system. Its goal was to secure an area of monetary stability in Western Europe. The foundation of the European Monetary System was the **Exchange Rate Mechanism** (**ERM**), which connected European currencies and specified a maximum amount of fluctuation between the members. Each state had a central rate calculated on the basis of the central rate of the European Currency Unit (ECU), a fictional European Currency supposed to exemplify European currencies as a whole.[33]

The snake was a managed-float system: currencies would float against each other in a narrow band according to the market. Should a currency fall outside these limits, though, the central banks would intervene to push the currency back within bounds. If a currency had constant difficulty keeping its currency at the specified exchange rate, the central banks would recalculate the currency's value against the ECU.

---

[31] André Szász, The Road to European Monetary Union, (New York: St. Martin's Press, 1999), pp. 36-37.
[32] Apel, p. 42.

The European Monetary System did not start out as a replacement for the Economic and Monetary Union. It lacked the authority to enforce economic policy restraints on members, for example. Due to EMS success throughout the 1980s, members of the European Community regained the notion of turning the system into a full economic and monetary union.[34]

European Political Integration

The major implication of establishing an economic and monetary union is that member countries finally attained the level of political integration that framers of the European Community (or even earlier, the European Coal and Steel Community) envisioned. As discussed in the first few sections of this paper, economic sovereignty plays a large role in political sovereignty. By allowing the European Central Bank to determine monetary policies such as exchange rates and fiscal policies such as interest rates, the member states cede a great deal of political authority to the Union.

Part of the difficulty in converting to an economic and monetary union was that not all the members were members of the Exchange Rate Mechanism. Britain, for example, was not a member until 1990, and Greece was not until 1998.[35] Their absence made the calculation of a European Currency Unit an untrue representation of European currencies. The Delors Plan, which set a three-stage process toward creating an economic and monetary union, sought to correct problems such as this.

President of the European Commission from 1895-1995, Jacques Delors envisioned four goals for the European Community:

- increasing EC revenue

---

[33] The European Union Encyclopedia and Dictionary: 1999, 3d ed., s.v. "EMU."
[34] Ibid.
[35] Ibid.

- implementing firmer budgetary discipline
- reforming and maintaining stricter control over the Common Agricultural Policy (CAP)
- increasing funds for the Cohesion Fund (to reduce the socio-economic gap between richest and poorest states), the European Regional Development Fund (ERDF), the European Social Fund (ESF), and the European Agricultural Guidance and Guarantee Fund (EAGGF), called the "structural funds."[36]

The Delors Report sought and economic unification more than previous reports. The three-stage process began on July 1, 1990 with the abolition of any controls on capital movement across state borders. In the second stage, beginning January 1, 1994, the European Monetary Institute (EMI) was established in order to coordinate central banks. Originally set to end in 1996, the final stage of unification consisted of conforming to a number of convergence criteria. At the termination of this step, the members would implement the single currency.[37]

Convergence criteria serve to mollify any shock the members might suffer in converting to a single currency by bringing potential members into closer economic accord. Specifically, a state must meet four standards in order to join the union:

- It must control inflation such that it is not more than 1.5% higher than the member with the lowest inflation rate.
- It must reduce budget deficits to 3% or less of GDP and the public debt must not exceed 60% of GDP. Its exchange rate must remain within the 2.25% band for two years before becoming a member.
- Its interest rate must not differ by more than 2% from that of the state with the lowest interest rate.[38]

So far, eleven states have met the criteria and are currently converting to the single currency: Austria, Belgium, Finland, France, Germany, Ireland, Italy, Luxembourg, the Netherlands, Portugal, and Spain. (See Figure 5, "Maastricht Criteria and European Union map.)[39]

---

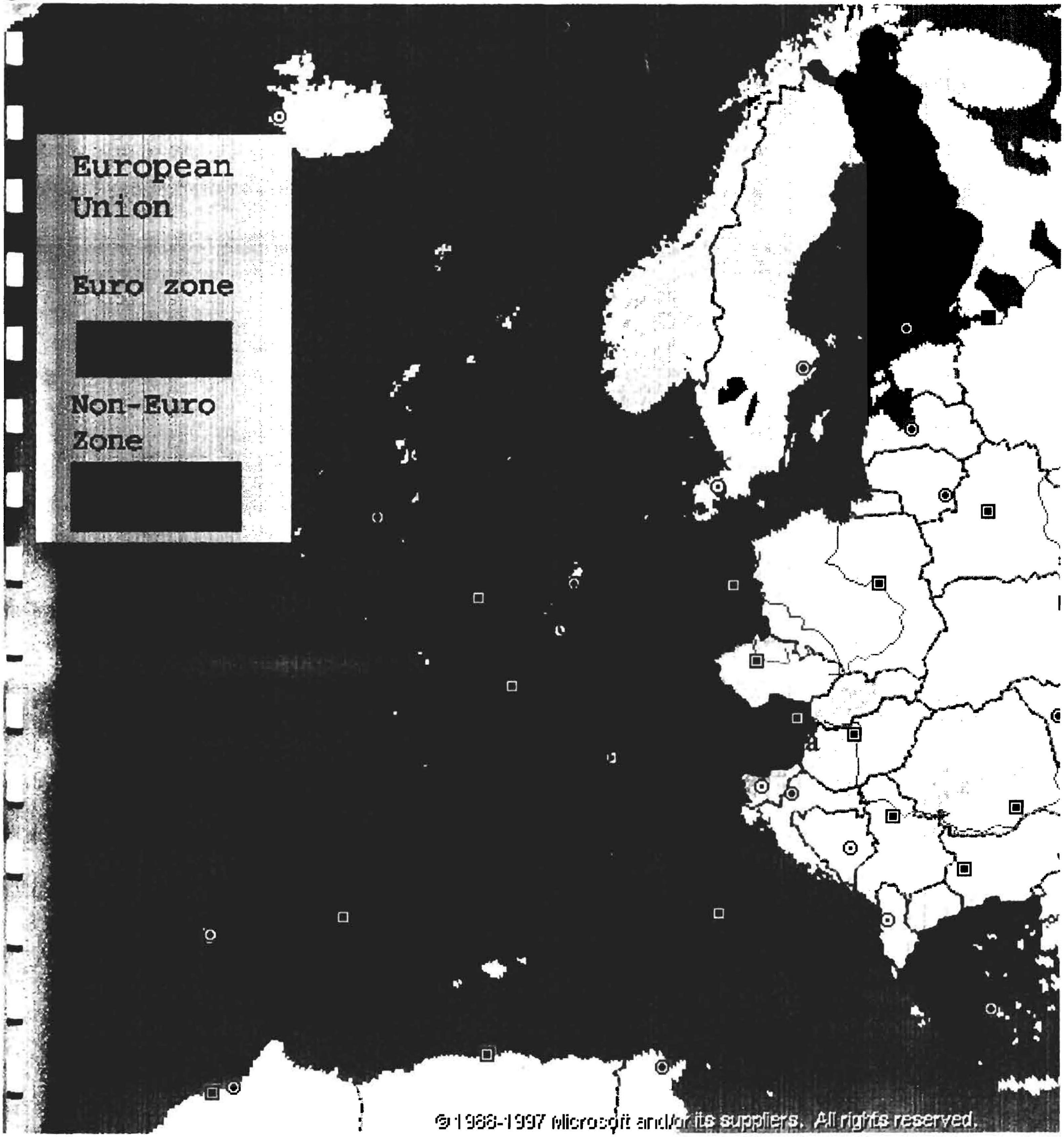
[36] Lucarelli, p. 146.
[37] Lucarelli, p. 146.
[38] Ibid., pp. 146-7.

Figure 5 **Maastricht Criteria**

Economic Indicators and the Maastricht Treaty Convergence Criteria 1995 - 1997

		Inflation[a]	Long-term interest rate[b]	General government lending (+) or borrowing (-)[c]	General government gross debt[c]
Belgium	1995	*** 1.4	*** 7.5	-3.9	131.2
	1996	1.8	6.5	-3.2	126.9
	1997	1.4	5.7	# -2.1	122.2
Denmark	1995	2.3	8.3	# -2.4	73.8
	1996	2.1	7.2	# -0.7	70.6 [d]
	1997	1.9	6.2	# 0.7	65.1 [d]
Germany	1995	1.5	6.9	-3.3	# 58.0
	1996	1.2	6.2	-3.4	60.4
	1997	1.4	5.6	# -2.7	61.3
Greece	1995	9.0	17.4	-9.8	111.8
	1996	7.9	14.4	-7.5	111.6
	1997	5.2	9.8	-4.0	108.7
Spain	1995	4.7	11.3	-6.4	65.3
	1996	3.6	8.7	-4.6	70.1
	1997	1.8	6.3	# -2.6	68.8
France	1995	1.7	7.5	-5.0	# 52.5
	1996	2.1	6.3	-4.1	# 55.7
	1997	** 1.2	5.5	# -3.0	# 58.0
Ireland	1995	2.4	8.3	# -2.1	82.2 [d]
	1996	2.2	7.3	# -0.4	72.7 [d]
	1997	*** 1.2	*** 6.2	# 0.9	66.3 [d]
Italy	1995	5.4	12.2	-8.0	124.4
	1996	4.0	9.4	-6.7	124.0
	1997	1.8	6.7	# -2.7	121.6
Luxembourg	1995	1.9	7.6	# 2.0	# 5.9 [d]
	1996	*** 1.2	*** 6.3	# 2.5	# 6.6 [d]
	1997	1.4	5.6	# 1.7	# 6.7 [d]
Netherlands	1995	1.1	** 6.9	-4.0	79.1
	1996	1.4	6.2	# -2.3	77.2
	1997	1.8	5.5	# -1.4	72.1 [d]
Austria	1995	2.0	7.1	-5.1	69.5
	1996	* 1.8	6.3	-4.0	69.5
	1997	* 1.1	* 5.6	# -2.5	66.1
Portugal	1995	3.8	11.5	-5.8	66.5
	1996	2.9	8.6	-3.2	65.0
	1997	1.8	6.2	# -2.5	62.0
Finland	1995	* 1.0	* 8.8	-5.0	# 58.1
	1996	** 1.1	** 7.1	-3.3	# 57.6
	1997	* 1.3	5.9	# -0.9	# 55.8 [d]
Sweden	1995	2.9	10.2	-7.1	78.2
	1996	* 0.8	* 8.0	-3.5	76.7
	1997	1.9	6.5	# -0.8	76.6
United Kingdom	1995	3.1	8.3	-5.5	# 53.8
	1996	2.5	7.9	-4.8	# 54.7
	1997	1.8	7.0	# -1.9	# 53.4
Reference value	1995	2.7	9.7	-3.0	60.0
	1996	2.5	9.2	-3.0	60.0
	1997	2.7	7.9	-3.0	60.0

Note: **Bold** indicates states adopting the single currency


European
Union
Euro zone
Non-Euro
Zone
© 1988-1997 Microsoft and/or its suppliers. All rights reserved.

Besides the political aspect of *economic* integration, the Delors Report called for strengthening of political ties by giving more power to the **European Parliament** (**EP**). Although the European Parliament had been in existence since the European Coal and Steel Community, it had acted more as an advisory body than a true decision-making body. Increasing EP power was one of the ways European policymakers expressed a clear desire for political integration during the two-month summit in Maastricht, the Netherlands. Although debates were often heated, the summit produced the February 1992 **Treaty on European Union** (**TEU**). The treaty strengthened the Parliament's powers of scrutiny and monitoring. It also bestowed the power to investigate complaints of misadministration against European institutions.[40]

In Treaty on European Union, often called the Maastricht Treaty, the European Council also formally established the **European Union**. The Union would not only the economic element of the European Community and the political element of the European Parliament, but two new "pillars," as they were called. The **Common Foreign Security Policy** (**CFSP**) and the **Justice and Home Affairs** (**JHA**) were the newest branches of the European Union, added by the Maastricht Treaty.[41]

According to the timeline set for monetary integration, by June 30, 1997, all member states passed legislation necessary to establish the euro as a currency. The Exchange Rate Mechanism indexed member countries' currencies according to the euro. During the spring of 1998, the heads of state in Europe determined whether they would participate in the single

---

[39] Source: European Monetary Institute, Progress towards Convergence - 1996, Table A, pg. IV and Annual Report; Eurostat; DGEP; DGAERI; and September 1997 Report of Excessive Deficits. Online. http://www.dgep.pt/ctconvergence01.html
Chart symbols: * ** ***= first, second, and third best performers in terms of price stability.
#= public debt not exceeding 3% of GDP, public debt not exceeding 60% of GDP.
a= for 1996 and 1997. b= In percentages, annual average; in 1997, 12-month average.
c= as percentage of GDP. d= Ireland was not the subject of an EU Council decision under Article 104c (6) of the Treaty on an excessive deficit exists. In 1996 this was also the case for Denmark.
[40] The European Union Encyclopedia and Dictionary: 1999, 3d ed., s.v. "European Parliament."

currency. Later that year, the Council of Ministers of the member states created the European Central Bank and appointed its executive board. Production of euro bank notes and coins began, and any remaining legislative problems were addressed.[42]

By January 1, 1999, currency exchange rates were set irrevocably in relation to the euro. The euro became the currency of foreign exchange operations. Currently, the banking and finance industries are in the process of changing to the euro, and are scheduled to finish by January 2002. Member states are working on moving the entire economy, including habituating their citizens, to the new currency. January 1, 2002 is the date earmarked for the first circulation of euro bank notes and coins. For six months, the euro will exist alongside national currencies. After July 1, however, the legal tender status of individual currencies will be cancelled.[43]

The European Union has moved a long way from the separate states that characterized Europe before and during World War II. The most visible trend in European integration is that economics provided the impetus for political integration. Early attempts at economic integration, such as the European Coal and Steel Community, failed due to the fact that there was not greater political cohesion between the members. Without the authority to harmonize policies indirectly related to trade (transportation and agriculture, for example), unions that were strictly economic in scope had difficulty surviving. It proved impossible to deal with economic sectors separately from political sectors.

While political integration was not quick to catch on, framers of each successive union set European political integration as their goal. As early as the European Coal and Steel Community, framers realized that an economic alliance would necessarily force states to

---

[41] The European Union Encyclopedia and Dictionary: 1999, 3d ed., s.v. "TEU."
[42] European Commission "Euro Website: One Money for Europe," http://europa.eu.int/euro/html/entry.html
[43] Ibid.

harmonize their policies.[44] France's prime minister counted on that fact when he stated that there was no way Germany and France could wage war against each other if engaged in an economic alliance over coal and steel.

American Political Integration

According to Peter H. Smith, the history of Latin American-US relations is composed of three major periods, the "Imperial Era, Stretching from the 1790s through the 1930s; the Cold War, lasting from the late 1940s through the late 1980s; and the current era, [which he has] called the Age of Uncertainty, starting in the 1990s."[45] While this essay will focus mainly on the latter two periods, Smith's first period lays the foundation for looking at the United States when writing about Latin America. With such a long history of political relations, whether exemplified by mutual agreements between the United States and Latin American States or by instances in which the United States exercises control, discourse on Latin America would be incomplete if it did not address the US role in Latin American affairs.

There are two main ways to interpret the US role in regional affairs: 1) a power-hungry oppressor that *forces* pan-American integration or 2) a mere participant in pan-American integration. The first interpretation holds that the United States acts as a self-interested global power, reigning over its weaker neighbors and subjecting them to its political whims. According to this theory, the United States forces integration onto the Latin American states, or at least forced them into a collectivity and set itself as the head of the group. The other interpretation

---

[44] The word "harmonize" has a specific meaning in International Relations discourse. What it does *not* indicate is peaceful coexistence between the policies of two entities. Rather, harmonizing indicates the process by which states (or other actors) work to bring conflicting policies into accord with one another. While this difference may seem subtle, it underlines the fact that "harmonizing" is not an easy task to undertake. In the case of Europe, it required adapting staunchly opposing policies to a central norm. (April Morgan, Introduction to International Relations lecture, Fall 1999, University of Tennessee.)

views integration as a desire of Latin American states. The second theory posits that Latin American States envisioned a united Western Hemisphere, although they sometimes hesitated to invite the United States. Their hesitancy emerged from the fear that the United States would try to establish itself as a domineering power in the organization.

In support of the first argument, the United States began its quest to secure a sphere of influence in Latin America as early as the Imperial Era. Smith interprets this phenomenon as an example of balance-of-power politics. He holds that the United States acquired such a region of special interest in order to counter the spheres of influence that every other major power, especially European states, had at the time.[46] While the United States did not need Latin American resources or labor, it understood the military importance of controlling its neighbors to the South. The United States did not fear invasion by Latin America specifically, but rather worried that a rival European power would claim these areas. By formalizing its presence in Latin America, the United States could control European presence there.

One point in support of this explanation is that Cuba has long been a coveted military base. The early United States did not worry that Spain, a weak European power at the time, would challenge the United States.[47] Rather, the United States feared that a stronger European state, such as England or France, would take Cuba from Spain. Beginning with this nineteenth-century fear and extending to fear of the Soviet Union half a century ago, the United States has always struggled to control the island so as not to have a strong military enemy only ninety miles off its coast.

---

[45] Peter H. Smith, Talons of the Eagle: Dynamics of U.S.-Latin American Relations (New York: Oxford UP: 1996), p. 321.
[46] Ibid., p. 325.
[47] Ibid., p. 19.

If one follows this interpretation of inter-American relations, Latin America had only a few possible responses to rising US power. The first, in line with Simon Bolivar's pan-Americanism, was to hope for a unified continent in which the United States would not dominate the other states. Those who suspected their northern neighbor of imperialistic aims considered forging an alliance with a power outside the hemisphere. Certain states, in particular Argentina and Brazil, entertained the notion of becoming the regional hegemon. Latin American states were culturally inclined to resist US pressure, but, in essence, they were too weak politically to stop the giant. Latin America had little true choice but to endure US presence in its affairs.[48]

According to this theory, the groundwork of integration in the Americas lay in US attempts to stave off other world powers. Those who directed the first steps of American integration did not concern themselves with the political aspirations of Latin American states. Their objective was more along the lines of securing Latin America for the United States in order to keep Europe from doing so. By closing the door to European intervention, US policymakers took an important step to protect US sovereignty.[49]

On the other hand, the second interpretation of inter-American relations offers a different perspective. Both the United States *and* Latin American states sought to expel European power from the Western Hemisphere. Edmund Gaspar notes that important figures along the timeline of US history recognized the "common destiny"[50] of the North and Latin America. Earliest, George Washington mentioned common destiny in his final address, Thomas Jefferson and John

[48] Ibid., p. 322.
[49] Ibid., p. 51.
[50] Edmund Gaspar, United States-Latin America: A Special Relationship? (Washington, DC: American Enterprise Institute for Public Policy Studies: 1978), p. 22.

Quincy Adams expanded the concept into a notion of hemispheric isolationism, and James Monroe included elements of common destiny in his 1823 address to Congress.[51]

The second interpretation of early inter-American relations points out, correctly, that the United States saw Latin America as a group of nations emerging from the same plight it had recently escaped. Recently out of European control themselves, US policymakers felt that Europe had no place in the Western Hemisphere, including Latin America. Latin American scholars looked to literature on US independence as a source of inspiration. They hoped the spirit of independence would stimulate their own nationals to revolt against European authorities.

The truth about the beginnings of American integration probably lies between the two interpretations. The United States clearly rejected European influence in the West and advocated expelling strong European forces from the Hemisphere. On the other hand, the United States probably acted more in its own self-interest than in the interest of Latin American states.

Any denial that the United States did not serve its own interests over those of Latin America are idealistic when one considers the number of times the United States intervened in Latin America in order to affect a certain outcome. From just before the turn of the nineteenth century to 1934, the United States initiated over thirty military operations in Latin America. (See Figure 6, "US Military Interventions in the Caribbean Basin, 1898-1934.) Secretary of State Richard Olney declared in 1895 that "the United States is practically sovereign on this continent, and its fiat is law upon the subjects to which it confines its interposition."[52] Military interventions ranged from short missions like the one in Mexico to operations of eight years in the Dominican Republic (1916 to 1924), nineteen years in Haiti (1915 to 1934), and twenty-five years in Nicaragua (1909 to 1934).

---

[51] Ibid.
[52] Rosati, p. 25.

In response to US military involvement in Latin America, Gaspar states, "the assumption underlying the original theory of hemispheric unity was that the newly independent American states were bound together by a common belief in the republican-democratic ideal." Most Latin American countries unfortunately did not succeed in implementing that ideal. Aware that

Figure 6 U.S. Military Interventions in the Caribbean Basin, 1898-1934

Costa Rica	1921
Cuba	1898-1902, 1906-1909, 1912, 1917-1922
Dominican Republic	1903, 1904, 1914, 1916-1924
Guatemala	1920
Haiti	1915-1934
Honduras	1903, 1907, 1911, 1912, 1919, 1924, 1925
Mexico	1913, 1914, 1916-1917, 1918-1919
Nicaragua	1898, 1899, 1909-1910, 1912-1925, 1926-1933
Panama	1903-1914, 1921, 1925

Source: Smith, Talons of the Eagle: Dynamics of U.S.-Latin American Relations, p. 53.

corrupt autocrats had no intention of honoring their democratic claims, the United States sought to intervene on behalf of Latin Americans who continued to champion democracy. Despite US efforts, intervention failed to institute stable economies or stable democracies in Latin America. On the other hand, intervention incited distrust of the United States and dislike of its imposing power.[53]

Gaspar's opinion that the United States' true intention was to bolster stable democracies in Latin America is problematic. Several elements voice the former argument. Policies of three US Presidents offer support for the view of the United States as a hegemony-seeking power:

- The Monroe Doctrine, 1823
- Theodore Roosevelt's Big Stick Policy, 1901

[53] Gaspar, p. 23.

- William Taft's Dollar Diplomacy, and, later, 1909-1913

In his December 2, 1823 address to Congress, James Monroe laid the foundation for US policy toward Latin America. Those who choose to see the United States as a benevolent big brother to Latin America point to the wording of the document: "We could not view any interposition for the purpose of oppressing [the newly independent nations], or controlling in any other manner their destiny, by any European power in any other light than as the manifestation of an unfriendly disposition toward the United States." It was the first formal statement designating Latin America as an area off limits for Europeans. The purpose of keeping European colonization out, however, was not for the benefit of Latin American populations, but for the benefit of expansionist-minded policymakers in the United States. By determining that no outside power had authority to intervene in Latin America, Monroe essentially verbalized the opinion that the United States had the authority to dictate affairs of Latin America.

Teddy Roosevelt fashioned the Roosevelt Corollary around Monroe Doctrine principles. On September 2, 1901, he quoted one of his favorite African proverbs, which came to be known as his foreign policy philosophy: "Speak softly and carry a big stick." In this mindset, Roosevelt clearly reiterated that the United States would not support European intervention in Latin American Affairs.[54]

Once again, the US president's policy seemed to champion democracy in Latin America. The "Big Stick" policy, however, was not a selfless attempt to protect Latin America. Roosevelt had no reservations about supporting the Latin American regime that most benefited the United States. When American leaders strongly desired a canal to connect the Atlantic to the Pacific, Roosevelt engineered a way to produce that result. He did not hesitate to urge and support Panamanian insurrection against Colombia. As soon as the quest for independence began, he quickly recognized Panama as an independent country and acquired the Panama Canal site in 1903.[55]

William Howard Taft's policies differed from Roosevelt's strategy of beginning an insurgency. He sought to spread US influence through trade and investment, hence the term "Dollar Diplomacy." Where this doctrine came at odds with Latin American sovereignty was in his use of military force on their territory. When conflict erupted between Nicaragua and Honduras, he quickly dispatched troops to protect US nationals and property. Realistically, Taft's action was to protect US business and investment interests.[56]

Under the administration of Herbert Hoover and Franklin Roosevelt, the United States supposedly abandoned such policies of military intervention in the 1920s and 1930s. The most dramatic rejection of former practices was Roosevelt's "Good Neighbor" policy. Instead of claiming Latin America as a sphere of influence, he opened the Monroe Doctrine up to include Latin America in a security plan. The two would take joint action against aggressors.[57] While there were markedly less military interventions into Latin America, the United States did undertake at least five missions while the Good Neighbor policy was in effect.

Pursuing US interests in Latin America would remain an act of militant control in the next era. The United States had infringed on Latin America's sovereignty during the Imperial Era by leaving it few options of escape from US hegemony. That level of infringement even multiplied during the Cold War Era, when the United States became even more adamant about the Latin American policies it would allow. Following World War II, mutual fears between the

---

[54] http://www.pbs.org/wgbh/amex/presidents/nf/record/tr/trooseveltfp.html
[55] Rosati, p. 25.
[56] http://www.pbs.org/wgbh/amex/presidents/nf/record/taft/taftfp.html
[57] Rosati, p. 25.

United States and Soviet Union translated into a tight grasp on their respective spheres of influence.

First and foremost, Washington demanded loyalty to the principle of democracy. The United States scrutinized Latin America for Soviet supporters, just as it did within its borders during the McCarthy Red Scare. Subverting everything, even the sovereignty of other states, to its national interest, the United States was crafty in efficiently putting down any organization it deemed dangerous. (Figure 7 provides a list of US military missions in Latin America from the Cold War to the 1990s.) Washington decreed covert operations to undermine non-democratic regimes and to bolster friendly governments. Anti-communism was at the foundation of every policy decision towards Latin America at the time.[58]

Figure 7 **US Military Intervention in Latin America Since World War II**

1954, Guatemala: The CIA organizes the overthrow of the government.
1961, Cuba: Attempts to overthrow Fidel Castro at the Bay of Pigs.
1965, Dominican Republic: Johnson sends 22,000 troops to combat the forces trying to regain power.
1973, Chile: The CIA helps overthrow the government of Allende in Chile.
1981, Nicaragua: The Reagan Administration begins the Contra War.
1983, Grenada: US invasion of Grenada.
1989, Panama: US invasion to arrest accused drug dealer Manual Noriega.
1990, Nicaragua: US intervention in the Nicaraguan election.
1994, Haiti: US military action against the military and police junta of Cédras and François.

Source: Latin American Solidarity Homepage.[59]

Economics in the Americas

[58] Smith, p. 323.

With the fall of communism and breakup of the Soviet Union in 1991, the United States no longer needed to hold Latin America in a political grip. This situation allowed room for another type of interaction with Latin America: an economic as opposed to political interaction. In the post-World War II era, the United States retained its previous status as the economic giant of the Western Hemisphere. Whereas the US had faced economic challenge from outside the hemisphere—from the USSR's challenge to capitalism and from Europe's rapid economic advances (largely resulting from the European Recovery Program)—no Latin American state grew to challenge the United States economically.

Despite the fact that the United States strongly advocated and even demanded that Western Europe engage in trade liberalization and economic integration, the United States was slow to implement these policies in the Americas. It did not seek to integrate with Latin American states, basing its economy more on trade with Western Europe. The reason for such a decision was probably based on the fact that US policymakers felt that Western Europe had higher potential: Europe was heavily industrialized, had long-standing democratic governments, and had been the world's economic center for centuries. Latin American states, on the other hand, had few industrialized cities, had difficulty sustaining stable democracies, and had never enjoyed the prosperous status of Europe. While recent events, namely the war's destruction of European industry and Europe's bout with fascism would seem to offset this balance, it seemed clear to policymakers that Europe would quickly recover, but Latin America would continue to struggle.

Because the United States did not engage in trade agreements with Latin America, in the 1950s, Latin American states initiated a number of free trade alliances and common markets

---

[59] Latin American Solidarity Homepage, http://www.ukans.edu/cwis/organizations/las/las.html, presents an anti-US bias. The dates of events, however, seem to be accurate.

between themselves. The states looked to the integration occurring in Europe as an example. The Economic Commission for Latin America and the Caribbean (ECLAC) encouraged the practice of import substitution[60]. The states set up preferential trade agreements as a way to escape the small-market problem discussed earlier. Through these practices, states and industries could attain economies of scale and citizens could benefit from efficiency in the market.[61]

Four main trade agreements emerged in Latin America during the 1960s and 1970s:

- **Latin American Free Trade Association** (**LAFTA**), 1960 (replaced by the **Latin American Integration Association** (**LAIA**) in 1980:
- Argentina, Bolivia, Brazil, Chile, Colombia, Ecuador, Mexico, Paraguay, Peru, Uruguay, and Venezuela **Central American Common Market** (**CACM**), 1960:
- Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua. **Caribbean Free Trade Association**, 1965 (replaced by the **Caribbean Community**, or "**Caricom**" in 1973):
  Antigua and Barbuda, The Bahamas, Barbados, Belize, Dominica, Grenada, Guyana, Jamaica, Montserrat, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines, and Trinidad and Tobago.
- **Andean Pact** (**AP**), 1969:
  Bolivia, Chile, Colombia, Ecuador, Peru, and (later) Venezuela[62]

Each of these agreements followed the same pattern of integration, but some with more intensity than others. The first, and easiest stage consisted of import substitution. During that stage, trade expanded rapidly within the region. However, after that step, the process of integration slowed rapidly as the debt crisis of the 1970s put pressure on the members. By the early 1980s, advancement in each alliance drew to a standstill. Not one of the four alliances had expanded enough to be the dominant market: "intra-regional market shares peaked at 26 percent (1970) in CACM, 14 percent (1975-1980) in LAFTA/LAIA and 4.8 percent (1988) in the AP."[63] Saborio explains the fate of these trade agreements:

---

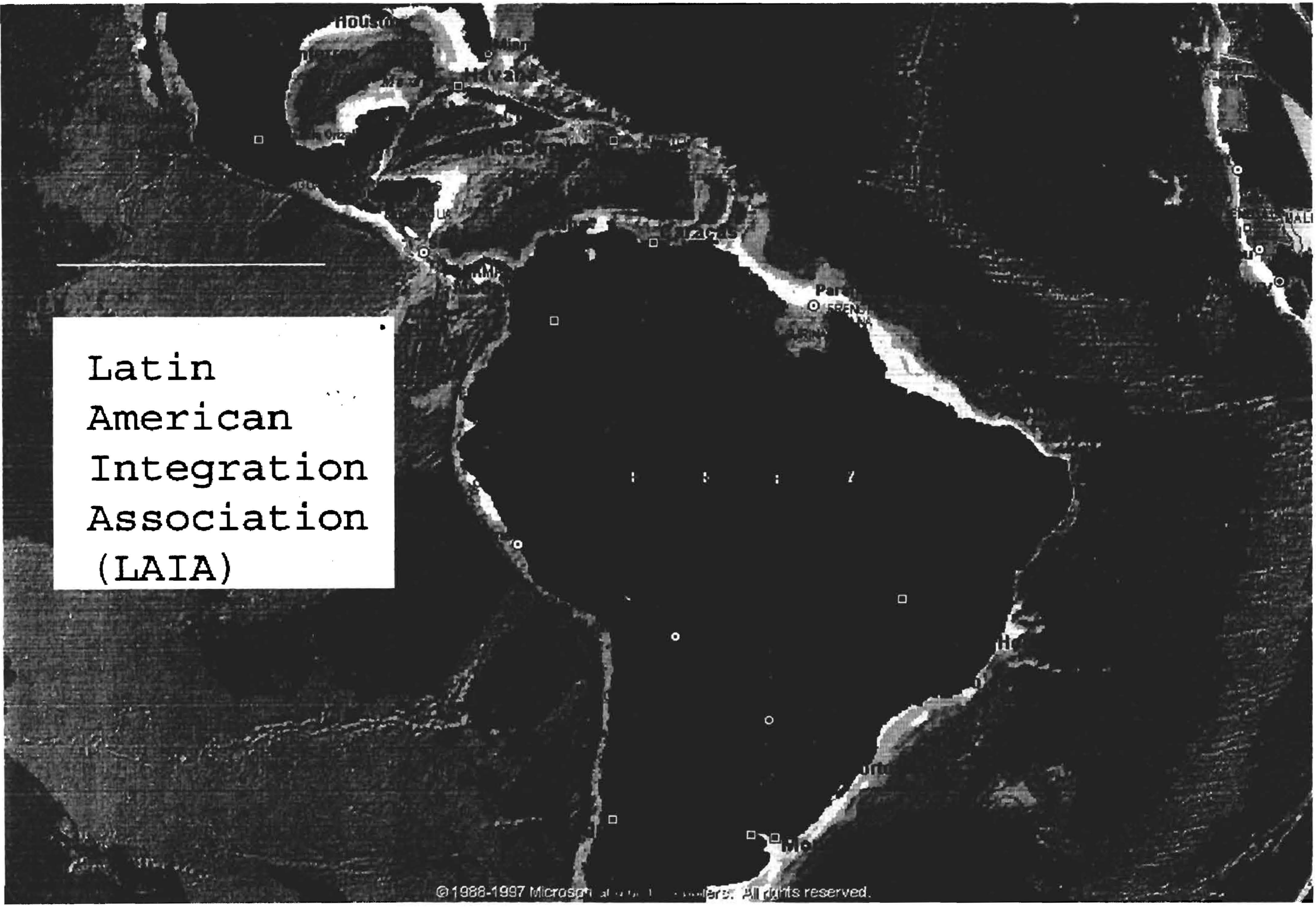
[60] Import substitution is the practice of imposing high tariffs on imports. This practice allows for domestic companies to produce the goods that were once imported. That is to say, they substitute foreign-produced goods for domestically produced goods. (Kreinin, p 207.)

[61] Sylvia Saborio, "The Long and Winding Road from Anchorage to Patagonia," The Premise and the Promise: Free Trade in the Americas, ed. Sylvia Saborio, (New Brunswick: Transaction Publishers, 1992), p. 15.

[62] Ibid., p. 15-6.

[63] Ibid., 16.

Latin American Integration Association (LAIA)




Andean
Pact
Mercosur
VENEZUELA
Bogotá
ECUADOR
BOLIVIA
Sucre
©1988-1997 Microsoft ... All rights reserved.

> The agreements ultimately failed because import-substitution activities did not develop the efficiency necessary to propel the process forward. The pattern of industrial protection induced activities that were typically capital- and import-intensive, generating neither the domestic value added nor the foreign exchange necessary to become self-sustaining. Efforts to rationalize the process usually failed because the removal of trade barriers—both intra-regional and external—was typically a highly selective, discretionary affair that invariably fell prey to the vested interests of import competing groups. Over time, macroeconomic policy became increasingly hemmed in by inconsistencies in the model—in particular the chronic fiscal and external deficits—until it too imploded, along with the debt crisis in the early 1980s. On top of these intrinsic inconsistencies is the basic model, the regional agreements also lacked adequate institutional mechanisms for settling disputes and remedying enforcement lapses.[64]

While the arrangements did not dominate Latin American markets, they did foster industrial growth and aid in diversifying exports produced.[65]

In the 1980s, economic integration again gained popularity in the Americas. Several principles changed the nature of the alliances. First, the guiding philosophy for the refigured alliances centered on foreign investment. Latin American states decided that foreign investors would add much-needed capital and technology to the region, as well as provide outlets for products manufactured there. Second, the market, as opposed to policy interventions, would determine resource allocation. Finally, instead of implementing policy in a piecemeal fashion with individual members, the alliances preferred "across-the-board, automatic measures" that would apply to all members of the pact.[66]

The Andean Pact, the first coalition to implement the new trade philosophy, underwent revision in 1989. Members decided to convert their alliance into a free trade area by 1995 and further integration into a common market by 1997. Given early success, member states agreed to move deadlines to 1992 and 1993. Similarly, members of the Central American Common Market opened their borders to free movements of goods produced within the region. By the end

---

[64] Ibid.
[65] Ibid.
[66] Ibid., 17.

of 1992, even agricultural products, often one of the most difficult products to pass legislation, were allowed to cross borders. By 1994 the states had adopted a common external tariff. The Caribbean Community (Caricom) expedited its trade liberalization practices in 1990. In general, the states have been successful in their integration efforts.[67]

Mercosur, the "Southern Cone Common Market," began in 1991. The framers of the Treaty of Asunción, Mercosur's founding document, agreed to eliminate nearly all tariff and nontariff barriers. Their goal was to implement a common market by 1995.

Latin America was not the only region in the Western Hemisphere to embark on trade liberalization initiatives during this time. Beginning in the 1980s, the United States increasingly pursued a policy of trade liberalization. Its first alliance with an American state was the 1984 Canada-US Free Trade Agreement (CAFTA). Mexico joined the agreement in 1994, changing the group to the trilateral North American Free Trade Agreement (NAFTA).

Many find the US change of policy to economic integration unclear. One hypothesis holds that US policymakers, frustrated by the slow advancement of GATT policies, sought to increase markets for US goods by raising the level of trade and investment in their two closest neighbors. Canada already held the position of the United States' largest trading partner and Mexico was third.[68]

The fact that the United States already engaged in high levels of trade with Canada and Mexico also provided for an alternative hypothesis. The second theory holds that the United States' unhurried advance toward trade liberalization resulted from the fact that the United States understood how little opening trade with Canada and Mexico would affect its economy. Barriers to trade with Canada were already low, so complete liberalization would not encourage massive

---

[67] Ibid.

trade flows that did not already exist. In fact, data show that trade between Canada and the United States actually decreased in the first few years after establishing CAFTA.[69]

Similarities between the economies of the United States and Canada were likely to reduce even more the possible impact of trade liberalization between the two states. As Brown, Deardoff, and Stern explain, "studies suggesting that Canada's economic welfare might rise by 9% or more seem to have been unduly optimistic." It seemed more likely that relaxing trade restrictions would do nothing to affect the standard of living in either state. Macroeconomic fluctuations proved to have a greater effect on the Canadian economy than reduced trade restrictions.[70]

Trade with Mexico was a very different case, however. While tariffs on Mexican goods were low, as with Canada, more non-tariff barriers hindered trade. Mexican goods faced tough standards and agriculture faced heavy restrictions at the US border. Relaxation of these policies could permit a large increase in trade between the two states. According to a study cited by Brown, Deardoff, and Stern, relaxation of non-tariff barriers against "textiles and steel alone would raise Mexico's exports of steel to the United States by 3,416.7% and Mexican welfare by 2.8%."[71]

Additionally, the difference between the economies of Mexico and the United States is much greater than that between the United States and Canada, as shown by Figure 8. Many economists on each side of the border hypothesize that adding Mexico into an alliance with its neighbors to the North would serve to raise its standard of living. This reasoning seems

---

[68] Drusilla K. Brown, Alan V. Deardorff, and Robert M. Stern, "North American Integration," The Economic Journal 102 (November 1992): 1507.
[69] Ibid.
[70] Ibid.
[71] Ibid., p. 1509.

Figure 8

Western Hemisphere: Basic Economic Indicators, 1990

Area/ Country	Population (millions)	GDP ($ billions)	GDP per Capita ($)	Investment Per Cap ($)	Trade per GDP (%)	Inflation (%)
NORTH AMERICA	276.4	5,999.00	21,706	3,595	23.8	
United States	250	5,423.40	29,696	3,486	21.1	4.9
Canada	26.4	575.6	29,803	4,628	50	5.7
LATIN AMERICA	431.9	840.5	1,946	378	30.7	1,186.30
LAIA	384	788.7	2,054	404	28.9	
Mexico	88.6	175.5	1,980	463	38.9	29.9
Chile	13.2	32.3	2,451	550	57.8	27.3
Andean Pact	92.2	154.5	1,677	297	33.3	
Bolivia	7.3	6.4	870	79	28.4	18
Colombia	33	46.7	1,416	285	30.5	32
Ecuador	10.6	13.2	1,249	284	37.8	49.5
Peru	21.6	28.3	1,312	312	28.1	7,657.80
Venezuela	19.7	60	3,038	389	37.5	36.5
Mercosur	190.1	426.4	2,244	418	20.9	
Argentina	32.3	84.8	2,623	226	23.1	1,343.90
Brazil	150.4	326.2	2,169	465	19	1,585.20
Paraguay	4.3	6.4	1,493	366	55	44.1
Uruguay	3.1	9	2,921	235	46.8	129
CENTRAL AMERICA	26.5	25.5	962	153	51.8	
Costa Rica	3	5.1	1,677	402	80.5	27.5
El Salvador	5.3	5.7	1,091	121	45.1	19.3
Guatemala	9.2	8.2	892	114	40.2	59.6
Honduras	5.1	4.5	880	114	47.7	36.4
Nicaragua	3.9	2	505	149	54.8	13,490.90
OTHER	21.2	23.8	1,120	189	73.1	
Barbados	0.3	1.5	5,835	1,141	94.2	3.4
Dominican Republic	7.2	5.1	716	157	81.4	100.7
Guayana	0.8	0.4	554	142	146.9	n.a.
Haiti	6.5	2.1	324	35	37.5	26.1
Jamaica	2.5	3.5	1,401	412	108.6	29.7
Panama	2.4	4.7	1,941	55	62.2	1.5
Suriname	0.4	1.3	3,320	518	51.1	n.a.
Trinidad and Tobago	1.2	5.1	4,195	727	58.2	9.5

especially valid when one considers the current labor situation in the two states. In 1991, twenty percent of Mexican workers were employed in the United States. Mexico's labor force was growing at a rate of five percent per year, while the United States' labor force was growing very slowly. Allowing the Mexican labor force to move north with less restriction would increase cash flows back to Mexico, raising the Mexican standard of living.

In sum, liberalizing with Mexico will cause a greater impact than liberalizing trade with Canada for two reasons: 1) US-Mexican trade has more room for liberalizing and 2) US and Mexican standards of living have more room to center around an equilibrium. Both members will not feel the impact to the same degree, though. Several features signify that the economic impact will be much greater for Mexico than for the United States. Most important is the fact that trade is not equally important between the two members. Even though Mexico holds the position of third largest trading partner with the United States, trade with Mexico comprises a small portion of the United States' GNP. For that matter, the entire gross domestic product of Mexico is only 3.2 percent of US GDP. On the other hand, exports to the United States comprise a significant portion of Mexican GNP, so trade liberalization would greatly affect the Mexican economy.

Mexican economists see a trade agreement with the United States as a step in the direction of economic improvement. Because of this sentiment, Mexico was responsible for initiating most trade negotiations with the United States. The United States did find several aspects of trade liberalization with Mexico appealing. US policymakers were attracted to cheap resources. Businesses found cheap raw materials and a cheap, rapidly growing labor supply two appealing benefits from lowered trade boundaries. Finally, US politicians desired to "strengthen democratic institutions along [the] borders, control illegal immigration, and facilitate drug interdiction."[72]

Whatever its true reasons for going along with the plan for integrating North America into a free trade agreement, the United States has not been without opposition from within. Labor unions fear the loss of American jobs to low-wage Mexican workers. Politicians such as Ross Perot and Pat Buchanan popularized this notion just before the inception of NAFTA. They warned of a "giant sucking sound" of American jobs flowing south to Mexico.

During the process of trade liberalization with Mexico, the notion of opening US borders to free trade with all of Latin America or South America has been unheard of. Opposition has been strong against adding Mexico, which ranks among the better performing states in GDP per capita and investment per capita. (Its GDP per capita ranks ninth of the twenty-four states counted and only five of the twenty-four have a higher investment per capita.) Latin America[73] had twice the population of Canada and the United States combined by 1990, yet Latin America's GDP was less than one seventh of US gross domestic product. From a US perspective, such statistics dispel the very idea of pan-American trade liberalization. Whereas the strong US economy might be able to stand the shock of incorporating the relatively small Mexican economy, it certainly could not support all of Latin America at once.

Outside the United States, Latin America has made a great deal of progress in setting up regional trade agreements. Part of this phenomenon, again, originates from small-state desires to tap larger markets and attain economies of scale. States, however, have not suggested a union

---

[72] Ibid. 1507.

[73] Statistic includes population estimates for Mexico, Chile, Bolivia, Colombia, Ecuador, Peru, Venezuela, Argentina, Brazil, Paraguay, Uruguay, Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua, Barbados, the Dominican Republic, Guyana, Haiti, Jamaica, panama, Suriname, and Trinidad and Tobago.

with any more requirements than the common market. The likely reason that Latin America has not integrated to this point probably has to do with the politics of integration.

One cultural consistency among Latin American states is distaste of the US political imperialism. They resent having a dominating power in the hemisphere to monitor them. Likewise, Latin American states are averse to the idea of ceding political power to a Latin American entity. This cultural characteristic provides one explanation for Western Hemisphere states' reluctance to yield political sovereignty to an established authority. In order to found a deeper economic alliance than a common market, the states would have to engage in a political alliance they are not currently willing to forge.

Conclusion: European Integration vs. American Integration

Clearly, Europe has integrated at a pace unrivaled in the Americas. In the course of half a century, Europe has established one of the strongest economic and political junctions in the world. In the Americas, progress lags behind the stage Europe passed in the late 1950s. Furthermore, America has not imitated the depth of European integration. While the European Union has implemented a method for punishing states that violate its demands the Americas have not established a hierarchical sovereign that can effectively punish members. The cases of Haiti in the early 1990s and Austria in 2000 prove this point. [74]

There are several reasons that the two blocs integrated differently. In both cases an outside impetus for integration, namely the United States, prodded the region toward integration. First, the early United States pressed Latin America into a collective group by insisting that no

---

[74]The cases of Austria and Haiti demonstrate this point. When the EU community disagreed with the rise of Joerg Haider's Freedom Party early in 2000, the fourteen other members of the euro zone imposed sanctions against Austria. On the other hand, the OAS was not able to enforce sanctions against Haiti in 1992 when US President Bush did not want to injure US business interests in Haiti. The United States was able to circumvent the OAS

strong European power be allowed in the region. These were the first demonstrations of the United States shaping Latin American destiny. Throughout the Cold War, the United States' political control over Latin America increased. Many argue that the United States overstepped its bounds, infringing upon other states' sovereignty when it determined to depose certain rulers and tailor Latin American governments to its own needs.

Next, US pressure to integrate Europe became more explicit in Europe. Given that Europe had recently fought the most destructive war in history and that the Soviet Union posed a perceived threat to democracy, the United States felt that political and economic integration were legitimate demands to make. An economic alliance over valuable resources would not only make it impossible for European powers to wage a war against each other, it would encourage policymakers to harmonize political issues between them. The reasoning was that an economic alliance would lead to a political alliance. Once European states attained a high level of integration in the two fields, it would be impossible for them to break apart in order to challenge each other.

More important during the era, a close economic and political relationship between the member states made infiltration of communism less of a threat. During the time of poverty after World War's destruction, government officials began to worry that a discontent populace would turn to communism. Hungry and exhausted from the war, people might seek solace in a system that emphasized equal access to resources for everyone. Actions of this sort were fresh on the minds of Europeans: Germany and Italy had fostered undemocratic regimes in the recent past. To stave off such an action, European and US officials felt that building strong democracies would repel the popular attractions of such a system.

---

sanctions policy, and even go so far as to begin a military intervention in 1994 without the approval of other American states.

As for political integration in the European states, framers of the Maastricht Treaty had a difficult time agreeing which country would retain its domestic policies and which ones would be forced to change. Successive economic unions had collapsed because of unwillingness to conform to region-wide standards. Therefore, if the framers were to create a system in which they could further reap the benefits of trade arrangements they had made, it was necessary to establish a political system that would endure through the difficult policy choices.

The pattern of integration in Europe, therefore, was that economic factors pushed political factors. Not until Europe discovered the benefits of trade liberalization were Europeans anxious to institute political integration. That pattern did not hold true for Latin America, however. Political factors (namely, hegemony on the part of the United States) led to the first wave of economic integration. However, as exemplified by the relatively low level of integration that persists, the political pressures were not extremely effective in establishing integration. In fact, the effects of social phenomena possibly contributed more to the integration of Latin America than any political ideal. For example, distaste of US prodding probably unified Latin Americans more than US demands.

From these two cases, my deduction is that integration is more likely when states pursue economic benefits than when their goal is purely political. While Europe's economic integration was extremely rapid, political integration required much more time and effort. Economic efforts were realized as early as the late 1960s, yet true political advances took until the late 1980s and early 1990s. Many Europeans are still wary about ceding power to an authority higher than their state. Not wanting to compromise their political and cultural autonomy, they proclaim that they do not want a "United States of Europe."[75]

[75] My French host sister, Lucille, said this, just before the European Parliament elections in the summer of 1999.

That said, will Latin America continue to integrate to the point that Europe has attained? While it is nearly impossible to predict the future and there are many more factors to consider, my assessment is that Latin American integration will depend on the success of Europe's economic and monetary union. For many years, the United States has held a strong trading relationship with Western European states. In the past few years, however, the Europe has begun to become less important. In the past few years, the United States' largest trading partners have been Canada, Japan, and then Mexico. Europe currently holds fourth place, but continues to fall in percentage of trade it captures in the United States. Given that the economics seems to be the strongest driving force for integration, the fact that the United States no longer carries on as much trade with Europe could provide the momentum for Latin American integration.

The European Union already includes a larger population and larger total GDP than the United States, even excluding the states that have not adopted the single currency. (See Figure 9.) As cross-border trade in Europe becomes easier, the US market may become a less-attractive option for exporters in Europe. Since they would not have to pay tariffs or high transportation costs, Italian producers would be able to sell goods cheaper in other European states than in the United States. They could also offer their products at a lower price than US producers, who would have to contend with tariffs and transportation costs. Given these economic considerations, the United States may be phased out of trade with Europe to a degree that harms the United States. Seeing the economic benefits of a closer union with its Southern neighbors, the United States may again push for integration.

Before diving into an economic union with Latin America, however, the United States must consider the effect of integrating with states that do not have similar economies. Europe has been careful to specify the types of economies that are allowed to join its union.

Strict convergence criteria ensure that one member does not threaten the welfare of the other members. In the case of the United States and Canada, however, the economic differential is

Figure 9 **How Large is the Euro Zone?**

	Euro Zone	EU	USA	Japan
Population (millions)	**290**	374	268	126
Geographic area (sq. miles)	**910,000**	1,300,000	3,720,000	150,000
GDP (billions)	**6,309**	8,093	7,819	4,223
GDP per capita ($)	**21,600**	21,600	29,200	33,500

Source: Christian N. Chabot, Understanding the Euro: The Clear and Concise Guide to the New Trans-European Economy, (New York: McGraw-Hill, 1999), p. 16.

much greater. (See Figure 8.) The per capita GDP of Venezuela, one of the Latin American states with relatively high GDPs, is only a tenth of US GDP per capita. The European Union has reserved the right to reject members from the single currency alliance if they could not improve their economies to a certain minimum standard. Latin American states would fail these tests of economic strength.

If the Western Hemisphere implemented an economic union, the US government would have to address the fact that, with a population of over 432 billion and unemployment over ten percent, that forty three billion Latin Americans might flock to the United States and Canada. Even more could migrate to the United States in hopes of better living conditions, medical care, and education. It would be impossible for the Canadian and US governments to accommodate a sudden influx of this magnitude.

Latin American states eagerly welcome US participation in an economic alliance, since US involvement would provide a large market of wealthy consumers. However, a precondition for US involvement in a stronger economic union is the strengthening of Latin American economies. Perhaps, through the trade liberalization that Latin America revived in the 1980s, they will see a vast expansion in economic growth. While expansion would probably require a longer time than did Europe after World War II, substantial economic growth may be possible. For instance, all Latin American states except Paraguay experienced economic growth during 1997 and 1998.

Unless such economic improvement occurs, creating an obvious benefit for the United States to further integrate with Latin America, it is unlikely that the United States will seek further integration with all Latin American states. In a 1994 summit on Western Hemisphere integration, for example, the United States demonstrated its unwillingness to join in a tight alliance. The United States pushed the deadline for ending talks on the subject to 2005, and that date was set only after Latin American pressure.[76]

As for Latin America, integration will likely continue. Integration seems to be a beneficial action. Latin American states often criticize the United States for not proceeding with reciprocating their trade liberalization, especially after the United States strongly advocated trade liberalization when it sought Latin American markets.

Europe has gone through the brunt of its appropriations for the common currency. The public is divided as to whether the union will fail or whether it will get stronger. Since its inception, the euro has fallen under the exchange rate of the dollar, and, pointing out its weaknesses, states like the United Kingdom are reluctant to join. Based on the fact that there is already a high-level of economic integration in Europe that seems to foster growth for the members, my opinion is that the EU euro zone will be a successful union.

[76] James Brooke, "On Even of Miami Summit Talks, U.S. Comes Under Fire," New York Times, December 8, 1994. Online. LEXIS®-NEXIS® Academic Universe. 30 April 2000.

The summit on Western Hemisphere integration in 2005 is likely to contain pivotal decisions about these issues. At that point, the euro will have been in effect for three years, long enough to gain early insight into the success of the monetary union. Latin America will have had a few more years to bolster its individual economies, and the effects of Mercosur, which may turn out to be the strongest economic union in Latin and South America, will be clear. At this time, if Europe has experienced progress that makes trade with the United States less important, and if Latin America has experienced economic development that makes it a target market for the United States, my prediction is that the United States will engage in further trade liberalization with Latin America. It is unlikely that the United States would open its borders to a high-level economic pact such as a common market or economic union, but chances are greater that it might begin liberalization by initiating a hemisphere-wide free trade area.